

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

or

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

Commission File No. 000-22513

AMAZON.COM, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-1646860
(I.R.S. Employer
Identification No.)

**410 Terry Avenue North
Seattle, Washington 98109-5210
(206) 266-1000**

(Address and telephone number, including area code, of registrant's principal executive offices)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.01 per share	Nasdaq Global Select Market

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

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

Aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2012	\$ 83,001,105,646
Number of shares of common stock outstanding as of January 18, 2013	454,551,069

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2013, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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FORM 10-K
For the Fiscal Year Ended December 31, 2012

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AMAZON.COM, INC.

PART I

Item 1. Business

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on expectations, estimates, and projections as of the date of this filing. Actual results may differ materially from those expressed in forward-looking statements. See Item 1A of Part I—“Risk Factors.”

Amazon.com, Inc. was incorporated in 1994 in the state of Washington and reincorporated in 1996 in the state of Delaware. Our principal corporate offices are located in Seattle, Washington. We completed our initial public offering in May 1997 and our common stock is listed on the Nasdaq Global Select Market under the symbol “AMZN.”

As used herein, “Amazon.com,” “we,” “our,” and similar terms include Amazon.com, Inc. and its subsidiaries, unless the context indicates otherwise.

General

Amazon.com opened its virtual doors on the World Wide Web in July 1995 and offers Earth’s Biggest Selection. We seek to be Earth’s most customer-centric company for four primary customer sets: consumers, sellers, enterprises, and content creators. In addition, we provide services, such as advertising services and co-branded credit card agreements.

We have organized our operations into two principal segments: North America and International. See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 12—Segment Information.” See Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Supplemental Information” for supplemental information about our net sales.

Consumers

We serve consumers through our retail websites, and focus on selection, price, and convenience. We design our websites to enable millions of unique products to be sold by us and by third parties across dozens of product categories. Customers access our websites directly and through our mobile websites and apps. We also manufacture and sell Kindle devices. We strive to offer our customers the lowest prices possible through low everyday product pricing and shipping offers, including through membership in Amazon Prime, and to improve our operating efficiencies so that we can continue to lower prices for our customers. We also provide easy-to-use functionality, fast and reliable fulfillment, and timely customer service.

We fulfill customer orders in a number of ways, including through the U.S. and international fulfillment centers and warehouses that we operate, through co-sourced and outsourced arrangements in certain countries, and through digital delivery. We operate customer service centers globally, which are supplemented by co-sourced arrangements. See Item 2 of Part I, “Properties.”

Sellers

We offer programs that enable sellers to sell their products on our websites and their own branded websites and to fulfill orders through us. We are not the seller of record in these transactions, but instead earn fixed fees, revenue share fees, per-unit activity fees, or some combination thereof.

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Enterprises

We serve developers and enterprises of all sizes through Amazon Web Services (“AWS”), which provides access to technology infrastructure that enables virtually any type of business.

Content Creators

We serve authors and independent publishers with Kindle Direct Publishing, an online platform that lets independent authors and publishers choose a 70% royalty option and make their books available in the Kindle Store, along with Amazon’s own publishing arm, Amazon Publishing. We also offer programs that allow authors, musicians, filmmakers, app developers, and others to publish and sell content.

Competition

Our businesses are rapidly evolving and intensely competitive. Our current and potential competitors include: (1) physical-world retailers, publishers, vendors, distributors, manufacturers, and producers of our products; (2) other online e-commerce and mobile e-commerce sites, including sites that sell or distribute digital content; (3) media companies, web portals, comparison shopping websites, and web search engines, either directly or in collaboration with other retailers; (4) companies that provide e-commerce services, including website development, fulfillment, customer service, and payment processing; (5) companies that provide information storage or computing services or products, including infrastructure and other web services; and (6) companies that design, manufacture, market, or sell consumer electronics, telecommunication, and media devices. We believe that the principal competitive factors in our retail businesses include selection, price, and convenience, including fast and reliable fulfillment. Additional competitive factors for our seller and enterprise services include the quality, speed, and reliability of our services and tools. Many of our current and potential competitors have greater resources, longer histories, more customers, and greater brand recognition. They may secure better terms from suppliers, adopt more aggressive pricing, and devote more resources to technology, infrastructure, fulfillment, and marketing. Other companies also may enter into business combinations or alliances that strengthen their competitive positions.

Intellectual Property

We regard our trademarks, service marks, copyrights, patents, domain names, trade dress, trade secrets, proprietary technologies, 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, partners, and others to protect our proprietary rights. We have registered, or applied for the registration of, a number of U.S. and international domain names, trademarks, service marks, and copyrights. Additionally, we have filed U.S. and international patent applications covering certain of our proprietary technology. We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights to third parties.

