AMAZON COM INC
Form 10-Q
July 26, 2007
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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 June 30, 2007

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 Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

1200 12th Avenue South, Suite 1200, Seattle, Washington 98144-2734

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

413,398,871 shares of common stock, par value $0.01 per share, outstanding as of July 19, 2007

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AMAZON.COM, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2007

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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 June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2007	2006	2007	2006	2007	2006
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 748	$ 507	$ 1,022	$ 1,013	$ 683	$ 629
OPERATING ACTIVITIES:						
Net income	78	22	189	73	306	302
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	60	43	122	83	244	149
Stock-based compensation	46	30	80	41	140	84
Other operating expense, net	3	3	3	6	7	10
Losses (gains) on sales of marketable securities, net		(1)	1	1	(2)	
Remeasurements and other	5	(11)	9	(7)	9	(14)
Deferred income taxes	(2)	(2)		8	14	(15)
Excess tax benefit on stock awards	(35)	(21)	(60)	(29)	(133)	(34)
Changes in operating assets and liabilities:						
Inventories	25	30	151	63	(193)	(128)
Accounts receivable, net and other	(10)	16	56	66	(113)	(37)
Accounts payable	82	4	(520)	(438)	319	207
Accrued expenses and other	31	22	(28)	(42)	256	88
Additions to unearned revenue	64	38	109	92	223	181
Amortization of previously unearned revenue	(48)	(43)	(92)	(90)	(182)	(183)
Net cash provided by (used in) operating activities	299	130	20	(173)	895	610
INVESTING ACTIVITIES:						
Purchases of fixed assets, including internal-use software and website development	(47)	(58)	(82)	(104)	(195)	(235)
Acquisitions, net of cash acquired	(22)		(22)	(28)	(26)	(32)
Sales and maturities of marketable securities and other investments	161	249	945	537	2,253	883
Purchases of marketable securities and other investments	(180)	(232)	(694)	(362)	(2,262)	(1,009)
Net cash provided by (used in) investing activities	(88)	(41)	147	43	(230)	(393)
FINANCING ACTIVITIES:						
Proceeds from exercises of stock options	35	7	44	13	65	55
Excess tax benefit on stock awards	35	21	60	29	133	34
Common stock repurchased			(248)		(500)	
Proceeds from long-term debt and other		66		69	3	82
Repayments of long-term debt and capital lease obligations	(29)	(21)	(46)	(334)	(67)	(341)
Net cash provided by (used in) financing activities	41	73	(190)	(223)	(366)	(170)
Foreign-currency effect on cash and cash equivalents	4	14	5	23	22	7

Net increase (decrease) in cash and cash equivalents	256	176	(18)	(330)	321	54
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,004	$ 683	$ 1,004	$ 683	$ 1,004	$ 683
SUPPLEMENTAL CASH FLOW INFORMATION:						
Cash paid for interest	$ 1	$	$ 44	$ 63	$ 68	$ 84
Cash paid for income taxes	7	3	10	8	17	15
Fixed assets acquired under capital leases and other financing arrangements	9	17	21	21	68	27

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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net sales	$ 2,886	$ 2,139	$ 5,901	$ 4,418
Cost of sales	2,185	1,630	4,480	3,361
Gross profit	701	509	1,421	1,057
Operating expenses (1):				
Fulfillment	258	189	518	383
Marketing	65	53	137	107
Technology and content	201	167	387	314
General and administrative	58	50	114	95
Other operating expense, net	3	3	3	6
Total operating expenses	585	462	1,159	905
Income from operations	116	47	262	152
Interest income	20	13	39	27
Interest expense	(19)	(19)	(38)	(38)
Other income (expense), net	(1)	1	(1)	
Remeasurements and other	(5)	12	(7)	9
Total non-operating expense	(5)	7	(7)	(2)
Income before income taxes	111	54	255	150
Provision for income taxes	33	32	66	77
Net income	$ 78	$ 22	$ 189	$ 73
Basic earnings per share	$ 0.19	$ 0.05	$ 0.46	$ 0.18
Diluted earnings per share	$ 0.19	$ 0.05	$ 0.45	$ 0.17
Weighted average shares used in computation of earnings per share:				
Basic	412	418	412	417
Diluted	423	426	421	426

(1) Includes stock-based compensation as follows:

Fulfillment	$ 10	$ 7	$ 17	$ 10
Marketing	2	1	3	2
Technology and content	25	16	44	23
General and administrative	9	6	16	6

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,004	$ 1,022
Marketable securities	661	997
Inventories	735	877
Accounts receivable, net and other	384	399
Deferred tax assets	75	78
Total current assets	2,859	3,373
Fixed assets, net	443	457
Deferred tax assets	224	199
Goodwill	214	195
Other assets	244	139
Total assets	$ 3,984	$ 4,363
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,295	$ 1,816
Accrued expenses and other	641	716
Total current liabilities	1,936	2,532
Long-term debt	1,256	1,247
Other long-term liabilities	242	153
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 427 and 422		
Outstanding shares 413 and 414	4	4
Treasury stock, at cost	(500)	(252)
Additional paid-in capital	2,704	2,517
Accumulated other comprehensive income (loss)	3	(1)
Accumulated deficit	(1,661)	(1,837)
Total stockholders equity	550	431
Total liabilities and stockholders equity	$ 3,984	$ 4,363

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 2007 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 included in our 2006 Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and those entities (relating to the Joyo Amazon websites) in which we have a variable interest. 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, valuation of investments, receivables valuation, sales returns, incentive discount offers, inventory valuation, depreciable lives of fixed assets, internally-developed software, valuation of acquired intangibles, income taxes, stock-based compensation, and contingencies. Actual results could differ materially from those estimates.

Business Combinations

We acquired certain companies during the six months ended June 30, 2007 for an aggregate purchase price of $33 million, including cash payments of $24 million in the six months ended June 30, 2007 and future cash payments of $9 million. We also made principal payments of $13 million on acquired debt in connection with one of these acquisitions. Additional consideration for these acquisitions is contingent upon continued employment. This amount is expensed as compensation over the employment period and not included in the purchase price. Acquired intangibles totaled $24 million and have estimated useful lives of between two and ten years. The excess of purchase price over the fair value of the net assets acquired was $17 million and is classified as Goodwill on our consolidated balance sheets. The purchase price allocation for each acquisition is preliminary and subject to revision, and any change to the fair value of net assets acquired will lead to a corresponding change to the purchase price allocable to goodwill. The results of operations of the acquired companies have been included in our consolidated results from each closing date forward. The effect of these acquisitions on consolidated net sales and operating income for Q2 2007 and the six months ended June 30, 2007 was not significant.

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Earnings per Share

Basic earnings per share is calculated using our weighted-average outstanding common shares. Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of stock awards.

Our convertible debt instruments are excluded from the calculation of diluted earnings per share as their effect is antidilutive.

Treasury Stock

We account for treasury stock under the cost method and include treasury stock as a component of stockholders equity.

Internal-use Software and Website Development

Costs incurred to develop software for internal use are required to be capitalized and amortized over the two year estimated useful life of the software in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* Costs related to design or maintenance of internal-use software are expensed as incurred. During Q2 2007 and Q2 2006, we capitalized $33 million (including $5 million of stock-based compensation) and $32 million (including $5 million of stock-based compensation) of costs associated with internal-use software and website development. For the six months ended June 30, 2007 and 2006, we capitalized $62 million (including $9 million of stock-based compensation) and $58 million (including $7 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was $28 million and $20 million for Q2 2007 and Q2 2006, and $55 million and $38 million for the six months ended June 30, 2007 and 2006.

Depreciation of Fixed Assets

Fixed assets include assets such as furniture and fixtures, heavy equipment, technology infrastructure, internal-use software and website development, and our DVD rental library. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets (generally two years or less for assets such as internal-use software and our DVD rental library, two or three years for our technology infrastructure, five years for furniture and fixtures, and ten years for heavy equipment). Depreciation expense is generally classified within the operating expense categories on our consolidated statements of operations, and certain assets, such as our DVD rental library, are amortized as Cost of sales. Depreciation expense for fixed assets was $63 million and $41 million for Q2 2007 and Q2 2006, and $124 million and $79 million for the six months ended June 30, 2007 and 2006.

Other Assets

Included in Other assets on our consolidated balance sheets are amounts primarily related to certain equity investments; intangible assets, net of amortization; deferred issuance charges on our long-term debt, which are amortized over the life of the debt; and marketable securities restricted for longer than one year. At June 30, 2007 and December 31, 2006, intangible assets, net, were $39 million and $21 million; equity investments were $19 million for each period; and deferred issuance charges were $6 million and $7 million. At June 30, 2007 and December 31, 2006, marketable securities restricted for longer than one year were $171 million and $86 million.

AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Accrued Expenses and Other

Included in "Accrued expenses and other" at June 30, 2007 and December 31, 2006 are liabilities of $173 million and $183 million for unredeemed gift certificates. We recognize revenue from a gift certificate when a customer redeems it. If a gift certificate is not redeemed, we recognize revenue when it expires or, for a certificate without an expiration date, when the likelihood of its redemption becomes remote, generally two years from date of issuance.

Unearned Revenue

Unearned revenue is recorded when payments are received in advance of performing our service obligations and is recognized ratably over the service period. Current unearned revenue is included in "Accrued expenses and other" and non-current unearned revenue is included in "Other long-term liabilities" on our consolidated balance sheets. Current unearned revenue was $77 million and $78 million at June 30, 2007 and December 31, 2006. Non-current unearned revenue was $15 million at June 30, 2007; at December 31, 2006 these amounts were not significant.

Income Taxes

Income tax expense includes U.S. and international income taxes. We do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries since we intend to invest such undistributed earnings indefinitely outside of the U.S.

Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. See Note 8 — "Income Taxes." Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes,* requires that deferred tax assets be evaluated for future realization and be reduced by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative earnings experience and expectations of future taxable income by taxing jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors. Significant judgment is required in making this assessment, and it is very difficult to predict when, if ever, our assessment may conclude that the remaining portion of our deferred tax assets are realizable. In accordance with SFAS 109, we allocate our valuation allowance to current and long-term deferred tax assets on a pro-rata basis.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109.* FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes.

