AMAZON COM INC
Form 10-Q
April 24, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File No. 000-22513

Amazon.com, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

429,647,563 shares of common stock, par value $0.01 per share, outstanding as of April 17, 2009

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AMAZON.COM, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2009

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2009	2008	2009	2008
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 2,769	$ 2,539	$ 1,496	$ 748
OPERATING ACTIVITIES:				
Net income	177	143	679	508
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	87	65	309	249
Stock-based compensation	67	54	288	205
Other operating expense (income), net	11	6	(19)	15
Gains on sales of marketable securities, net	(2)	(3)	(1)	(3)
Other expense (income), net	2	(1)	(30)	7
Deferred income taxes		(19)	14	(119)
Excess tax benefits from stock-based compensation	(49)	(64)	(145)	(297)
Changes in operating assets and liabilities:				
Inventories	107	148	(273)	(281)
Accounts receivable, net and other	167	139	(190)	(182)
Accounts payable	(1,129)	(1,003)	686	528
Accrued expenses and other	(122)	(125)	249	362
Additions to unearned revenue	206	79	576	277
Amortization of previously unearned revenue	(107)	(64)	(386)	(230)
Net cash provided by (used in) operating activities	(585)	(645)	1,757	1,039
INVESTING ACTIVITIES:				
Purchases of fixed assets, including internal-use software and website development	(55)	(61)	(326)	(251)
Acquisitions, net of cash acquired, and other	(15)	(355)	(155)	(430)
Sales and maturities of marketable securities and other investments	314	271	1,348	758
Purchases of marketable securities and other investments	(391)	(382)	(1,686)	(798)
Net cash used in investing activities	(147)	(527)	(819)	(721)
FINANCING ACTIVITIES:				
Proceeds from exercises of stock options	3	2	12	85
Excess tax benefits from stock-based compensation	49	64	145	297
Common stock repurchased			(100)	
Proceeds from long-term debt and other		52	36	76
Repayments of long-term debt and capital lease obligations	(343)	(26)	(673)	(83)
Net cash provided by (used in) financing activities	(291)	92	(580)	375
Foreign-currency effect on cash and cash equivalents	(45)	37	(153)	55
Net increase (decrease) in cash and cash equivalents	(1,068)	(1,043)	205	748

CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,701	$ 1,496	$ 1,701	$ 1,496
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$ 26	$ 46	$ 43	$ 70
Cash paid for income taxes	11	8	57	28
Fixed assets acquired under capital leases and other financing arrangements	18	15	150	78
Fixed assets acquired under build-to-suit leases	56	4	125	19
Conversion of debt			605	1

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net sales	$ 4,889	$ 4,135
Cost of sales	3,741	3,179
Gross profit	1,148	956
Operating expenses (1):		
Fulfillment	422	354
Marketing	128	103
Technology and content	275	234
General and administrative	68	61
Other operating expense, net	11	6
Total operating expenses	904	758
Income from operations	244	198
Interest income	12	26
Interest expense	(12)	(22)
Other income, net	4	5
Total non-operating income	4	9
Income before income taxes	248	207
Provision for income taxes	(69)	(62)
Equity-method investment activity, net of tax	(2)	(2)
Net income	$ 177	$ 143
Basic earnings per share	$ 0.41	$ 0.34
Diluted earnings per share	$ 0.41	$ 0.34
Weighted average shares used in computation of earnings per share:		
Basic	429	417
Diluted	437	426
(1) Includes stock-based compensation as follows:		
Fulfillment	$ 15	$ 11
Marketing	4	2
Technology and content	36	31
General and administrative	12	10

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,701	$ 2,769
Marketable securities	1,029	958
Inventories	1,266	1,399
Accounts receivable, net and other	587	827
Deferred tax assets	192	204
Total current assets	4,775	6,157
Fixed assets, net	889	854
Deferred tax assets	118	145
Goodwill	433	438
Other assets	765	720
Total assets	$ 6,980	$ 8,314
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,380	$ 3,594
Accrued expenses and other	1,030	1,152
Total current liabilities	3,410	4,746
Long-term debt	74	409
Other long-term liabilities	578	487
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 446 and 445		
Outstanding shares 429 and 428	4	4
Treasury stock, at cost	(600)	(600)
Additional paid-in capital	4,210	4,121
Accumulated other comprehensive loss	(143)	(123)
Accumulated deficit	(553)	(730)
Total stockholders equity	2,918	2,672
Total liabilities and stockholders equity	$ 6,980	$ 8,314

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 2009 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 2008 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 primarily to www.amazon.cn) 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 U.S. 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 and goodwill, income taxes, stock-based compensation, and contingencies. Actual results could differ materially from those estimates.

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 as determined under the treasury stock method.