Seasonality

Our business is affected by seasonality, which historically has resulted in higher sales volume during our fourth quarter, which ends December 31. We recognized 35%, 36%, and 38% of our annual revenue during the fourth quarter of 2012, 2011, and 2010.

Employees

We employed approximately 88,400 full-time and part-time employees at December 31, 2012. However, employment levels fluctuate due to seasonal factors affecting our business. Additionally, we utilize independent contractors and temporary personnel to supplement our workforce, particularly on a seasonal basis. Although we

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have works councils and statutory employee representation obligations in certain countries, our employees are not represented by a labor union except where required by law and we consider our employee relations to be good. Competition for qualified personnel in our industry has historically been intense, particularly for software engineers, computer scientists, and other technical staff.

Available Information

Our investor relations website is www.amazon.com/ir and we encourage investors to use it as a way of easily finding information about us. We promptly make available on this website, free of charge, the reports that we file or furnish with the Securities and Exchange Commission (“SEC”), corporate governance information (including our Code of Business Conduct and Ethics), and select press releases and social media postings.

Executive Officers and Directors

The following tables set forth certain information regarding our Executive Officers and Directors as of January 18, 2013:

Executive Officers

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jeffrey P. Bezos	49	President, Chief Executive Officer, and Chairman of the Board
Jeffrey M. Blackburn	43	Senior Vice President, Business Development
Andrew R. Jassy	45	Senior Vice President, Web Services
Diego Piacentini	52	Senior Vice President, International Consumer Business
Shelley L. Reynolds	48	Vice President, Worldwide Controller, and Principal Accounting Officer
Thomas J. Szkutak	52	Senior Vice President and Chief Financial Officer
H. Brian Valentine	53	Senior Vice President, Ecommerce Platform
Jeffrey A. Wilke	46	Senior Vice President, Consumer Business
David A. Zapolsky	49	Vice President, General Counsel, and Secretary

Jeffrey P. Bezos. Mr. Bezos has been Chairman of the Board of Amazon.com since founding it in 1994 and Chief Executive Officer since May 1996. Mr. Bezos served as President of the Company from founding until June 1999 and again from October 2000 to the present.

Jeffrey M. Blackburn. Mr. Blackburn has served as Senior Vice President, Business Development, since April 2006.

Andrew R. Jassy. Mr. Jassy has served as Senior Vice President, Web Services, since April 2006.

Diego Piacentini. Mr. Piacentini has served as Senior Vice President, International Consumer Business, since February 2012, and as Senior Vice President, International Retail, from January 2007 until February 2012.

Shelley L. Reynolds. Ms. Reynolds has served as Vice President, Worldwide Controller, and Principal Accounting Officer since April 2007.

Thomas J. Szkutak. Mr. Szkutak has served as Senior Vice President and Chief Financial Officer since joining Amazon.com in October 2002.

H. Brian Valentine. Mr. Valentine has served as Senior Vice President, Ecommerce Platform, since joining Amazon.com in September 2006.

Jeffrey A. Wilke. Mr. Wilke has served as Senior Vice President, Consumer Business, since February 2012, and as Senior Vice President, North America Retail, from January 2007 until February 2012.

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David A. Zapolsky. Mr. Zapolsky has served as Vice President, General Counsel, and Secretary since September 2012, and as Vice President and Associate General Counsel for Litigation and Regulatory matters from April 2002 until September 2012.

Board of Directors

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jeffrey P. Bezos	49	President, Chief Executive Officer, and Chairman of the Board
Tom A. Alberg	72	Managing Director, Madrona Venture Group
John Seely Brown	72	Visiting Scholar and Advisor to the Provost, University of Southern California
William B. Gordon	62	Partner, Kleiner Perkins Caufield & Byers
Jamie S. Gorelick	62	Partner, Wilmer Cutler Pickering Hale and Dorr LLP
Alain Monié	62	President and Chief Executive Officer, Ingram Micro Inc.
Jonathan J. Rubinstein	56	Former Chairman and CEO, Palm, Inc.
Thomas O. Ryder	68	Retired, Former Chairman, Reader's Digest Association, Inc.
Patricia Q. Stonesifer	56	Vice Chair, Board of Regents, Smithsonian Institution

Item 1A. Risk Factors

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

We Face Intense Competition

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

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

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

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

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

We may have limited or no experience in our newer market segments, and our customers may not adopt our new offerings. These offerings may present new and difficult technology challenges, and we may be subject to

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claims if customers of these offerings experience service disruptions or failures or other quality issues. In addition, profitability, if any, in our newer activities may be lower than in our older activities, and we may not be successful enough in these newer activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth and negatively affect our operating results.