Shipping Activities

Outbound shipping charges to customers are included in "Net sales" and were $152 million and $128 million for Q2 2007 and Q2 2006, and $304 million and $257 million for the six months ended June 30, 2007 and

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

2006. Outbound shipping-related costs are included in Cost of sales and totaled $227 million and $188 million for Q2 2007 and Q2 2006, and $466 million and $385 million for the six months ended June 30, 2007 and 2006. The net cost to us of shipping activities was $75 million and $60 million for Q2 2007 and Q2 2006, and $162 million and $128 million for the six months ended June 30, 2007 and 2006.

Stock-Based Compensation

We account for stock-based awards under SFAS 123(R), which requires measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of restricted stock and restricted stock units is determined based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is determined using the Black-Scholes valuation model. 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 will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results and future estimates may differ substantially from our current estimates.

Note 2 Cash, Cash Equivalents, and Marketable Securities

As of June 30, 2007 and December 31, 2006 our cash, cash equivalents, and marketable securities primarily consisted of cash, investment grade securities and AAA-rated money market mutual funds.

We are required to pledge or otherwise restrict a portion of our marketable securities as collateral for standby letters of credit, guarantees, debt, and real estate lease agreements. See Note 4 Commitments and Contingencies.

Note 3 Long-Term Debt

Our long-term debt is summarized as follows:

	June 30, 2007	December 31, 2006
	(in millions)	
4.75% Convertible Subordinated Notes due February 2009 (1)	$ 900	$ 900
6.875% PEACS due February 2010 (2)	325	317
Other long-term debt	47	46
	1,272	1,263
Less current portion of long-term debt	(16)	(16)
	$ 1,256	$ 1,247

(1) The 4.75% Convertible Subordinated Notes are convertible into our common stock at the holders option at a conversion price of $78.0275 per share. Total common stock issuable upon conversion of our outstanding 4.75% Convertible Subordinated Notes is 11.5 million shares, which is excluded from our calculation of earnings per share as its effect is anti-dilutive. We have the right to redeem the 4.75% Convertible Subordinated Notes, in whole or in part, by paying the principal and a redemption premium, plus any accrued and unpaid interest. At June 30, 2007, the redemption premium, which decreases by 47.5 basis points on February 1 of each year until maturity, was

0.95%.

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

(2) The 6.875% Premium Adjustable Convertible Securities (6.875% PEACS) are convertible into our common stock at the holders option at a conversion price of 84.883 per share ($114.96 per share, based on the exchange rate as of June 30, 2007). Total common stock issuable upon conversion of our outstanding 6.875% PEACS is 2.8 million shares, which is excluded from our calculation of earnings per share as its effect is anti-dilutive. The U.S. Dollar equivalent principal, interest, and conversion price fluctuate based on the Euro/U.S. Dollar exchange ratio. We have the right to redeem the 6.875% PEACS, in whole or in part, by paying the principal plus any accrued and unpaid interest.

Note 4 Commitments and Contingencies

Commitments

We lease office and fulfillment center facilities and fixed assets under non-cancelable operating and capital leases. Rental expense under operating lease agreements was $33 million and $39 million for Q2 2007 and Q2 2006, and $67 million and $77 million for the six months ended June 30, 2007 and 2006.

The following summarizes our principal contractual commitments, excluding open orders for purchases that support normal operations, as of June 30, 2007:

	Six Months Ended December 31, 2007	Year Ended December 31, 2008	2009	2010 (in millions)	2011	Thereafter	Total
Operating and capital commitments:							
Debt principal (1)	$ 16	$	$ 931	$ 325	$	$	$ 1,272
Debt interest (1)	23	66	44	22			155
Capital leases, including interest	20	14	12	7	5	6	64
Operating leases	67	119	100	85	64	244	679
Other commitments (2)	29	9	12	6	1	20	77
Total commitments	$ 155	$ 208	$ 1,099	$ 445	$ 70	$ 270	$ 2,247

(1) Under our 6.875% PEACS, the principal payment due in 2010 and the annual interest payments fluctuate based on the Euro/U.S. Dollar exchange ratio. At June 30, 2007, the Euro to U.S. Dollar exchange rate was 1.3543. Due to changes in the Euro/U.S. Dollar exchange ratio, our remaining principal debt obligation under this instrument since issuance in February 2000 has increased by $88 million as of June 30, 2007. The principal and interest commitments reflect the partial redemptions of the 6.875% PEACS and 4.75% Convertible Subordinated Notes.

(2) Excludes unrecognized tax benefits under FIN 48 of $102 million for which we cannot make a reasonably reliable estimate of the amount and period of payment. See Note 8 Income Taxes .

Additionally, in July 2007, we committed to invest $60 million through July 2008 to acquire rights to intellectual property. License payments associated with the acquired rights will be amortized over the useful life of the related intellectual property.

AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Pledged Securities

We are required to pledge or otherwise restrict a portion of our cash and marketable securities as collateral for standby letters of credit, guarantees, debt, and real estate leases. We classify cash and marketable securities with use restrictions of twelve months or longer as non-current Other assets on our consolidated balance sheets. The balance of pledged securities at June 30, 2007 consisted of $32 million in Marketable securities and $167 million in Other assets. The amount required to be pledged for certain real estate lease agreements changes over the life of our leases based on our credit rating and changes in our market capitalization (common shares outstanding multiplied by the closing price of our common stock). Information about collateral required to be pledged under these agreements is as follows:

	Standby and Trade Letters of Credit and Guarantees	Debt (1)	Real Estate Leases (2)	Total
		(in millions)		
Balance at December 31, 2006	$ 60	$ 56	$ 20	$ 136
Net change in collateral pledged	69	1	(7)	63
Balance at June 30, 2007	$ 129	$ 57	$ 13	$ 199

(1) Represents collateral for certain debt related to our international operations.

(2) At June 30, 2007, our market capitalization was $28.3 billion. The required amount of collateral to be pledged will increase by $5 million if our market capitalization is equal to or below $18 billion and by an additional $6 million if our market capitalization is equal to or below $13 billion.

Legal Proceedings

The Company is involved from time to time in claims, proceedings and litigation, including the following:

In October 2002, Gary Gerlinger, individually and on behalf of all other similarly situated consumers in the United States who, during the period from August 1, 2001 to the present, purchased books online from either Amazon.com or Borders.com, instituted an action against us and Borders in the United States District Court for the Northern District of California. The complaint alleges that the agreement pursuant to which an affiliate of Amazon.com operates Borders.com as a co-branded site violates federal anti-trust laws, California statutory law, and the common law of unjust enrichment. The complaint seeks injunctive relief, damages, including treble damages or statutory damages where applicable, attorneys fees, costs, and disbursements, disgorgement of all sums obtained by allegedly wrongful acts, interest, and declaratory relief. In November 2005, the Court dismissed all of the plaintiff s claims with prejudice. The plaintiff is appealing that dismissal. We dispute the allegations of wrongdoing in this complaint, and we will continue to defend ourselves vigorously in this matter.

Beginning in March 2003, we were served with complaints filed in several different states, including Illinois, by a private litigant, Beeler, Schad & Diamond, P.C., purportedly on behalf of the state governments under various state False Claims Acts. The complaints allege that we (along with other companies with which we have commercial agreements) wrongfully failed to collect and remit sales and use taxes for sales of personal property to customers in those states and knowingly created records and statements falsely stating we were not required to collect or remit such taxes. In December 2006, we learned that one additional complaint was filed in the state of Illinois by a different private litigant, Matthew T. Hurst, alleging similar violations of the Illinois state law. All of the complaints seek injunctive relief, unpaid taxes, interest, attorneys fees, civil penalties of up to $10,000 per violation, and treble or punitive damages under the various state False Claims Acts. It is possible that we have been or will be named in similar cases in other states as well. We dispute the allegations of wrongdoing in these complaints and intend to vigorously defend ourselves in these matters.

AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

In May 2004, Toysrus.com LLC filed a complaint against us for breach of contract in the Superior Court of New Jersey. The complaint alleged that we breached our commercial agreement with Toysrus.com LLC by selling, and by permitting other third parties to sell, products that Toysrus.com LLC alleged it has an exclusive right to sell on our website. We disputed the allegations in the complaint and brought counterclaims alleging breach of contract and seeking damages and declaratory relief. The trial of both parties claims concluded in November 2005. In March 2006, the Court entered a judgment in favor of Toysrus.com LLC, terminating the contract but declining to award damages to either party. We are pursuing an appeal of the lower court s rulings terminating the contract, declining to award us damages, and denying our motion to compel Toysrus.com to pay certain fees incurred during the wind-down period.

In December 2005, Registrar Systems LLC filed a complaint against us and Target Corporation for patent infringement in the United States District Court for the District of Colorado. The complaint alleges that our website technology, including the method by which Amazon.com enables customers to use Amazon.com account information on websites that Amazon.com operates for third parties, such as Target.com, infringes two patents obtained by Registrar Systems purporting to cover methods and apparatuses for a World Wide Web Registration Information Processing System (U.S. Patent Nos. 5,790,785 and 6,823,327) and seeks injunctive relief, monetary damages in an amount no less than a reasonable royalty, prejudgment interest, costs, and attorneys fees. We dispute the allegations of wrongdoing in this complaint and intend to vigorously defend ourselves in this matter. In September 2006, the Court entered an order staying the lawsuit pending the outcome of the Patent and Trademark Office s re-examination of the patents in suit.

In August 2006, Cordance Corporation filed a complaint against us for patent infringement in the United States District Court for the District of Delaware. The complaint alleges that our website technology, including our 1-Click ordering system, infringes a patent obtained by Cordance purporting to cover an Object-Based Online Transaction Infrastructure (U.S. Patent No. 6,757,710) and seeks injunctive relief, monetary damages in an amount no less than a reasonable royalty, treble damages for alleged willful infringement, prejudgment interest, costs, and attorneys fees. In response, we asserted a declaratory judgment counterclaim in the same action alleging that a service that Cordance has advertised its intent to launch infringes a patent owned by us entitled Networked Personal Contact Manager (U.S. Patent No. 6,269,369). We dispute Cordance s allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In October 2006, IBM filed two patent infringement lawsuits against us in the United States District Court for the Eastern District of Texas. The complaints alleged that various aspects of our website technology infringe five patents obtained by IBM purporting to cover a System for Ordering Items Using an Electronic Catalog (U.S. Patent No. 5,319,542), a Method for Storing Data in an Interactive Computer Network (U.S. Patent No. 5,442,771), a System for Adjusting Hypertext Links with Weighed User Goals and Activities (U.S. Patent No. 5,446,891), a Method for Presenting Applications in an Interactive Service (U.S. Patent No. 5,796,967), and a Method of Presenting Advertising in an Interactive Service (U.S. Patent No. 7,072,849). The complaints sought injunctive relief, monetary damages in an amount no less than a reasonable royalty, treble damages for alleged willful infringement, prejudgment interest, and attorneys fees. In response, we asserted counterclaims in both actions alleging that IBM s WebSphere service infringes several of our patents. In May 2007, we announced that we entered into a settlement of the litigation that included, among other things, a payment to IBM and a long-term patent cross-license agreement.