Treasury Stock

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

Accounts Receivable, Net and Other

Included in Accounts receivable, net and other on our consolidated balance sheets are amounts primarily related to vendor receivables and customer receivables. At March 31, 2009 and December 31, 2008, vendor receivables, net, were $238 million and $400 million, and customer receivables, net, were $223 million and $311 million.

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Allowance for Doubtful Accounts

We estimate losses on receivables based on known troubled accounts, if any, and historical experience of losses incurred. The allowance for doubtful customer and vendor receivables was $86 million and $81 million at March 31, 2009 and December 31, 2008.

Internal-use Software and Website Development

Costs incurred to develop software for internal use are required to be capitalized and amortized over the estimated useful life of the software in accordance with Statement of Position (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 Q1 2009 and Q1 2008, we capitalized $41 million (including $6 million of stock-based compensation) and $57 million (including $22 million acquired under business combinations and $6 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was $40 million and $33 million for Q1 2009 and Q1 2008.

Depreciation of Fixed Assets

Fixed assets include assets such as furniture and fixtures, heavy equipment, technology infrastructure, internal-use software and website development. 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, 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 corresponding operating expense categories on our consolidated statements of operations, and certain assets are amortized as Cost of sales. Depreciation expense for fixed assets was $89 million and $71 million for Q1 2009 and Q1 2008.

Other Assets

Included in Other assets on our consolidated balance sheets are amounts primarily related to marketable securities restricted for longer than one year, the majority of which are attributable to collateralization of bank guarantees and debt related to our international operations; deferred costs; acquired intangible assets, net of amortization; certain equity investments; and intellectual property rights, net of amortization.

Investments

The initial carrying cost of our investments is the price we paid. Investments are accounted for using the equity method of accounting if the investment gives us the ability to exercise significant influence, but not control, over an investee. The total of these investments in equity-method investees, including identifiable intangible assets, deferred tax liabilities and goodwill, is classified on our consolidated balance sheets as Other assets and our share of the investees earnings or losses along with amortization of the related intangible assets, if any, as Equity-method investment activity, net of tax on our consolidated statements of operations.

All other equity investments, which consist of investments for which we do not have the ability to exercise significant influence, are accounted for using the cost method of accounting. Under the cost method, investments in private companies are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings, and additional investments. For public companies that have readily determinable fair values, we classify our equity investments as available-for-sale and, accordingly, record these investments at their fair values with unrealized gains and losses, net of tax, included in Accumulated other comprehensive loss, a separate component of stockholders equity.

We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Such investments are included in Cash and cash equivalents or Marketable securities on the accompanying consolidated balance sheets, classified as available-for-sale and

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reported at fair value with unrealized gains and losses included in Accumulated other comprehensive loss. The weighted average method is used to determine the cost of Euro-denominated securities sold, and the specific identification method is used to determine the cost of all other securities.

We periodically evaluate whether declines in fair values of our investments below their cost are other-than-temporary. This evaluation consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss as well as our ability and intent to hold the investment until a forecasted recovery occurs. Factors considered include quoted market prices; recent financial results and operating trends; other publicly available information; implied values from any recent transactions or offers of investee securities; or other conditions that may affect the value of our investments.

Accrued Expenses and Other

Included in Accrued expenses and other at March 31, 2009 and December 31, 2008 were liabilities of $242 million and $270 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 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 $255 million and $191 million at March 31, 2009 and December 31, 2008. Non-current unearned revenue was $80 million and $46 million at March 31, 2009 and December 31, 2008.

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. Determination of the unrecognized deferred tax liability that would be incurred if such amounts were repatriated is not practicable.

Under Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes,* 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.

SFAS No. 109 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. In accordance with SFAS No. 109, we allocate our valuation allowance to current and long-term deferred tax assets on a pro-rata basis.

Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* requires a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies) 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. Our policy is to include interest and penalties related to our tax contingencies in income tax expense.

Fair Value of Financial Instruments

Effective January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements*, except as it applied to the nonfinancial assets and nonfinancial liabilities subject to the FASB issued Staff Position (FSP) No. 157-2, which we adopted effective January 1, 2009. SFAS No. 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

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

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

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

Shipping Activities

Outbound shipping charges to customers are included in Net sales and were $190 million and $192 million for Q1 2009 and Q1 2008. Outbound shipping-related costs are included in Cost of sales and totaled $358 million and $320 million for Q1 2009 and Q1 2008. The net cost to us of shipping activities was $168 million and $128 million for Q1 2009 and Q1 2008.

Stock-Based Compensation

SFAS No. 123(R), *Share-Based Payment*, 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. 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.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, FSP No. 157-2 delayed the effective date of SFAS No. 157 one year for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis.

Those assets and liabilities measured at fair value under SFAS No. 157 in Q1 2008 did not have a material impact on our consolidated financial statements. The adoption of FSP 157-2 for nonfinancial assets and liabilities in Q1 2009 did not have a material impact on our consolidated financial statements.