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

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

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

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

- our ability to retain and increase sales to existing customers, attract new customers, and satisfy our customers' demands;
- our ability to retain and expand our network of sellers;
- our ability to offer products on favorable terms, manage inventory, and fulfill orders;
- the introduction of competitive websites, products, services, price decreases, or improvements;
- changes in usage or adoption rates of the Internet, e-commerce, digital media devices and web services, including outside the U.S.;
- timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure;
- the success of our geographic, service, and product line expansions;
- the outcomes of legal proceedings and claims;
- variations in the mix of products and services we sell;
- variations in our level of merchandise and vendor returns;
- the extent to which we offer free shipping, continue to reduce product prices worldwide, and provide additional benefits to our customers;
- the extent to which we invest in technology and content, fulfillment and other expense categories;
- increases in the prices of fuel and gasoline, as well as increases in the prices of other energy products and commodities like paper and packing supplies;
- the extent to which our equity-method investees record significant operating and non-operating items;
- the extent to which operators of the networks between our customers and our websites successfully charge fees to grant our customers unimpaired and unconstrained access to our online services;
- our ability to collect amounts owed to us when they become due;
- the extent to which use of our services is affected by spyware, viruses, phishing and other spam emails, denial of service attacks, data theft, computer intrusions, outages, and similar events; and
- terrorist attacks and armed hostilities.

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

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

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

- local economic and political conditions;
- government regulation of e-commerce, other online services and electronic devices, and competition, and restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs), nationalization and restrictions on foreign ownership;
- restrictions on sales or distribution of certain products or services and uncertainty regarding liability for products, services and content, including uncertainty as a result of less Internet-friendly legal systems, local laws, lack of legal precedent, and varying rules, regulations, and practices regarding the physical and digital distribution of media products and enforcement of intellectual property rights;
- business licensing or certification requirements, such as for imports, exports and electronic devices;
- limitations on the repatriation and investment of funds and foreign currency exchange restrictions;
- limited fulfillment and technology infrastructure;
- shorter payable and longer receivable cycles and the resultant negative impact on cash flow;
- laws and regulations regarding consumer and data protection, privacy, network security, encryption, payments, 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 works 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 international e-commerce and other online services grow, competition will intensify. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, the local customer, as well as their more established local brand names. We may not be able to hire, train, retain, and manage required personnel, which may limit our international growth.

The People's Republic of China ("PRC") regulates Amazon's and its affiliates' businesses and operations in the PRC through regulations and license requirements restricting (i) foreign investment in the Internet, IT infrastructure, retail, delivery, and other sectors, (ii) Internet content and (iii) the sale of media and other products. For example, in order to meet local ownership and regulatory licensing requirements, www.amazon.cn is operated by PRC companies that are indirectly owned, either wholly or partially, by PRC nationals. Although we believe these structures comply with existing PRC laws, they involve unique risks. There are substantial uncertainties regarding the interpretation of PRC laws and regulations, and it is possible that the PRC

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government will ultimately take a view contrary to ours. If our Chinese business interests were found to be in violation of any existing or future PRC laws or regulations or if interpretations of those laws and regulations were to change, the business could be subject to fines and other financial penalties, have licenses revoked or be forced to shut down entirely. In addition, the Chinese businesses and operations may be unable to continue to operate if we or our affiliates are unable to enforce contractual relationships with respect to management and control of such businesses.

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

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

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

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

The Seasonality of Our Business Places Increased Strain on Our Operations

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

We generally have payment terms with our vendors that extend beyond the amount of time necessary to collect proceeds from our customers. As a result of holiday sales, at December 31 of each year, our cash, cash

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equivalents, and marketable securities balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). This operating cycle results in a corresponding increase in accounts payable at December 31. Our accounts payable balance generally declines during the first three months of the year, resulting in a corresponding decline in our cash, cash equivalents, and marketable securities balances.

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

We provide e-commerce services to other businesses through our seller programs and other commercial agreements, strategic alliances and business relationships. Under these agreements, we provide technology, fulfillment and other services, as well as enable sellers to offer products or services through our websites and power their websites. These arrangements are complex and require substantial personnel and resource commitments by us, which may limit the agreements we are able to enter into and our ability to integrate and deliver services under them. If we fail to implement, maintain, and develop the components of these commercial relationships, which may include fulfillment, customer service, inventory management, tax collection, payment processing, licensing of third-party software, hardware, and content, and engaging third parties to perform hosting and other services, these initiatives may not be viable. The amount of compensation we receive under certain of these agreements is partially dependent on the volume of the other company's sales. Therefore, if the other company's offering is not successful, the compensation we receive may be lower than expected or the agreement may be terminated. Moreover, we may not be able to enter into additional commercial relationships and strategic alliances on favorable terms. We also may be subject to claims from businesses to which we provide these services if we are unsuccessful in implementing, maintaining or developing these services.