In April 2007, SBJ Holdings 1, LLC filed a complaint against us in the United States District Court for the Eastern District of Texas. The complaint alleges that our website technology infringes a patent obtained by SBJ Holdings 1 purporting to cover a Method, Memory, Product, and Code for Displaying Pre-Customized Content Associated with Visitor Data (U.S. Patent No. 6,330,592) and seeks injunctive relief, monetary

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

damages, treble damages for alleged willful infringement, prejudgment and post-judgment interest, costs and attorneys fees. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in the matter.

Depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect our business, results of operations, financial position, or cash flows.

See also Note 8 Income Taxes.

Note 5 Stockholders Equity

Stock Repurchase Activity

In August 2006, our Board of Directors authorized a 24-month program to repurchase up to an aggregate of $500 million of our common stock from which we repurchased 8.2 million shares for $252 million in 2006 and 6.3 million shares for $248 million in Q1 2007.

In April 2007, our Board of Directors authorized a new 24-month program to repurchase up to an aggregate of $500 million of our common stock.

Stock Award Activity

We granted stock awards, which consist primarily of restricted stock units, representing 5.8 million shares of common stock during both Q2 2007 and Q2 2006 with a per share weighted average fair value of $44.34 and $36.81. For the six months ended June 30, 2007 and 2006, we granted stock awards representing 6.9 million and 6.6 million shares of common stock with a per share weighted average fair value of $43.43 and $37.10. Our annual stock awards are granted in the second quarter.

Common shares underlying outstanding stock awards were as follows:

	June 30, 2007	December 31, 2006
	(in millions)	
Stock options (1)	3.5	7.4
Restricted stock units	18.6	14.5
Total outstanding stock awards	22.1	21.9

(1) The weighted average per share exercise price was $22.93 and $17.18 at June 30, 2007 and December 31, 2006.

Common shares outstanding (which includes restricted stock), plus shares underlying outstanding stock options and restricted stock units, totaled 435 million and 436 million at June 30, 2007 and December 31, 2006. These totals include all stock-based awards outstanding, without regard for estimated forfeitures, consisting of vested and unvested awards, and in-the-money and out-of-the-money stock options.

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table summarizes our restricted stock unit activity for the six months ended June 30, 2007 (in millions):

	Number of Units
Outstanding at December 31, 2006	14.5
Units granted	6.9
Units vested	(1.5)
Units cancelled	(1.3)
Outstanding at June 30, 2007	18.6

Scheduled vesting for outstanding restricted stock units at June 30, 2007 is as follows (in millions):

	Six Months Ended December 31, 2007	Year Ended December 31, 2008	2009	2010	2011	Thereafter	Total
Scheduled vesting restricted stock units	1.8	6.0	6.0	2.9	1.2	0.7	18.6

As of June 30, 2007, there was $306 million of net unrecognized compensation cost related to unvested stock-based compensation arrangements. This compensation is recognized on an accelerated basis resulting in approximately half of the compensation expected to be expensed in the next twelve months and has a weighted average recognition period of 1.3 years.

Note 6 Comprehensive Income

Comprehensive income was $79 million and $11 million for Q2 2007 and Q2 2006, and $193 million and $65 million for the six months ended June 30, 2007 and 2006. The primary differences between net income as reported and comprehensive income are foreign currency translation adjustments, net of tax, and changes in unrealized gains and losses on available-for-sale securities, net of tax.

Note 7 Remeasurements and Other

Remeasurements and other consisted of the following:

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
	(in millions)		(in millions)	
Foreign-currency loss on remeasurement of 6.875% PEACS	$ (5)	$ (16)	$ (8)	$ (27)
Loss on redemption of long-term debt				(6)
Foreign-currency gain on intercompany balances	3	26	5	41
Other	(3)	2	(4)	1

Total remeasurements and other	$ (5)	$ 12	$ (7)	$ 9

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Note 8 Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate. The 2007 effective tax rate is estimated to be lower than the 35% statutory rate primarily due to anticipated earnings of our subsidiaries outside of the U.S. in jurisdictions where our effective tax rate is lower than in the U.S. Cash paid for income taxes was $7 million and $3 million in Q2 2007 and Q2 2006, and $10 million and $8 million for the six months ended June 30, 2007 and 2006.

Effective January 1, 2007, we adopted the provisions of FIN 48. As of January 1, 2007, our unrecognized tax benefits (tax contingencies) totaled $110 million.

As a result of the implementation of FIN 48, our tax contingencies increased $8 million, which was accounted for as a decrease to retained earnings of $11 million, which would otherwise have increased our income tax expense in prior periods, and an increase to additional paid-in capital of $3 million related to the tax benefits of excess stock-based compensation deductions. These amounts do not include the federal tax benefit associated with these tax contingencies that will be available to us. To reflect the federal benefit upon the implementation of FIN 48, we also recorded an increase to our deferred tax assets of $2 million which was accounted for as a $3 million increase to retained earnings and a $1 million decrease to additional paid-in capital. As of June 30, 2007, changes to our tax contingencies that are reasonably possible in the next 12 months are not material.

We recognize interest and penalties related to our tax contingencies as income tax expense. Our January 1, 2007 tax contingencies include $13 million of interest and penalties, including a $9 million increase related to our adoption of FIN 48. This increase decreased retained earnings by $6 million, which is net of a $3 million federal tax benefit.

We file U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. We may be subject to examination by the Internal Revenue Service (IRS) for calendar years 2003 through 2006. Additionally, any net operating losses that were generated in prior years and utilized in these years may also be subject to examination by the IRS. We are under examination, or may be subject to examination, in the following major jurisdictions for the years specified: Pennsylvania for 2002 through 2006, Kentucky for 2003 through 2006, Delaware for 2004 through 2006, France for 2003 through 2006, Germany for 1998 through 2006, Luxembourg for 2003 through 2006, and the United Kingdom for 1999 through 2006. In addition, in February 2007, Japanese tax authorities assessed income tax, including penalties and interest, of approximately $90 million against one of our U.S. subsidiaries for the years 2003 through 2005. We believe that these claims are without merit and are disputing the assessment. Further proceedings on the assessment will be stayed during negotiations between U.S. and Japanese authorities over the double taxation issues the assessment raises, and we have provided bank guarantees to suspend enforcement of the assessment. We also may be subject to income tax examination by Japanese tax authorities for 2006.

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Note 9 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. Additionally, we do not allocate the line item Other operating expense, net to our segment operating results. A significant 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
North America				
Net sales	$ 1,601	$ 1,157	$ 3,223	$ 2,404
Cost of sales	1,167	848	2,350	1,753
Gross profit	434	309	873	651
Direct segment operating expenses	352	284	705	565
Segment operating income	$ 82	$ 25	$ 168	$ 86
International				
Net sales	$ 1,285	$ 982	$ 2,678	$ 2,014
Cost of sales	1,018	782	2,130	1,608
Gross profit	267	200	548	406
Direct segment operating expenses	184	145	371	293
Segment operating income	$ 83	$ 55	$ 177	$ 113
Consolidated				
Net sales	$ 2,886	$ 2,139	$ 5,901	$ 4,418
Cost of sales	2,185	1,630	4,480	3,361
Gross profit	701	509	1,421	1,057
Direct segment operating expenses	536	429	1,076	858
Segment operating income	165	80	345	199
Stock-based compensation	(46)	(30)	(80)	(41)

Other operating expense, net	(3)	(3)	(3)	(6)
Income from operations	116	47	262	152
Total non-operating expense	(5)	7	(7)	(2)
Provision for income taxes	(33)	(32)	(66)	(77)
Net income	$ 78	$ 22	$ 189	$ 73

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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, 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. 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, which, along with the previous discussion, describes some, but not all, of the factors that could cause actual results to differ significantly from management s expectations.

Overview

Our primary source of revenue is the sale of a wide range of products and services to customers. The products offered on our websites include merchandise and content we have purchased for resale from vendors and products offered by third parties. Generally, we recognize gross revenue from items we sell from our inventory and recognize our net share of revenue of items sold by third parties. We also offer services such as Amazon Enterprise Solutions, co-branded credit cards, web services, fulfillment, and miscellaneous marketing and promotional offers.

Our financial focus is on long-term, sustainable growth in free cash flow[1] per share. Free cash flow is driven primarily by increasing operating income and efficiently managing working capital and capital expenditures. Increases in operating income primarily result from increases in sales through our websites and efficiently managing our operating costs, offset by investments we make in longer-term strategic initiatives, which generally require us to hire additional software engineers, computer scientists, and merchandisers. To increase product sales, we focus on improving all aspects of the customer experience, including lowering prices, improving availability, offering faster delivery times, increasing selection, increasing product categories, expanding product information, improving ease of use, and earning customer trust. We generally focus on growing gross profit and operating profit dollars rather than maximizing margin percentages. Because we have deferred tax assets from net operating loss carryforwards, the free cash flow impact from income taxes paid is currently less than our income tax provision.

We also seek to efficiently manage shareholder dilution while maintaining the flexibility to issue shares for strategic purposes, such as financings and aligning employee compensation with shareholders interests. We

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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 Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Non-GAAP Financial Measures.

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utilize restricted stock units as our primary vehicle for equity compensation because we believe they better align the interests of our shareholders and employees. Restricted stock units result in charges to our consolidated statements of operations based on the fair value of the awards at the grant date recorded on an accelerated basis over the underlying service periods, net of estimated cancellations. Total shares outstanding plus outstanding stock awards were 435 million and 436 million at June 30, 2007 and December 31, 2006. These totals include all stock awards outstanding, without regard for estimated forfeitures, consisting of vested and unvested awards, and in-the-money and out-of-the-money stock options. In Q1 2007, we repurchased 6 million shares of our common stock under a repurchase program authorized by our Board of Directors.