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In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements.* SFAS No. 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141 (R) and SFAS No. 160 will impact acquisitions closed on or after January 1, 2009. Adoption did not have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*. FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. We adopted FSP No. 142-3 as of January 1, 2009. Adoption did not have a material impact on our consolidated financial statements.

In June 2008, the FASB ratified the consensus reached on Emerging Issues Task Force (EITF) Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock*. EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock, which would qualify as a scope exception under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. We adopted EITF Issue No. 07-05 as of January 1, 2009. Adoption did not have a material impact on our consolidated financial statements.

Note 2 Cash, Cash Equivalents, and Marketable Securities

As of March 31, 2009 and December 31, 2008 our cash, cash equivalents, and marketable securities primarily consisted of cash, government and government agency securities, AAA-rated money market funds, and other investment grade securities. Such amounts are recorded at fair value. The following table summarizes, by major security type, our cash, cash equivalents, and marketable securities (in millions):

	March 31, 2009			
	Cost or Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses (1)**	**Total Estimated Fair Value**
Cash	$ 241	$	$	$ 241
Money market funds	1,397			1,397
Foreign government and agency securities	826	8		834
Corporate debt securities (2)	153	2	(2)	153
U.S. government and agency securities	315	6		321
Asset-backed securities	58	1	(3)	56
Other fixed income securities	22			22
Equity securities	2		(1)	1
	$ 3,014	$ 17	$ (6)	$ 3,025
Less: Long-term marketable securities (3)				(295)
Total cash, cash equivalents, and marketable securities				$ 2,730

(1) As of March 31, 2009, the cost and fair value of investments with loss positions was $360 million and $354 million. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if an other-than-temporary decline in fair value had occurred and concluded that these losses were temporary. Investments that have continuously been in loss positions for more than twelve months have gross unrealized losses of $2 million.

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(2) Corporate debt securities include investments in financial, insurance, and corporate institutions. No single issuer represents a significant portion of the total corporate debt securities portfolio.
(3) 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. We classify cash and marketable securities with use restrictions of twelve months or longer as non-current Other assets on our consolidated balance sheets. See Note 4 Commitments and Contingencies.

Gross gains of $6 million and $4 million and gross losses of $4 million and $1 million were realized on sales of available-for-sale marketable securities, including Euro-denominated securities, for Q1 2009 and Q1 2008. Realized gains and losses are included in Other income, net on our consolidated statements of operations.

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

	March 31, 2009				
	Cash	Level 1 Estimated Fair Value	Level 2 Estimated Fair Value	Level 3 Estimated Fair Value	Total Estimated Fair Value
Cash	$ 241	$	$	$	$ 241
Money market funds		1,397			1,397
Foreign government and agency securities			834		834
Corporate debt securities			153		153
U.S. government and agency securities			321		321
Asset-backed securities			56		56
Other fixed income securities			22		22
Equity securities		1			1
	$ 241	$ 1,398	$ 1,386	$	$ 3,025

	December 31, 2008				
	Cash	Level 1 Estimated Fair Value	Level 2 Estimated Fair Value	Level 3 Estimated Fair Value	Total Estimated Fair Value
Cash	$ 355	$	$	$	$ 355
Money market funds		1,682			1,682
Foreign government and agency securities			1,128		1,128
Corporate debt securities			194		194
U.S. government and agency securities			594		594
Asset-backed securities			58		58
Other fixed income securities			23		23
Equity securities		1			1
	$ 355	$ 1,683	$ 1,997	$	$ 4,035

Note 3 Long-Term Debt

In February 2008, our Board of Directors authorized a debt repurchase program, pursuant to which in Q1 2009 we redeemed the remaining 240 million ($319 million based on the Euro to U.S. Dollar exchange rate on the date of redemption) in principal of our 6.875% PEACS.

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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 $41 million and $39 million for Q1 2009 and Q1 2008.

In December 2007, we entered into a series of leases and other agreements for the lease of corporate office space to be developed in Seattle, Washington with initial terms of up to 16 years commencing on completion of development in 2010 and 2011 and options to extend for two five-year periods. At March 31, 2009, under the agreements we committed to occupy approximately 1,370,000 square feet of office space. In addition, we have the right to occupy up to an additional approximately 330,000 square feet subject to a termination fee, estimated to be up to approximately $10 million, if we elect not to occupy the additional space. We also have an option to lease up to an additional approximately 500,000 square feet at rates based on fair market values at the time the option is exercised, subject to certain conditions. In addition, if interest rates exceed a certain threshold, we have the option to provide financing for some of the buildings.