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

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

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

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

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

- disruption of our ongoing business, including loss of management focus on existing businesses;
- problems retaining key personnel;
- additional operating losses and expenses of the businesses we acquired or in which we invested;
- the potential impairment of tangible assets, such as inventory, and intangible assets and goodwill acquired in the acquisitions;
- the potential impairment of customer and other relationships of the company we acquired or in which we invested or our own customers as a result of any integration of operations;

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- the difficulty of incorporating acquired technology and rights into our offerings and unanticipated expenses related to such integration;
- the difficulty of integrating a new company's accounting, financial reporting, management, information and information security, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- for investments in which an investee's financial performance is incorporated into our financial results, either in full or in part, the dependence on the investee's accounting, financial reporting and similar systems, controls and processes;
- the difficulty of implementing at companies we acquire the controls, procedures and policies appropriate for a larger public company;
- potential unknown liabilities associated with a company we acquire or in which we invest; and
- for foreign transactions, additional risks related to the integration of operations across different cultures and languages, and the economic, political, and regulatory risks associated with specific countries.

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

We Have Foreign Exchange Risk

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

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

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

We Could Be Harmed by Data Loss or Other Security Breaches

As a result of our services being web-based and the fact that we process, store and transmit large amounts of data, including personal information, for our customers, failure to prevent or mitigate data loss or other security breaches, including breaches of our vendors' technology and systems, could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us and otherwise harm our business. We use third party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support and other functions. Some subsidiaries had past security breaches, and, although they did not have a material adverse effect on our operating results, there can be no assurance of a similar result in the future. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, such measures cannot provide absolute security.

We Face Risks Related to System Interruption and Lack of Redundancy

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

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

We Face Significant Inventory Risk

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

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

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

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

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We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

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

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

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

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

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

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

Government Regulation Is Evolving and Unfavorable Changes Could Harm Our Business

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

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We Do Not Collect Sales or Consumption Taxes in Some Jurisdictions

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

We Could be Subject to Additional Income Tax Liabilities

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating and estimating our provision and accruals for these taxes. During the ordinary course of business, there are many transactions for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by losses incurred in jurisdictions for which we are not able to realize the related tax benefit, by changes in foreign currency exchange rates, by entry into new businesses and geographies and changes to our existing businesses, by acquisitions (including integrations) and investments, by changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting and other laws, regulations, administrative practices, principles, and interpretations, with a number of countries actively considering changes in this regard. In addition, we are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax liabilities against us. Although we believe our tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Developments in an audit or litigation could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods.

Our Supplier Relationships Subject Us to a Number of Risks

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

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

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

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

Some of the products we sell or manufacture may expose us to product liability claims relating to personal injury, death, or environmental or property damage, and may require product recalls or other actions. Certain

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

We Are Subject to Payments-Related Risks

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

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

We Could Be Liable for Fraudulent or Unlawful Activities of Sellers

The law relating to the liability of providers of online payment services is currently unsettled. In addition, governmental agencies could require changes in the way this business is conducted. Under our seller programs, we may be unable to prevent sellers from collecting payments, fraudulently or otherwise, when buyers never receive the products they ordered or when the products received are materially different from the sellers' descriptions. Under our A2Z Guarantee, we reimburse buyers for payments up to certain limits in these situations, and as our marketplace seller sales grow, the cost of this program will increase and could negatively affect our operating results. We also may be unable to prevent sellers on our sites or through other seller sites from selling unlawful goods, from selling goods in an unlawful manner, or violating the proprietary rights of others, and could face civil or criminal liability for unlawful activities by our sellers.

Item 1B. *Unresolved Staff Comments*

None.

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Item 2. Properties

As of December 31, 2012, we operated the following facilities (in thousands):

<u>Description of Use</u>	<u>Square Footage (1)</u>	<u>Location</u>	<u>Lease Expirations (1)</u>
Owned office space	1,802	North America	
Leased office space	3,236	North America	From 2013 through 2027
Leased office space	1,660	International	From 2013 through 2021
Sub-total	<u>6,698</u>		
Owned fulfillment, datacenters, and other	339	North America	
Leased fulfillment, datacenters, and other	35,261	North America	From 2013 through 2027
Owned fulfillment, datacenters, and other	22	International	
Leased fulfillment, datacenters, and other	30,761	International	From 2013 through 2031
Sub-total	<u>66,383</u>		
Total	<u>73,081</u>		

(1) For leased properties, represents the total leased space excluding sub-leased space.