We seek to reduce our customer experience variable costs per unit and work to leverage our customer experience fixed costs. Our customer experience variable costs include product costs, payment processing and related transaction costs, picking, packaging, and preparing orders for shipment, transportation, customer service support, and most aspects of our marketing costs. Our customer experience fixed costs include the costs necessary to build, enhance, and add features to our websites and build and optimize our fulfillment centers. Variable costs generally change directly with sales volume, while fixed costs generally increase depending on the timing of capacity needs, geographic expansion, category expansion, and other factors. To decrease our variable costs on a per unit basis and enable us to lower prices for customers, we seek to increase our direct to publisher and manufacturer sourcing, maximize discounts available to us from suppliers and reduce defects in our processes. To minimize growth in fixed costs, we seek to improve process efficiencies and maintain a lean culture.

Because of our model we are able to turn our inventory quickly and have a cash-generating operating cycle[2]. On average, our high inventory velocity means we generally collect from our customers before our payments to suppliers come due. Inventory turnover[3] was 13 and 14 for Q2 2007 and Q2 2006. Inventory turnover has declined over the last several years, primarily due to changes in product mix and our continuing focus on in-stock inventory availability. We expect some variability in inventory turnover over time since it is affected by several factors, including our product mix, our mix of third-party sales, our continuing focus on in-stock inventory availability, our investment in new geographies and product lines, and the extent we choose to utilize outsource fulfillment providers. Accounts payable days[4] were 54 and 53 for Q2 2007 and Q2 2006. We expect some variability in accounts payable days over time since it is affected by several factors, including the mix of product sales, the mix of third-party sales, the mix of suppliers, seasonality, and changes in payment terms over time, including the effect of negotiating better pricing from our suppliers in exchange for shorter payment terms.

Our spending in technology and content will increase as we add computer scientists, software engineers, and employees involved in category expansion, editorial content, buying, merchandising selection, and systems support. We will continue to invest in several areas of technology and content, including seller platforms, web services, digital initiatives, and expansion of new and existing product categories, as well as in technology infrastructure to enhance the customer experience and improve our process efficiencies. We believe that advances in technology, specifically the speed and reduced cost of processing power, the improved consumer experience of the Internet outside of the workplace through lower-cost broadband service to the home, and the advances of wireless connectivity, will continue to improve the consumer experience on the Internet and increase its ubiquity in people s lives. Our challenge will be to continue to build and deploy innovative and efficient software that will best take advantage of continued advances in technology.

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

3 Inventory turnover is the quotient of annualized cost of sales to average inventory over five quarters.

4 Accounts payable days, calculated as the quotient of accounts payable to cost of sales, multiplied by the number of days in the period.

Our financial reporting currency is the U.S. Dollar and changes in exchange rates significantly affect our reported results and consolidated trends. For example, if the U.S. Dollar weakens year-over-year relative to currencies in our international locations, our consolidated net sales, gross profit, and operating expenses will be higher than if currencies had remained constant. Likewise, if the U.S. Dollar strengthens year-over-year relative to currencies in our international locations, our consolidated net sales, gross profit, and operating expenses will be lower than if currencies had remained constant. We believe that our increasing diversification beyond the U.S. economy through our growing international businesses benefits our shareholders over the long term. We also believe it is important to evaluate our operating results and growth rates before and after the effect of currency changes.

In addition, the remeasurement of our 6.875% PEACS and intercompany balances can result in significant gains and charges associated with the effect of movements in currency exchange rates. Currency volatilities may continue, which may significantly impact (either positively or negatively) our reported results and consolidated trends and comparisons.

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 it 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 2006 Annual Report on Form 10-K. 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.

Revenue Recognition

We recognize revenue from product sales or services rendered when the following four revenue recognition criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collectibility is reasonably assured. Additionally, revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: the delivered item has value to the customer on a standalone basis; there is objective and reliable evidence of the fair value of undelivered items; and delivery of any undelivered item is probable.

We evaluate the criteria of EITF 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when we are the primary party obligated in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded gross. If we are not primarily obligated and amounts earned are determined using a percentage, a fixed-payment schedule, or a combination of the two, we generally record the net amounts as commissions earned.

Product sales and shipping revenues, net of promotional discounts, rebates, and return allowances, are recorded when the products are shipped and title passes to customers. Retail items sold to customers are made pursuant to sales contracts that generally provide for transfer of both title and risk of loss upon our delivery to the carrier. Return allowances, which reduce product revenue by our best estimate of expected product returns, are estimated using historical experience. Amounts paid in advance for subscription services, including amounts received for Amazon Prime, online DVD rentals, and other membership programs, are deferred and recognized as revenue over the subscription term.

We periodically provide incentive offers to our customers to encourage purchases. Such offers include current discount offers, such as percentage discounts off current purchases, inducement offers, such as offers for future discounts subject to a minimum current purchase, and other similar offers. Current discount offers, when accepted by our customers, are treated as a reduction to the purchase price of the related transaction, while inducement offers, when accepted by our customers, are treated as a reduction to purchase price based on estimated future redemption rates. Redemption rates are estimated using our historical experience for similar inducement offers. Current discount offers and inducement offers are classified as an offsetting amount in Net sales.

Commissions and per-unit fees received from third-party sellers and similar amounts earned through Amazon Enterprise Solutions are recognized when the item is sold by the third-party seller and our collectibility is reasonably assured. When we are responsible for fulfillment-related services, commissions are recognized when risk of loss and title transfer to the customer. We record an allowance for estimated refunds on such commissions using historical experience.

Inventories

Inventories, consisting of products available for sale, are 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. Based on this evaluation, we adjust the carrying amount of our inventories to lower of cost or market value.

We provide fulfillment-related services in connection with certain of our agreements. In those arrangements, as well as other product sales by third parties, the third-party maintains ownership of the related products. As such, these amounts are not included in our consolidated balance sheets.

Internal-Use Software and Website Development

Included in fixed assets is the capitalized cost of internal-use software and website development, including software used to upgrade and enhance our websites and processes supporting our business. As required by Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,* we capitalize costs incurred during the application development stage of internal-use software and amortize these costs over the estimated useful life of two years. Costs incurred related to design or maintenance of internal-use software are expensed as incurred.

Currency Effect on Intercompany Balances

Gains and losses arising from intercompany foreign currency transactions are included in net income. Our international operations are financed, in part, by the U.S. parent company.

Stock-Based Compensation

We measure compensation cost for stock awards at fair value and recognize compensation over the service period for awards expected to vest. The fair value of restricted stock and restricted stock units is determined based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is determined using the Black-Scholes valuation model. Since we primarily issue restricted stock units to

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our employees, the complexity of valuation issues for stock compensation is greatly reduced. 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 will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results and future estimates may differ substantially from our current estimates.

We utilize the accelerated method, rather than a straight-line method, for recognizing compensation expense. Under this method, over 50% of the compensation cost would be expensed in the first year of a four year vesting term. The accelerated method also adds a level of complexity in estimating forfeitures. 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 our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audit. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. The majority of our gross deferred tax assets relate to net operating loss carryforwards that related to differences in stock-based compensation between the financial statements and our tax returns.

Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes,* requires that deferred tax assets be evaluated for future realization and reduced by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative earnings experience and expectations of future taxable income by taxing jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors. In accordance with the provisions of SFAS No. 109, we allocate our valuation allowance to current and long-term deferred tax assets on a pro-rata basis.

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.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.* FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

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Liquidity and Capital Resources

Cash flow information is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2007	2006	2007	2006	2007	2006
	(in millions)		(in millions)		(in millions)	
Cash provided by (used in):						
Operating activities	$ 299	$ 130	$ 20	$ (173)	$ 895	$ 610
Investing activities	(88)	(41)	147	43	(230)	(393)
Financing activities	41	73	(190)	(223)	(366)	(170)

Our financial focus is on long-term, sustainable growth in free cash flow. Free cash flow, a non-GAAP financial measure, was $700 million for the trailing twelve months ended June 30, 2007, compared to $375 million for the trailing twelve months ended June 30, 2006, an increase of 87%. See Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Non-GAAP Financial Measures for a reconciliation of free cash flow to net cash provided by operating activities. The increase in free cash flow for the trailing twelve months ended June 30, 2007 primarily resulted from the increased growth rate of our revenue and gross profit relative to operating expenses. Operating cash flows and free cash flow can be volatile and are sensitive to many factors, including changes in working capital and timing of capital expenditures. 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 $1.7 billion and $2.0 billion at June 30, 2007 and December 31, 2006. Amounts held in foreign currencies were $530 million and $623 million at June 30, 2007 and December 31, 2006, and were primarily Euros, British Pounds, and Japanese Yen. We do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries. See Item 1 of Part I, Financial Statements Note 1 Accounting Policies Income Taxes.

Cash provided by operating activities was $299 million and $130 million for Q2 2007 and Q2 2006. Cash provided by operating activities was $20 million for the six months ended June 30, 2007, compared to cash used in operating activities of $173 million for the six months ended June 30, 2006. The improvements in operating cash flow in Q2 2007 and for the six months ended June 30, 2007, compared to comparable prior periods, primarily resulted from the increased growth rate of our revenue and gross profit relative to operating expenses. Our operating cash flows result primarily from cash received from our customers, from third-party sellers, and from non-retail activities such as through our co-branded credit card agreements, Amazon Enterprise Solutions, and miscellaneous marketing and promotional agreements, offset by cash payments we make for products and services, employee compensation (less amounts capitalized pursuant to SOP 98-1 that are reflected as cash used in investing activities), payment processing and related transaction costs, operating leases, and interest payments on our long-term debt obligations. Cash received from customers, third-party sellers and non-retail activities generally corresponds to our net sales. Because our customers primarily use credit cards to buy from us, our receivables from customers settle quickly.

Cash provided by (used in) investing activities corresponds with purchases, sales, and maturities of marketable securities, cash flows from acquisitions, and purchases of fixed assets, including internal-use software and website development costs. Cash used in investing activities was $88 million and $41 million for Q2 2007 and Q2 2006. Cash provided by investing activities was $147 million and $43 million for the six months ended June 30, 2007 and 2006. The variability in cash provided by (used in) investing activities for the periods presented was primarily caused by purchases, maturities, and sales of marketable securities. Capital expenditures were $47 million and $58 million during Q2 2007 and Q2 2006, and $82 million and $104 million for the six months ended June 30, 2007 and 2006, with these expenditures reflecting additional investment in development of new features and product offerings on our websites, as well as investments in fulfillment-related assets and technology infrastructure. Capital expenditures included $28 million and $27 million for internal-use software and website development during Q2 2007 and Q2 2006, and $53 million and $51 million for the six months ended June 30, 2007 and 2006. Stock-based compensation capitalized for internal-use software and website development costs does not affect cash flows. We purchased certain companies during the six months ended June 30, 2007 and 2006, resulting in cash payments, net of acquired cash, of $22 million and $28 million attributable to cash provided by (used in) investing activities.