The following summarizes our principal contractual commitments, excluding open orders for inventory purchases that support normal operations, as of March 31, 2009:

	Nine Months Ended December 31,	Year Ended December 31,					
	2009	2010	2011	2012	2013	Thereafter	Total
				(in millions)			
Operating and capital commitments:							
Debt principal	$ 59	$	$ 41	$ 33	$	$	$ 133
Debt interest	6	6	5	1			18
Capital leases, including interest	68	82	49	8	4	1	212
Operating leases	109	133	111	99	90	304	846
Other commitments (1) (2)	61	177	100	82	76	1,065	1,561
Total commitments	$ 303	$ 398	$ 306	$ 223	$ 170	$ 1,370	$ 2,770

(1) Includes the estimated timing and amounts of payments for rent, operating expenses, and tenant improvements associated with approximately 1,370,000 square feet of corporate office space being developed in Seattle, Washington and also includes the $10 million termination fee related to our right to occupy up to an additional approximately 330,000 square feet. The amount of space available and our financial and other obligations under the lease agreements are affected by various factors, including government approvals and permits, interest rates, development costs and other expenses and our exercise of certain rights under the lease agreements.

(2) Excludes $174 million of tax contingencies for which we cannot make a reasonably reliable estimate of the amount and period of payment, if at all. See Note 1 Accounting Policies Income Taxes.

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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 March 31, 2009 consisted of $7 million in Marketable securities and $295 million included 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, 2008	$ 138	$ 160	$ 10	$ 308
Net change in collateral pledged	(2)		(4)	(6)
Balance at March 31, 2009	$ 136	$ 160	$ 6	$ 302

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

(2) At March 31, 2009, our market capitalization was $31.5 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 June 2001, Audible, Inc., our subsidiary acquired in March 2008, was named as a defendant in a securities class-action filed in United States District Court for the Southern District of New York related to its initial public offering in July 1999. The lawsuit also named certain of the offering s underwriters, as well as Audible s officers and directors as defendants. Approximately 300 other issuers and their underwriters have had similar suits filed against them, all of which are included in a single coordinated proceeding in the Southern District of New York. The complaints allege that the prospectus and the registration statement for Audible s offering failed to disclose that the underwriters allegedly solicited and received excessive commissions from investors and that some investors allegedly agreed with the underwriters to buy additional shares in the aftermarket in order to inflate the price of the Company s stock. Audible and its officers and directors were named in the suits pursuant to Section 11 of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934, and other related provisions. The complaints seek unspecified damages, attorney and expert fees, and other unspecified litigation costs. In March 2009, all parties, including Audible, reached a settlement of these class actions that would resolve this dispute entirely with no payment required from Audible. The settlement is still subject to review and approval by the Court.

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

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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.

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. 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. In March 2009, the Appellate Division of the New Jersey Superior Court affirmed the trial court s rulings in Toysrus.com LLC s favor and reversed the trial court s ruling on damages, remanding the case to the trial court for further proceedings on Toysrus.com LLC s claim that it is entitled to damages. Toysrus.com has moved the trial court for damages of approximately $93 million (including pre- and post-judgment interest). We believe, based on the evidence at trial, that Toysrus.com LLC s damage claim is grossly overstated. We are also seeking leave to appeal the Appellate Division s decision to the New Jersey Supreme Court.

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 2007, Digital Reg of Texas, LLC filed a complaint against our subsidiary, Audible, Inc., and several other defendants in the United States District Court for the Eastern District of Texas. The complaint alleges that Audible s digital rights management technology infringes a patent obtained by Digital Reg purporting to cover a system for Regulating Access to Digital Content (U.S. Patent No. 6,389,541) and seeks injunctive relief, monetary damages, enhanced 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.

In December 2008, Quito Enterprises, LLC filed a complaint against us for patent infringement in the United States District Court for the Southern District of Florida. The complaint alleges that our website technology infringes a patent obtained by Quito purporting to cover a Personal Feedback Browser for Obtaining Media Files (U.S. Patent No. 5,890,152) and seeks injunctive relief and monetary damages. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In January 2009, we learned that the United States Postal Service, including the Postal Service Office of Inspector General, is investigating our compliance with Postal Service rules, and we are cooperating.

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In March 2009, Discovery Communications, Inc. filed a complaint against us for patent infringement in the United States District Court for the District of Delaware. The complaint alleges that our Kindle and Kindle 2 wireless reading devices infringe a patent owned by Discovery purporting to cover an Electronic Book Security and Copyright Protection System (U.S. Patent No. 7,298,851) and seeks monetary damages, a continuing royalty sufficient to compensate Discovery for any future infringement, treble damages, costs and attorneys fees. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In March 2009, the Tobin Family Education and Health Foundation filed a complaint against us for patent infringement in the United States District Court for the Middle District of Florida. The complaint alleges, among other things, that the technology underlying the Amazon Associates program infringes a patent owned by Tobin purporting to cover a Method and System for