We own and lease our corporate headquarters in Seattle, Washington. Additionally, we own and lease corporate office, fulfillment and warehouse operations, data center, customer service, and other facilities, principally in North America, Europe, and Asia.

Item 3. Legal Proceedings

See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 8—Commitments and Contingencies—Legal Proceedings.”

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Stock, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol "AMZN." The following table sets forth the high and low per share sale prices for our common stock for the periods indicated, as reported by the Nasdaq Global Select Market.

	<u>High</u>	<u>Low</u>
Year ended December 31, 2011		
First Quarter	\$ 191.60	\$ 160.59
Second Quarter	206.39	175.37
Third Quarter	244.00	177.10
Fourth Quarter	246.71	166.97
Year ended December 31, 2012		
First Quarter	\$209.85	\$ 172.00
Second Quarter	233.84	183.65
Third Quarter	264.11	212.61
Fourth Quarter	263.11	218.18

*Holder*s

As of January 18, 2013, there were 3,075 shareholders of record of our common stock, although there are a much larger number of beneficial owners.

Dividends

We have never declared or paid cash dividends on our common stock. See Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

[Table of Contents](#)**Item 6. Selected Consolidated Financial Data**

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto in Item 8 of Part II, “Financial Statements and Supplementary Data,” and the information contained in Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Historical results are not necessarily indicative of future results.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
(in millions, except per share data)					
Statements of Operations:					
Net sales	\$ 61,093	\$ 48,077	\$ 34,204	\$ 24,509	\$ 19,166
Income from operations	676	862	1,406	1,129	842
Net income (loss)	(39)	631	1,152	902	645
Basic earnings per share (1)	\$ (0.09)	\$ 1.39	\$ 2.58	\$ 2.08	\$ 1.52
Diluted earnings per share (1)	\$ (0.09)	\$ 1.37	\$ 2.53	\$ 2.04	\$ 1.49
Weighted average shares used in computation of earnings per share:					
Basic	453	453	447	433	423
Diluted	453	461	456	442	432
Statements of Cash Flows:					
Net cash provided by operating activities	\$ 4,180	\$ 3,903	\$ 3,495	\$ 3,293	\$ 1,697
Purchases of property and equipment, including internal-use software and website development	(3,785)	(1,811)	(979)	(373)	(333)
Free cash flow (2)	\$ 395	\$ 2,092	\$ 2,516	\$ 2,920	\$ 1,364
December 31,					
	2012	2011	2010	2009	2008
(in millions)					
Balance Sheets:					
Total assets	\$32,555	\$25,278	\$18,797	\$ 13,813	\$ 8,314
Total long-term obligations	5,361	2,625	1,561	1,192	896

- (1) For further discussion of earnings per share, see Item 8 of Part II, “Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies.”
- (2) Free cash flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less purchases of property and equipment, including capitalized internal-use software and website development, both of which are presented on our consolidated statements of cash flows. See Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Non-GAAP Financial Measures.”

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

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

Overview

Our primary source of revenue is the sale of a wide range of products and services to customers. The products offered on our consumer-facing websites primarily include merchandise and content we have purchased for resale from vendors and those offered by third-party sellers, and we also manufacture and sell Kindle devices. Generally, we recognize gross revenue from items we sell from our inventory as product sales and recognize our net share of revenue of items sold by other sellers as services sales. We also offer other services such as AWS, fulfillment, publishing, digital content subscriptions, advertising, and co-branded credit cards.

Our financial focus is on long-term, sustainable growth in free cash flow¹ per share. Free cash flow is driven primarily by increasing operating income and efficiently managing working capital² and capital expenditures. Increases in operating income primarily result from increases in sales of products and services and efficiently managing our operating costs, partially offset by investments we make in longer-term strategic initiatives. To increase sales of products and services, we focus on improving all aspects of the customer experience, including lowering prices, improving availability, offering faster delivery and performance times, increasing selection, increasing product categories and service offerings, expanding product information, improving ease of use, improving reliability, and earning customer trust. We also seek to efficiently manage shareholder dilution while maintaining the flexibility to issue shares for strategic purposes, such as financings, acquisitions, and aligning employee compensation with shareholders’ interests. We utilize restricted stock units as our primary vehicle for equity compensation because we believe they align the interests of our shareholders and employees. In measuring shareholder dilution, we include all vested and unvested stock awards outstanding, without regard to estimated forfeitures. Total shares outstanding plus outstanding stock awards were 470 million and 468 million at December 31, 2012 and 2011.