Cash provided by financing activities was $41 million and $73 million during Q2 2007 and Q2 2006. Cash used in financing activities was $190 million and $223 million for the six months ended June 30, 2007 and 2006. Cash outflows from financing activities result from repurchases of common stock, repayments of long-term debt, and payments on capital lease obligations. In Q1 2007, we repurchased $248 million of our common stock under the $500 million repurchase program authorized by our Board of Directors in August 2006. Repayments on long-term debt and payments on capital lease obligations were $29 million and $21 million in Q2 2007 and Q2 2006, and $46 million and $334 million for the six months ended June 30, 2007 and 2006, including the Q1 2006 repayment of 250 million of our 6.875% PEACS for $300 million. Cash inflows from financing activities primarily result from proceeds from exercises of employee stock options and tax benefits relating to excess stock-based compensation deductions. Cash inflows from proceeds from exercise of employee stock options were $35 million and $7 million for Q2 2007 and Q2 2006, and $44 million and $13 million for the six months ended June 30, 2007 and 2006. Cash inflows from tax benefits related to stock-based compensation deductions were $35 million and $21 million for Q2 2007 and Q2 2006, and $60 million and $29 million for the six months ended June 30, 2007 and 2006. We expect cash proceeds from exercises of stock options will decline over time as we continue issuing restricted stock units as our primary vehicle for stock-based awards.

We recorded net tax provisions of $33 million and $32 million in Q2 2007 and Q2 2006, and $66 million and $77 million for the six months ended June 30, 2007 and 2006. A majority of this provision is non-cash. We have net operating losses that are classified as deferred tax assets and are being utilized to reduce our taxes payable to nominal levels. As such, cash taxes paid were $7 million and $3 million for Q2 2007 and Q2 2006, and $10 million and $8 million for the six months ended June 30, 2007 and 2006. We endeavor to optimize our global taxes on a cash basis, rather than on a financial reporting basis.

In 2006, our Board of Directors authorized a debt repurchase program, replacing our previous debt repurchase authorization in its entirety, pursuant to which we may from time to time repurchase (through open market repurchases or private transactions), redeem, or otherwise retire up to an aggregate of $500 million of our outstanding 4.75% Convertible Subordinated Notes and 6.875% PEACS. Additionally, in August 2006 our Board of Directors authorized a 24-month program to repurchase up to an aggregate of $500 million of our common stock of which we repurchased $252 million in 2006 and $248 million in Q1 2007. In April 2007, our Board of Directors authorized a new 24-month program to repurchase up to an aggregate of $500 million of our common stock.

Since our 6.875% PEACS, which are due in 2010, are denominated in Euros, our U.S. Dollar equivalent interest payments and principal obligations fluctuate with the Euro to U.S. Dollar exchange rate. As a result, any fluctuations in the exchange rate will have an effect on our interest expense and, to the extent we make principal payments, the amount of U.S. Dollar equivalents necessary for principal settlement. Additionally, since our interest payable on our 6.875% PEACS is due in Euros, the balance of interest payable is subject to gains or losses on currency movements until the date of the interest payment. Gains or losses on the remeasurement of our Euro-denominated interest payable are classified as Other expense, net on our consolidated statements of operations.

On average, our high inventory velocity means we collect from our customers before our payments to suppliers come due. Inventory turnover was 13 and 14 for Q2 2007 and Q2 2006. We expect some variability in inventory turnover over time as it is affected by several factors, including our product mix, our mix of third-party sales, and the extent we choose to utilize outsource fulfillment providers, among other factors. The decline in inventory turnover is primarily attributed to our emphasis on category expansion and maintaining wide selection of in-stock inventory, which enables faster delivery of products to our customers.

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The following summarizes our principal contractual commitments as of June 30, 2007:

	Six Months Ended December 31, 2007	Year Ended December 31, 2008	2009	2010 (in millions)	2011	Thereafter	Total
Operating and capital commitments:							
Debt principal (1)	$ 16	$	$ 931	$ 325	$	$	$ 1,272
Debt interest (1)	23	66	44	22			155
Capital leases, including interest	20	14	12	7	5	6	64
Operating leases	67	119	100	85	64	244	679
Other commitments (2)	29	9	12	6	1	20	77
Purchase obligations (3)	494	11	12	9	3	6	535
Total commitments	$ 649	$ 219	$ 1,111	$ 454	$ 73	$ 276	$ 2,782

(1) At June 30, 2007, the Euro to U.S. Dollar exchange rate was 1.3543. Due to changes in the Euro/U.S. Dollar exchange ratio, our remaining principal debt obligation under the 6.875% PEACS since issuance in February 2000 has increased by $88 million as of June 30, 2007. The principal and interest commitments reflect the partial redemptions of the 6.875% PEACS and 4.75% Convertible Subordinated Notes.

(2) Excludes unrecognized tax benefits under FIN 48 of $102 million for which cannot make a reasonably reliable estimate of the amount and period of payment. See Note 8 Income Taxes .

(3) Consists of legally-binding commitments to purchase inventory and significant non-inventory commitments.

Pledged Securities

We are required to pledge or otherwise restrict a portion of our cash and marketable securities as collateral for standby letters of credit, guarantees, debt, and real estate leases. We classify cash and marketable securities with use restrictions of twelve months or longer as non-current Other assets on our consolidated balance sheets. The balance of pledged securities at June 30, 2007 consisted of $32 million in Marketable securities and $167 million in Other assets. The amount required to be pledged for certain real estate lease agreements changes over the life of our leases based on our credit rating and changes in our market capitalization (common shares outstanding multiplied by the closing price of our common stock). Information about collateral required to be pledged under these agreements is as follows:

	Standby and Trade Letters of Credit and Guarantees	Debt (1) (in millions)	Real Estate Leases (2)	Total
Balance at December 31, 2006	$ 60	$ 56	$ 20	$ 136
Net change in collateral pledged	69	1	(7)	63
Balance at June 30, 2007	$ 129	$ 57	$ 13	$ 199

(1) Represents collateral for certain debt related to our international operations.

(2) At June 30, 2007, our market capitalization was $28.3 billion. The required amount of collateral to be pledged will increase by $5 million if our market capitalization is equal to or below $18 billion and by an additional $6 million if our market capitalization is equal to or below $13 billion.

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 from lenders, repurchase common stock, pay dividends, or repurchase, refinance, or otherwise restructure our long-term debt

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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 and Gross Profit

Net sales information is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Net Sales:				
North America	$ 1,601	$ 1,157	$ 3,223	$ 2,404
International	1,285	982	2,678	2,014
Consolidated	$ 2,886	$ 2,139	$ 5,901	$ 4,418
Year-over-year Percentage Growth:				
North America	38%	21%	34%	21%
International	31	24	33	21
Consolidated	35	22	34	21
Year-over-year Percentage Growth, excluding effect of exchange rates:				
North America	38%	20%	34%	21%
International	26	27	27	28
Consolidated	33	23	31	24
Net Sales Mix:				
North America	55%	54%	55%	54%
International	45	46	45	46
Consolidated	100%	100%	100%	100%

Revenue increased 35% in Q2 2007 and 34% for the six months ended June 30, 2007, reflecting revenue growth in both our North America and International segments. Additionally, changes in currency exchange rates positively affected net sales by $46 million for Q2 2007 and $129 million for the six months ended June 30, 2007. For a discussion of the effect on revenue growth of exchange rates, see Effect of Exchange Rates below.

The North America revenue growth rate was 38% for Q2 2007 and 34% for the six months ended June 30, 2007. This revenue growth primarily reflects increased unit sales driven largely by our continued efforts to reduce prices for our customers, including from our free shipping offers and Amazon Prime, a larger base of sales in faster growing categories such as electronics, increased in-stock inventory availability, increased selection of product offerings in our existing categories, and the fact that in Q2 2006 we were winding down our contract with Toysrus.com and had not launched our new toys, video games and baby stores.

The International revenue growth rate was 31% for Q2 2007 and 33% for the six months ended June 30, 2007. This revenue growth primarily reflects increased unit sales driven largely by our continued efforts to

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reduce prices for our customers, including from our free shipping offers, a larger base of sales in faster growing categories such as electronics, increased in-stock inventory availability, and increased selection of product offerings in our existing categories. Additionally, changes in exchange rates positively affected International net sales by $45 million for Q2 2007 and $129 million for the six months ended June 30, 2007.

We expect that, over time, our International segment will represent 50% or more of our consolidated net sales. Additionally, as we continue to offer increased selection, lower prices, and additional product lines within our electronics and other general merchandise category, we expect to see the relative mix of sales from this category increase. See Supplemental Information below.

Gross profit information is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Gross Profit:				
North America	$ 434	$ 309	$ 873	$ 651
International	267	200	548	406
Consolidated	$ 701	$ 509	$ 1,421	$ 1,057
Gross Profit Growth Rate:				
North America	40%	11%	34%	17%
International	34	16	35	16
Consolidated	38	13	34	16
Gross Margin:				
North America	27.1%	26.7%	27.1%	27.1%
International	20.8	20.4	20.5	20.2
Consolidated	24.3	23.8	24.1	23.9

The increase in gross profit in absolute terms during Q2 2007 and the six months ended June 30, 2007 compared with comparable prior year periods corresponds with increases in sales, offset by lower prices for customers including from free shipping offers and Amazon Prime. Generally, our gross margins fluctuate based on several factors, including our product, service, and geographic mix of sales; sales volumes by third-party sellers; changes in vendor pricing, including the extent to which we receive discounts and allowances; lowering prices for customers, including from competitive pricing decisions; improvements in product sourcing and inventory management; and the extent to which our customers accept our free shipping and Amazon Prime offers. Such free shipping and Amazon Prime offers reduce shipping revenue and reduce our gross margins on retail sales. We offer promotions, such as free membership trials for Amazon Prime, and we expect to continue to offer these promotions in the future. We view our shipping offers as an effective worldwide marketing tool and intend to continue offering them indefinitely.

Sales of products by third-party sellers on our websites represented 30% and 29% of unit sales for Q2 2007 and Q2 2006, and 30% and 29% for the six months ended June 30, 2007 and 2006. Since revenues from these sales are recorded as a net amount, they generally result in lower revenues but higher gross margin per unit. Since we focus on profit dollars rather than margins, we are largely neutral on whether an item is sold by us or by a third party.

Gross profit growth is also affected by changes in exchange rates see Effect of Exchange Rates below.

North America segment gross margins in Q2 2007 increased compared to Q2 2006 due primarily to the wind-down and termination of our contract with Toysrus.com, which negatively impacted Q2 2006 gross margin by approximately 170 basis points, offset partially by a larger base of sales in faster growing categories such as

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electronics and our efforts to continue reducing prices for our customers. North America segment gross margins for the six months ended June 30, 2007 were relatively flat compared to the six months ended June 30, 2006. International segment gross margins in Q2 2007 and the six months ended June 30, 2007 increased compared to comparable prior year periods due to increases in sales of products by third-party sellers, offset partially by our efforts to continue reducing prices for our customers, including from our free shipping offers, and a larger base of sales in faster growing categories such as electronics.

Supplemental Information

Supplemental information about shipping results is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Shipping Activity:				
Shipping revenue (1)(2)	$ 152	$ 128	$ 304	$ 257
Outbound shipping costs	(227)	(188)	(466)	(385)
Net shipping cost	$ (75)	$ (60)	$ (162)	$ (128)
Year-over-year Percentage Growth:				
Shipping revenue	19%	24%	18%	22%
Outbound shipping costs	21	27	21	24
Net shipping cost	25	33	27	27
Percent of Net Sales:				
Shipping revenue	5.3%	6.0%	5.1%	5.8%
Outbound shipping costs	(7.9)	(8.8)	(7.8)	(8.7)
Net shipping cost	(2.6)%	(2.8)%	(2.7)%	(2.9)%

(1) Excludes amounts earned on shipping activities by third-party sellers where we do not provide the fulfillment service.
(2) Includes amounts earned from Amazon Prime membership program.

We believe that offering low prices to our customers is fundamental to our future success. One way we offer lower prices is through free-shipping offers that result in a net cost to us in delivering products, as well as through membership in Amazon Prime. To the extent our customers accept and use our free shipping offers at an increasing rate, including memberships in Amazon Prime, our net cost of shipping will increase. Our net shipping cost results primarily from our free shipping offers and Amazon Prime. We seek to partially mitigate the costs of lowering prices over time through achieving higher sales volumes, negotiating better terms with our suppliers, and achieving better operating efficiencies.

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Supplemental information about our net sales is as follows:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	(in millions)		(in millions)	
Net Sales:				
North America				
Media	$ 923	$ 730	$ 1,913	$ 1,545
Electronics and other general merchandise	606	365	1,170	738
Other (1)	72	62	140	121
Total North America	$ 1,601	$ 1,157	$ 3,223	$ 2,404
International				
Media	$ 910	$ 718	$ 1,910	$ 1,481
Electronics and other general merchandise	364	259	747	524
Other (1)	11	5	21	9
Total International	$ 1,285	$ 982	$ 2,678	$ 2,014
Consolidated				
Media	$ 1,833	$ 1,448	$ 3,823	$ 3,026
Electronics and other general merchandise	970	624	1,917	1,262
Other (1)	83	67	161	130
Total consolidated	$ 2,886	$ 2,139	$ 5,901	$ 4,418
Year-over-year Percentage Growth:				
North America				
Media	26%	15%	24%	16%
Electronics and other general merchandise	66	32	58	32
Other	15	25	16	25
Total North America	38	21	34	21
International				
Media	27%	17%	29%	15%
Electronics and other general merchandise	40	45	42	39
Other	143	354	147	388
Total International	31	24	33	21
Consolidated				
Media	27%	16%	26%	16%
Electronics and other general merchandise	55	37	52	35
Other	23	32	25	31
Total consolidated	35	22	34	21
Year-over-year Percentage Growth excluding the effect of exchange rates:				
International				
Media	23%	20%	23%	22%
Electronics and other general merchandise	34	48	34	46
Other	128	362	128	412
Total International	26	27	27	28
Consolidated				
Media	25%	18%	24%	19%
Electronics and other general merchandise	53	38	48	38
Other	22	32	23	32
Total consolidated	33	23	31	24

Consolidated Net Sales Mix:				
Media	63%	68%	65%	68%
Electronics and other general merchandise	34	29	32	29
Other	3	3	3	3
Total consolidated	100%	100%	100%	100%

(1) Includes non-retail activities, such as Amazon Enterprise Solutions, our co-branded credit card agreements, and miscellaneous marketing and promotional activities.

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Operating Expenses

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

	Three Months Ended June 30, 2007			Three Months Ended June 30, 2006		
	As Reported	**Stock-Based Compensation**	**Net**	**As Reported**	**Stock-Based Compensation**	**Net**
Operating Expenses:						
Fulfillment	$ 258	$ (10)	$ 248	$ 189	$ (7)	$ 182
Marketing	65	(2)	63	53	(1)	52
Technology and content	201	(25)	176	167	(16)	151
General and administrative	58	(9)	49	50	(6)	44
Other operating expense	3		3	3		3
Total operating expenses	$ 585	$ (46)	$ 539	$ 462	$ (30)	$ 432
Year-over-year Percentage Growth:						
Fulfillment	36%		36%	20%		20%
Marketing	23		23	26		28
Technology and content	20		16	58		63
General and administrative	15		11	32		37
Percent of Net Sales:						
Fulfillment	9.0%		8.6%	8.9%		8.5%
Marketing	2.2		2.2	2.5		2.4
Technology and content	7.0		6.1	7.8		7.1
General and administrative	2.0		1.7	2.4		2.1

	Six Months Ended June 30, 2007			Six Months Ended June 30, 2006		
	As Reported	**Stock-Based Compensation**	**Net**	**As Reported**	**Stock-Based Compensation**	**Net**
Operating Expenses:						
Fulfillment	$ 518	$ (17)	$ 501	$ 383	$ (10)	$ 373
Marketing	137	(3)	134	107	(2)	105
Technology and content	387	(44)	343	314	(23)	291
General and administrative	114	(16)	98	95	(6)	89
Other operating expense	3		3	6		6
Total operating expenses	$ 1,159	$ (80)	$ 1,079	$ 905	$ (41)	$ 864
Year-over-year Percentage Growth:						
Fulfillment	35%		35%	18%		18%
Marketing	28		27	23		27
Technology and content	23		18	58		66
General and administrative	19		10	13		20
Percent of Net Sales:						
Fulfillment	8.8%		8.5%	8.7%		8.4%
Marketing	2.3		2.3	2.4		2.4
Technology and content	6.6		5.8	7.1		6.6
General and administrative	1.9		1.7	2.2		2.0

Operating expenses without stock-based compensation are non-GAAP financial measures. See Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Non-GAAP Financial Measures and Item 1 of Part I, Financial Statements Note 1 Accounting Policies Stock-Based Compensation.

Fulfillment

The increase in fulfillment costs in absolute dollars in Q2 2007 and for the six months ended June 30, 2007 relates to variable costs corresponding with sales volume and inventory levels; our mix of product sales; payment processing and related transaction costs; and costs from expanding fulfillment capacity.

Fulfillment costs as a percentage of net sales may vary due to several factors, such as payment processing and related transaction costs, including those associated with our guarantee for certain third-party seller transactions, our level of productivity and accuracy, changes in volume, size, and weight of units received and fulfilled, the extent we utilize fulfillment services provided by third parties, and our ability to reduce 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 third-party 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 revenue versus our retail sales, our third-party sales have higher fulfillment costs as a percent of net sales.

We expanded our fulfillment capacity in the first half of 2007 and throughout 2006 through gains in efficiencies as well as increases in leased warehouse space. This expansion is designed 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.

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, e-mail 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 or its effect.

Marketing costs increased in absolute dollars in Q2 2007 and the six months ended June 30, 2007 compared to comparable prior year periods due to increased spending in variable online marketing channels, such as our Associates program, sponsored search, and other variable marketing initiatives.

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

Technology and Content

We continue to invest in several areas of technology and content including seller platforms, web services, and digital initiatives, as well as expansion of new and existing product categories. We are also investing in technology infrastructure so that we can continue to enhance the customer experience and improve our process efficiency. See Overview above for a discussion of how management views advances in technology and the importance of innovation. The growth rate of our technology and content spending decreased in Q2 2007 and the six months ended June 30, 2007 compared to the comparable prior period. We intend to continue investing in areas of technology and content as we continue to add employees to our staff and add technology infrastructure.

During Q2 2007 and Q2 2006, we capitalized $33 million (including $5 million of stock-based compensation) and $32 million (including $5 million of stock-based compensation) of costs associated with internal-use software and website development. For the six months ended June 30, 2007 and 2006, we capitalized $62 million (including $9 million of stock-based compensation) and $58 million (including $7 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was $28 million and $20 million for Q2 2007 and Q2 2006, and $55 million and $38 million for the six months ended June 30, 2007 and 2006.

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A significant majority of our technology costs are incurred in the U.S. and are allocated to our North America segment.

General and Administrative

The increase in general and administrative costs in Q2 2007 and the six months ended June 30, 2007 compared to comparable prior year periods is primarily due to increases in professional service fees and payroll and related expenses.

Stock-Based Compensation

Stock-based compensation was $46 million and $30 million during Q2 2007 and Q2 2006. Stock-based compensation was $80 million and $41 million during the six months ended June 30, 2007 and 2006. The increase in stock-based compensation is primarily attributable to the increased number of outstanding restricted stock units and higher grant date fair value per share, as well as a cumulative forfeiture adjustment benefit in Q1 2006 of $13 million, $8 million net of tax.

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 will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results and future estimates may differ substantially from our current estimates.

Interest Expense and Income

The primary component of our net interest expense is the interest we incur on our long-term debt instruments, including $900 million principal balance of our 4.75% Convertible Subordinated Notes and 240 million ($325 million based on the exchange rate at June 30, 2007) principal balance of our 6.875% PEACS at June 30, 2007. Interest expense was $19 million in both Q2 2007 and Q2 2006, and $38 million for both the six months ended June 30, 2007 and 2006.

Our total long-term debt was $1.26 billion and $1.25 billion at June 30, 2007 and December 31, 2006. See Item 1 of Part I, Financial Statements Note 3 Long-Term Debt.