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

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

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We seek to reduce our variable costs per unit and work to leverage our fixed costs. Our variable costs include product and content costs, payment processing and related transaction costs, picking, packaging, and preparing orders for shipment, transportation, customer service support, costs necessary to run AWS, and a portion of our marketing costs. Our fixed costs include the costs necessary to run our technology infrastructure; to build, enhance, and add features to our websites, our Kindle devices, and digital offerings; and to 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 sourcing, increase 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*³. On average, our high inventory velocity means we generally collect from consumers before our payments to suppliers come due. Inventory turnover⁴ was 9, 10, and 11 for 2012, 2011, and 2010. We expect variability in inventory turnover over time since it is affected by several factors, including our product mix, the mix of sales by us and by other sellers, our continuing focus on in-stock inventory availability and selection of product offerings, our investment in new geographies and product lines, and the extent to which we choose to utilize outsource fulfillment providers. Accounts payable days⁵ were 76, 74, and 72 for 2012, 2011, and 2010. We expect some variability in accounts payable days over time since they are affected by several factors, including the mix of product sales, the mix of sales by other sellers, the mix of suppliers, seasonality, and changes in payment terms over time, including the effect of balancing pricing and timing of payment terms with suppliers.

We expect spending in technology and content will increase over time as we add computer scientists, software engineers, and merchandising employees. We seek to efficiently invest in several areas of technology and content such as digital initiatives and expansion of new and existing physical and digital product categories and offerings, 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 and the advances of wireless connectivity, will continue to improve the consumer experience on the Internet and increase its ubiquity in people's lives. To best take advantage of these continued advances in technology, we are investing in initiatives to build and deploy innovative and efficient software and devices. We are also investing in AWS, which provides technology services that give developers and enterprises of all sizes access to technology infrastructure that enables virtually any type of business.

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, 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, 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 useful to evaluate our operating results and growth rates before and after the effect of currency changes.

In addition, the remeasurement of our intercompany balances can result in significant gains and charges associated with the effect of movements in currency exchange rates. Currency volatilities may continue, which

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

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

⁵ Accounts payable days, calculated as the quotient of accounts payable to current quarter cost of sales, multiplied by the number of days in the current quarter.

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may significantly impact (either positively or negatively) our reported results and consolidated trends and comparisons.

For additional information about each line item summarized above, refer to Item 8 of Part II, “Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies.”

Critical Accounting Judgments

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

Inventories

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

These assumptions about future disposition of inventory are inherently uncertain. As a measure of sensitivity, for every 1% of additional inventory valuation allowance at December 31, 2012 we would have recorded an additional cost of sales of approximately \$60 million.

Goodwill

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

During the year, management monitored the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test. For the periods presented, no triggering events were identified that required an update to our annual impairment test. As a measure of sensitivity, a 10% decrease in the fair value of any of our reporting units as of December 31, 2012 would have had no impact on the carrying value of our goodwill.

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

Stock-Based Compensation

We measure compensation cost for stock awards at fair value and recognize it as compensation expense over the service period for awards expected to vest. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock. The estimation of stock awards that will ultimately vest requires judgment for the amount that will be forfeited, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including employee class, economic environment, and historical experience. We update our estimated forfeiture rate quarterly. A 1% change to our estimated forfeiture rate would have had an approximately \$22 million impact on our 2012 operating income. Our estimated forfeiture rates at December 31, 2012 and 2011, were 27% and 28%.

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

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating and estimating our provision and accruals for these taxes. During the ordinary course of business, there are many transactions for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by losses incurred in jurisdictions for which we are not able to realize the related tax benefit, by changes in foreign currency exchange rates, by entry into new businesses and geographies and changes to our existing businesses, by acquisitions (including integrations) and investments, by changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations, with a number of countries actively considering changes in this regard. In addition, we are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax liabilities against us. Although we believe our tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Developments in an audit or litigation could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods.

Recent Accounting Pronouncements

See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies—Recent Accounting Pronouncements.”

Liquidity and Capital Resources

Cash flow information is as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
Cash provided by (used in):			
Operating activities	\$ 4,180	\$ 3,903	\$ 3,495
Investing activities	(3,595)	(1,930)	(3,360)
Financing activities	2,259	(482)	181

Our financial focus is on long-term, sustainable growth in free cash flow. Free cash flow, a non-GAAP financial measure, was \$395 million for 2012, compared to \$2.1 billion and \$2.5 billion for 2011 and 2010. See “Results of Operations—Non-GAAP Financial Measures” below for a reconciliation of free cash flow to cash provided by operating activities. The decrease in free cash flow in 2012 and 2011, compared to the comparable prior year periods, was primarily due to increased capital expenditures partially offset by higher operating cash flows. Operating cash flows and free cash flows can be volatile and are sensitive to many factors, including changes in working capital, the timing and magnitude of capital expenditures, and our net income. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Our principal sources of liquidity are cash flows generated from operations and our cash, cash equivalents, and marketable securities balances, which, at fair value, were \$11.4 billion, \$9.6 billion, and \$8.8 billion, at December 31, 2012, 2011, and 2010. Amounts held in foreign currencies were \$5.1 billion, \$4.1 billion, and \$3.4 billion at December 31, 2012, 2011, and 2010, and were primarily Euros, British Pounds, Japanese Yen, and Chinese Yuan.