Our interest income was $20 million and $13 million during Q2 2007 and Q2 2006, and $39 million and $27 million for the six months ended June 30, 2007 and 2006. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market mutual 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.

Remeasurements and Other

Remeasurements and other consisted of the following:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
	(in millions)		**(in millions)**	
Foreign-currency loss on remeasurement of 6.875% PEACS	$ (5)	$ (16)	$ (8)	$ (27)
Loss on redemption of long-term debt				(6)
Foreign-currency gain on intercompany balances	3	26	5	41
Other	(3)	2	(4)	1
Total remeasurements and other	$ (5)	$ 12	$ (7)	$ 9

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Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate. There is a potential for significant volatility of our 2007 effective tax rate due to several factors, including from variability in accurately predicting our taxable income and the taxable jurisdictions to which it relates. The 2007 effective tax rate is estimated to be lower than the 35% statutory rate primarily due to anticipated earnings of our subsidiaries outside of the U.S. in jurisdictions where our effective tax rate is lower than in the U.S. The effective tax rate in 2006 was higher than the 35% statutory rate resulting from establishing our European headquarters in Luxembourg, which we expect will benefit our effective tax rate over time. Associated with the establishment of our European headquarters, we transferred certain of our operating assets in 2005 and 2006 from the U.S. to international locations. These transfers resulted in taxable income and exposure to additional taxable income assertions by taxing jurisdictions. Cash paid for income taxes was $7 million and $3 million in Q2 2007 and Q2 2006, and $10 million and $8 million for the six months ended June 30, 2007 and 2006.

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, except per share data):

	Three Months Ended June 30,					
	2007			2006		
	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported
Net sales	$ 2,840	$ 46	$ 2,886	$ 2,163	$ (24)	$ 2,139
Gross profit	691	10	701	514	(5)	509
Operating expenses	578	7	585	464	(2)	462
Income from operations	113	3	116	49	(2)	47
Net interest expense and other (3)				(4)	(1)	(5)
Remeasurements and other income (expense) (4)	(3)	(2)	(5)	2	10	12
Net income	77	1	78	19	3	22
Diluted earnings per share	$ 0.19	$	$ 0.19	$ 0.04	$ 0.01	$ 0.05

	Six Months Ended June 30,					
	2007			2006		
	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported
Net sales	$ 5,772	$ 129	$ 5,901	$ 4,536	$ (118)	$ 4,418
Gross profit	1,393	28	1,421	1,081	(24)	1,057
Operating expenses	1,141	18	1,159	918	(13)	905
Income from operations	252	10	262	163	(11)	152
Net interest expense and other (3)				(11)		(11)
Remeasurements and other income (expense) (4)	(4)	(3)	(7)	(5)	14	9
Net income	184	5	189	72	1	73
Diluted earnings per share	$ 0.44	$ 0.01	$ 0.45	$ 0.17	$	$ 0.17

(1) Represents the outcome that would have resulted had exchange rates in the current period been the same as those in effect in the comparable prior year period for operating results, and if we did not incur the variability associated with remeasurements for our 6.875% PEACS and intercompany balances.
(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, and if we did not incur the variability associated with remeasurements for our 6.875% PEACS and intercompany balances.
(3) Includes foreign-currency gains and losses on cross-currency investments.
(4) Includes foreign-currency gains and losses on remeasurement of 6.875% PEACS and intercompany balances.

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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 measure of Free cash flow meets the definition of a non-GAAP financial measure. 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 reflects an additional way of viewing our liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows. Management strongly encourages shareholders to review our financial statements and publicly-filed reports in their entirety and not to rely on any single financial measure.

Free cash flow, which we reconcile to Net cash provided by 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 is a more conservative measure of cash flows since purchases of fixed assets are a necessary component of ongoing operations. In limited circumstances in which proceeds from sales of fixed assets exceed purchases, free cash flow would exceed cash flow from operations. However, since we do not anticipate being a net seller of fixed assets, we expect free cash flow to be less than operating cash flows.

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 payments made on capital lease obligations 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.

The following is a reconciliation of free cash flow to the most comparable GAAP measure, Net cash provided by operating activities for the trailing twelve months ended June 30, 2007 and 2006 (in millions):

	Twelve Months Ended June 30,	
	2007	**2006**
Net cash provided by operating activities	$ 895	$ 610
Purchases of fixed assets, including internal-use software and website development	(195)	(235)
Free cash flow	$ 700	$ 375
Net cash used in investing activities	$ (230)	$ (393)
Net cash used in financing activities	$ (366)	$ (170)

In addition, we provide operating expenses with and without stock-based compensation. We provide this information 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 have limitations due to the fact that they do 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. We compensate for this limitation by providing supplemental information about outstanding stock-based awards in the footnotes to our financial statements. Stock-based compensation programs are an important element of the Company s compensation structure and all forms of stock-based awards are valued and included as appropriate in results of operations.

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Guidance

We provided guidance on July 24, 2007, in our earnings release furnished on Form 8-K as follows:

Third Quarter 2007 Guidance

- Net sales are expected to be between $3.0 billion and $3.175 billion, or to grow between 30% and 38% compared with third quarter 2006.

- Operating income is expected to be between $75 million and $110 million, or grow between 88% and 175% compared with third quarter 2006. This guidance includes $50 million for stock-based compensation and amortization of intangible assets, and it assumes, among other things, that no additional intangible assets are recorded and that there are no further revisions to stock-based compensation estimates.

Full Year 2007 Expectations

- Net sales are expected to be between $13.80 billion and $14.30 billion, or to grow between 29% and 34% compared with 2006.

- Operating income is expected to be between $540 million and $640 million, or grow between 39% and 65% compared with 2006. This guidance includes $185 million for stock-based compensation and amortization of intangible assets, and it assumes, among other things, that no additional intangible assets are recorded 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 market risks 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 and our long-term debt. 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 mutual 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.

At June 30, 2007, we had long-term debt of $1.26 billion primarily associated with our 4.75% Convertible Subordinated Notes and 6.875% PEACS, which are due in 2009 and 2010. The fair value of our long-term debt will fluctuate with movements of interest rates, generally increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. Based upon quoted market prices, the fair value of the 4.75% Convertible Subordinated Notes (outstanding principal of $900 million) was $920 million and $883 million at June 30, 2007 and December 31, 2006. The fair value of the 6.875% PEACS was $330 million at June 30, 2007 (outstanding principal of 240 million), and $320 million at December 31, 2006 (outstanding principal of 240 million).

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Foreign Exchange Risk

During Q2 2007 and the six months ended June 30, 2007, net sales from our International segment accounted for 45% 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 British Pounds, Euros, and Japanese Yen. The functional currency of our subsidiaries that either operate or support our international 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, net sales in Q2 2007 increased by $46 million.

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 June 30, 2007 of $530 million, an assumed 5%, 10%, and 20% strengthening of the U.S. Dollar in relation to these foreign currencies would result in fair value declines of $25 million, $55 million, or $105 million. All investments are classified as available for sale, as defined by SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. Fluctuations in fair value are recorded in Accumulated other comprehensive income (loss), a separate component of stockholders equity.

We have foreign exchange risk related to our intercompany balances denominated in foreign currency. Based on the intercompany balances at June 30, 2007 of $172 million, an assumed 5%, 10%, and 20% strengthening of the U.S. Dollar in relation to these foreign currencies would result in losses of $10 million, $20 million, and $35 million, recorded to Remeasurements and other.

We have foreign exchange risk related to our 6.875% PEACS, which have an outstanding principal balance at June 30, 2007 of 240 million ($325 million, based on the exchange rate as of June 30, 2007). Due to fluctuations in the Euro/U.S. Dollar exchange ratio, which we cannot predict, our remaining principal debt obligation under the 6.875% PEACS since issuance in February 2000 has increased by $88 million as of June 30, 2007. Based on the outstanding 6.875% PEACS principal balance, an assumed 5%, 10%, and 20% weakening of the U.S. Dollar in relation to the Euro would result in additional losses of approximately $15 million, $35 million, or $65 million, recorded to Remeasurements and other. Additionally, we have not hedged our interest payments under our 6.875% PEACS to protect against exchange rate fluctuations. Assuming the U.S. Dollar weakens against the Euro by 5%, 10%, and 20%, we would incur $1 million, $2 million, or $4 million additional annual interest expense due solely to fluctuations in foreign exchange.

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 June 30, 2007, our recorded basis in equity securities (including both publicly-traded and private companies) was $27 million, including $8 million classified as Marketable securities, and $19 million classified as Other assets. We regularly review the carrying value of our investments and identify and record losses when events and circumstances indicate that declines in the fair value of such assets below our accounting basis are other-than-temporary. The fair values of our investments are subject to significant fluctuations due to volatility of the stock market in general, company-specific circumstances, and changes in general economic conditions. Based on the fair value of the publicly-traded equity securities we held at June 30, 2007 of $44 million (recorded basis of $9 million), an assumed 15%, 30%, and 50% adverse change to market prices of these securities would result in a corresponding decline in total fair value of approximately $5 million, $15 million, or $20 million.

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Item 4. ***Controls and Procedures***

We carried out an evaluation required by the Securities and 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.

Management does not expect 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 4 Commitments and 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, these risks are not the only ones we face.

We Face Intense Competition

Our market segments are rapidly evolving and intensely competitive, and we have many competitors in different industries, including retail, e-commerce services, digital 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, 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 renders e-commerce inherently more competitive than other retail. 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. 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 and Competitive Risks

We do not expect to benefit in our newer market segments, whether products, services, technologies or geographic areas, from any first-to-market advantages. We may have limited or no experience in these new activities, and our customers may not adopt them. Our newer service offerings, including merchant services, digital and web services, may present new and difficult technology challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures. In addition, our gross profits 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 estimates of net sales. A significant portion of our expenses and investments is fixed, and we may not be able to adjust our spending quickly enough if our net sales are less than expected.

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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 third-party sellers, and our business is affected by general economic and business conditions worldwide. A softening of demand, whether caused by changes in consumer preferences or a weakening of the U.S. or global economies, may result in decreased revenue or growth.

Our net 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 expand our network of sellers;
- our ability to acquire merchandise, manage inventory, and fulfill orders;
- the introduction of competitive websites, products, services, price decreases, or improvements;
- changes in usage of the Internet and e-commerce, including in non-U.S. markets;
- timing, effectiveness, and costs of upgrades and developments in 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;
- 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 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;

- the extent to which Internet use is affected by spyware, viruses, "phishing" and other spam emails, "denial of service" attacks 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. We have relatively little experience operating in these or future market segments 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 or other online services 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;

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- 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 distribution of media products and enforcement of intellectual property rights;
- import, export, or other business licensing requirements;
- limitations on the repatriation 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 laws, 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.

In 2004, we acquired Joyo.com Limited, which is organized under the laws of the British Virgin Islands and through a People s Republic of China (PRC) entity, provides technology and services for the Joyo Amazon websites at *www.joyo.cn* and *www.amazon.cn*. The PRC regulates Joyo Amazon s business through regulations and license requirements restricting (i) foreign investment in the Internet, retail and delivery sectors, (ii) Internet content and (iii) the sale of media products. In order to meet local ownership and regulatory licensing requirements, Joyo Amazon s business is operated by PRC companies owned by nominee shareholders who are PRC nationals. Although we believe Joyo Amazon s structure complies with existing PRC laws, it involves 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 Joyo Amazon (including its subsidiary and affiliates) 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 its licenses revoked or be forced to shut down entirely. In addition, if Joyo Amazon were unable to enforce its contractual relationships with respect to management and control of its business, it might be unable to continue to operate the business. In addition, Joyo Amazon is subject to many of the risks described in Our Business Could Suffer if We are Unsuccessful in Making, Integrating, and Maintaining Acquisitions and Investments.

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

If we do not successfully operate our fulfillment centers, it could significantly limit our ability to meet customer demand. Because it is difficult to predict demand, we may not manage our facilities in an optimal way, which may result in excess or insufficient inventory or warehousing, fulfillment, and distribution capacity. A failure to optimize inventory will increase our net shipping cost by requiring long-zone or partial shipments. Orders from several of our international 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 gross profits. 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.

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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, such as through our Merchants@, Amazon Enterprise Solutions, Website by Amazon and Fulfillment by Amazon program initiatives, as well as other commercial agreements, strategic alliances and business relationships. Under these agreements, we provide technology, fulfillment and other services, enable third parties to offer products or services through our websites, and power third-party 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 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 commercial agreements terminate, we may be unable to renew or replace these agreements on comparable terms, or at all. Some of our agreements involve high margin services, such as marketing and promotional agreements, and as they expire they may be replaced, if at all, by agreements involving lower margin services. 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 third-party 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 amounts capitalized as intangible assets as part of the acquisition;

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;

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- the difficulty of integrating a new company s accounting, financial reporting, management, information, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;

- 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.

Finally, 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.

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.

In addition, our 6.875% PEACS are denominated in Euros and increases in the Euro relative to the U.S. Dollar increase the U.S. dollar amount we owe as interest and principal on the 6.875% PEACS. We also hold cash equivalents and/or marketable securities primarily in Euros, British Pounds, and Japanese Yen. 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.

Our Investments and the Consideration We Receive under Certain Commercial Agreements May Subject Us to a Number of Risks

We have entered into, and may in the future enter into, commercial agreements whereby we perform certain services in exchange for cash, equity securities of these companies, and/or additional benefits, such as website traffic. Our compensation may be dependent on the volume of the other company s sales. In some cases, we have also made separate cash investments in the other company. To the extent we have received equity securities as compensation, fluctuations in the value of such securities will affect our realization of amounts we have received as compensation for services.

In the past, we amended several of our commercial agreements to reduce our cash proceeds, shorten the term of the agreements, or both. We may in the future enter into further amendments of our commercial agreements. Although these amendments did not affect the amount of unearned revenue previously recorded by us (if any), the timing of revenue recognition of these recorded unearned amounts was changed to correspond with the terms of the amended agreements. To the extent we believe any such amendments cause or may cause the compensation to be received under an agreement to no longer be fixed or determinable, we limit our revenue recognition to amounts received, excluding any future amounts not deemed fixed or determinable. As amounts are subsequently received, such amounts are incorporated into our revenue recognition over the remaining term of the agreement.

Our investments in equity securities are included in Marketable securities and Other assets on our consolidated balance sheets. We may conclude in future quarters that the fair values of our investments have experienced additional other-than-temporary declines and reduce the carrying value of the securities and record a loss.

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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.

System Interruption and the Lack of Integration and Redundancy in Our Systems May Affect Our Sales

Customer access to our websites and the speed with which a customer navigates and makes purchases on our websites affects our net sales, operating results and the attractiveness of our products and services. We experience occasional system interruptions and delays that make our websites 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 other services, which would make our product and service offerings less attractive. 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 us for any related losses. Any of these events could damage our reputation and be expensive to remedy.

We Have Significant Indebtedness

We have significant long-term debt and may incur substantial additional debt in the future. A significant portion of our future cash flow from operating activities is likely to remain dedicated to the payment of interest and the repayment of principal on our indebtedness. There is no guarantee that we will be able to meet our debt service obligations. If we are unable to generate sufficient cash flow or obtain funds for required payments, or if we fail to comply with our debt covenants, we will be in default. In addition, we may not be able to refinance our debt on terms acceptable to us, or at all. Our indebtedness could limit our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions or other purposes in the future, as needed; to plan for, or react to, changes in technology and in our business and competition; and to react in the event of an economic downturn.

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 effect our operating results as a result of seasonality, new product launches, rapid changes in product cycles, changes in consumer tastes with respect to our products and other factors. We must accurately predict these trends and avoid overstocking or under-stocking products, and companies that have relationships with us in which they identify and buy inventory, as well as bear the risk of obsolescence, must do the same. Demand for products, however, can change significantly between the time inventory is ordered and the date of sale. In addition, when we begin selling a new product, it may be difficult to establish vendor relationships, determine appropriate product selection, and accurately forecast product demand. The acquisition of certain types of inventory, or inventory from certain sources, may require significant lead-time and prepayment, and such inventory 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. The ready availability of damages, royalties and the potential for injunctive relief has increased the costs associated with the litigation and settlement of patent infringement claims, especially those asserted by third parties whose sole or primary business is to assert such claims. 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.

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;

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changes in the valuation methodology of, or performance by, other e-commerce 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 of the Internet and E-commerce 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 and e-commerce. Existing and future laws and regulations may impede the growth of the Internet or online services. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, unencumbered Internet access to our services, 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 and e-commerce. Jurisdictions may regulate consumer-to-consumer online markets, including certain aspects of Amazon Marketplace. Unfavorable regulations and laws could diminish the demand for our products and services and increase our cost of doing business.

Taxation Risks Could Subject Us to Liability for Past Sales and Cause Our Future Sales to Decrease

We do not collect sales or other taxes on shipments of most of our goods into most states in the U.S. Under some of our commercial agreements, the other company is the seller of record, and we are obligated to collect sales tax in accordance with that company s instructions. We may enter into additional agreements requiring similar tax collection obligations. Our fulfillment center and customer service center networks, and any future expansion of them, along with other aspects of our evolving business, may result in additional sales and other tax obligations. We collect consumption tax (including value added tax, goods and services tax, and provincial sales tax) as applicable on goods and services sold by us that are ordered on our international sites. One or more states or foreign countries may seek to impose sales or other tax collection obligations on out-of-jurisdiction e-commerce companies. A successful assertion by one or more states or foreign countries that we should collect sales or other taxes on the sale of merchandise or services could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers, and otherwise harm our business.

Currently, U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, a number of states, as well as the U.S. Congress, have been considering initiatives that could limit or supersede the Supreme Court s position regarding sales and use taxes on Internet sales. If any of these initiatives were successful, we could be required to collect sales and use taxes in additional states. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on all of our online competitors and decrease our future sales.

We Could be Subject to Additional Income Tax Liabilities

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our worldwide provision for income 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 changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting

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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.

Our Vendor Relationships Subject Us to a Number of Risks

We have significant vendors that are important to our sourcing of merchandise and content. We do not have long-term arrangements with most of our vendors to guarantee availability of merchandise or content, particular payment terms, or the extension of credit limits. If our current vendors were to stop selling merchandise or content to us on acceptable terms, we may not be able to acquire merchandise or content from other vendors in a timely and efficient manner and on acceptable terms, or at all.

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 may expose us to product liability claims relating to personal injury, death, 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 third-party sellers do not indemnify us from product liability.

We Are Subject to a Number of Risks Related to Payments We Accept

We accept payments by a variety of methods, including credit card, debit card, gift certificates, direct debit from a customer s bank account, 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 our profit margins. We are also subject to payment card association operating 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, we may be 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. Finally, we offer co-branded credit card programs that represent a significant component of our services revenue and generate high margins. 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.

We Could Be Liable for Breaches of Security on Our Websites

Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to prevent or mitigate such fraud or breaches may adversely affect our operating results.

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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 Merchants@, Marketplace and certain other of our 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 certain limits in these situations and as our third party sales grow, the cost of this program will increase and could negatively affect our operating results. In addition, the functionality of our payments program depends on certain third-party vendors delivering services. If these vendors are unable or unwilling to provide services, our payments program and our businesses that use it may not be viable. Finally, we may be unable to prevent sellers in our Merchants@, Marketplace, Amazon Enterprise Solutions, and certain other programs 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***

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

Our annual meeting of stockholders was held on June 14, 2007. The following nominees were elected as directors, each to hold office until his or her successor is elected and qualified, by the vote set forth below:

Nominee	For	Withheld
Jeffrey P. Bezos	370,271,605	5,894,897
Tom A. Alberg	370,507,630	5,658,872
John Seely Brown	369,823,281	6,343,221
L. John Doerr	366,637,871	9,528,631
William B. Gordon	371,253,924	4,912,578
Myrtle S. Potter	371,286,734	4,879,768
Thomas O. Ryder	371,253,653	4,912,849
Patricia Q. Stonesifer	371,250,948	4,915,554

The appointment of Ernst & Young LLP as our independent auditor was ratified by the vote set forth below:

	Votes
For	373,577,158
Against	1,152,335
Abstain	1,437,009
Broker Non-Votes	

The material terms of the performance goals in our 1997 Stock Incentive Plan were re-approved by the vote set forth below:

	Votes
For	371,668,730
Against	2,926,006
Abstain	1,571,766
Broker Non-Votes	

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Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

Exhibits

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 Quarterly Period Ended March 31, 2000).
3.2	Restated Bylaws of the Company (incorporated by reference to the Company s Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2002).
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.

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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: July 24, 2007

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