Cash provided by operating activities was \$4.2 billion, \$3.9 billion, and \$3.5 billion in 2012, 2011, and 2010. Our operating cash flows result primarily from cash received from our consumer, seller, and enterprise customers, advertising agreements, and our co-branded credit card agreements, offset by cash payments we make for products and services, employee compensation (less amounts capitalized related to internal use software that are reflected as cash used in investing activities), payment processing and related transaction costs, operating leases, and interest payments on our long-term obligations. Cash received from our consumer, seller, and enterprise customers, and other activities generally corresponds to our net sales. Because consumers primarily use credit cards to buy from us, our receivables from consumers settle quickly. The increase in operating cash flow in 2012, compared to the comparable prior year period, was primarily due to increases in non-cash expenses partially offset by the decrease in net income; additions to unearned revenue; and changes in working capital; partially offset by increased tax benefits on excess stock-based compensation deductions. The increase in operating cash flow in 2011, compared to the comparable prior year period, was primarily due to additions to unearned revenue; increases in sales of gift certificates to our customers; decreased tax benefits on excess stock-based compensation deductions; and the increase in net income, excluding depreciation, amortization, and stock-based compensation; partially offset by changes in working capital.

Cash provided by (used in) investing activities corresponds with capital expenditures, including leasehold improvements, internal-use software and website development costs, cash outlays for acquisitions, investments in other companies and intellectual property rights, and purchases, sales, and maturities of marketable securities. Cash used in investing activities was \$(3.6) billion, \$(1.9) billion, and \$(3.4) billion in 2012, 2011, and 2010, with the variability caused primarily by changes in capital expenditures and changes in cash paid for acquisitions, and purchases, maturities, and sales of marketable securities and other investments. Capital expenditures were \$3.8 billion, \$1.8 billion, and \$979 million in 2012, 2011, and 2010, with the increases primarily reflecting the purchase of property in 2012, and additional investments in support of continued business growth due to investments in technology infrastructure, including AWS, and additional capacity to support our fulfillment

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operations during all three periods. We expect this trend to continue over time. The purchase of property in 2012 included the acquisition of 11 buildings comprising 1.8 million square feet of our previously leased corporate office space and three city blocks in Seattle, Washington for \$1.4 billion. Capital expenditures included \$381 million, \$256 million, and \$176 million for internal-use software and website development during 2012, 2011, and 2010. Stock-based compensation capitalized for internal-use software and website development costs does not affect cash flows. In 2012, 2011, and 2010, we made cash payments, net of acquired cash, related to acquisition and other investment activity of \$745 million, \$705 million, and \$352 million.

Cash provided by (used in) financing activities was \$2.3 billion, \$(482) million, and \$181 million in 2012, 2011, and 2010. Cash outflows from financing activities result from repurchases of common stock, payments on obligations related to capital leases and leases accounted for as financing arrangements, and repayments of long-term debt. Payments on obligations related to capital leases and leases accounted for as financing arrangements and repayments of long-term debt, were \$588 million, \$444 million, and \$221 million in 2012, 2011, and 2010. We repurchased 5.3 million shares of common stock for \$960 million in 2012 and 1.5 million shares of common stock for \$277 million in 2011 under the \$2.0 billion repurchase program authorized by our Board of Directors in January 2010. Cash inflows from financing activities primarily result from proceeds from long-term debt and tax benefits relating to excess stock-based compensation deductions. Proceeds from long-term debt and other were \$3.4 billion, \$177 million, and \$143 million in 2012, 2011, and 2010. During 2012, cash inflows from financing activities consisted primarily of net proceeds from the issuance of \$3.0 billion of senior nonconvertible unsecured debt in three tranches: \$750 million of 0.65% notes due in 2015; \$1.0 billion of 1.20% notes due in 2017; and \$1.3 billion of 2.50% notes due in 2022. See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 6—Long-Term Debt” for additional discussion of the notes. Tax benefits relating to excess stock-based compensation deductions are presented as financing cash flows. Cash inflows from tax benefits related to stock-based compensation deductions were \$429 million, \$62 million, and \$259 million in 2012, 2011, and 2010.

In 2012, 2011, and 2010 we recorded net tax provisions of \$428 million, \$291 million, and \$352 million. A majority of this provision is non-cash. We have tax benefits relating to excess stock-based compensation deductions that are being utilized to reduce our U.S. taxable income. Except as required under U.S. tax law, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings. At December 31, 2012, cash held by foreign subsidiaries was \$4.3 billion, which include undistributed earnings of foreign subsidiaries indefinitely invested outside of the U.S. of \$2.1 billion. Cash taxes paid (net of refunds) were \$112 million, \$33 million, and \$75 million for 2012, 2011, and 2010. As of December 31, 2012, our federal net operating loss carryforward was approximately \$89 million. We also have approximately \$136 million of federal tax credits potentially available to offset future tax liabilities. As we utilize our federal tax credits, we expect cash paid for taxes to significantly increase. We endeavor to optimize our global taxes on a cash basis, rather than on a financial reporting basis.

See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 8—Commitments and Contingencies” for additional discussion of our principal contractual commitments, as well as our pledged securities. Purchase obligations and open purchase orders, consisting of inventory and significant non-inventory commitments, were \$3.8 billion at December 31, 2012. Purchase obligations and open purchase orders are generally cancelable in full or in part through the contractual provisions.

On average, our high inventory velocity means we generally collect from consumers before our payments to suppliers come due. Inventory turnover was 9, 10, and 11 for 2012, 2011, and 2010. We expect variability in inventory turnover over time as it is affected by several factors, including our product mix, the mix of sales by us and by other sellers, our continuing focus on in-stock inventory availability and selection of product offerings, our investment in new geographies and product lines, and the extent to which we choose to utilize outsource fulfillment providers.

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We believe that cash flows generated from operations and our 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 I, "Risk Factors." We continually evaluate opportunities to sell additional equity or debt securities, obtain credit facilities, repurchase common stock, pay dividends, or repurchase, refinance, or otherwise restructure our debt for strategic reasons or to further strengthen our financial position. The sale of additional equity or convertible debt securities would likely be dilutive to our shareholders. In addition, we will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services, and technologies, which might affect our liquidity requirements or cause us to issue additional equity or debt securities. There can be no assurance that additional lines-of-credit or financing instruments will be available in amounts or on terms acceptable to us, if at all.

Results of Operations

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

Net Sales

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

	Year Ended December 31,		
	2012	2011	2010
Net Sales:			
North America	\$ 34,813	\$26,705	\$ 18,707
International	26,280	21,372	15,497
Consolidated	<u>\$61,093</u>	<u>\$ 48,077</u>	<u>\$ 34,204</u>
Year-over-year Percentage Growth:			
North America	30%	43%	46%
International	23	38	33
Consolidated	27	41	40
Year-over-year Percentage Growth, excluding effect of exchange rates:			
North America	30%	43%	46%
International	27	31	34
Consolidated	29	37	40
Net Sales Mix:			
North America	57%	56%	55%
International	43	44	45
Consolidated	<u>100%</u>	<u>100%</u>	<u>100%</u>

Sales increased 27%, 41%, and 40% in 2012, 2011, and 2010, compared to the comparable prior year periods. Changes in currency exchange rates impacted net sales by \$(854) million, \$1.1 billion, and \$(86) million for 2012, 2011, and 2010. For a discussion of the effect on sales growth of exchange rates, see "Effect of Exchange Rates" below.

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North America sales grew 30%, 43%, and 46% in 2012, 2011, and 2010, compared to the comparable prior year periods. The sales growth in each year primarily reflects increased unit sales, partially offset by a higher percentage of sales by marketplace sellers. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, by sales in faster growing categories such as electronics and other general merchandise, by increased in-stock inventory availability, and by increased selection of product offerings.

International sales grew 23%, 38%, and 33% in 2012, 2011, and 2010, compared to the comparable prior year periods. The sales growth in each year primarily reflects increased unit sales, partially offset by a higher percentage of sales by marketplace sellers. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, by sales in faster growing categories such as electronics and other general merchandise, by increased in-stock inventory availability, and by increased selection of product offerings. Additionally, changes in currency exchange rates impacted International net sales by \$(853) million, \$1.1 billion, and \$(107) million in 2012, 2011, and 2010. We expect that, over time, our International segment will represent 50% or more of our consolidated net sales.

Supplemental Information

Supplemental information about shipping results is as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
Shipping Activity:			
Shipping revenue (1)(2)(3)	\$ 2,280	\$ 1,552	\$ 1,193
Outbound shipping costs	(5,134)	(3,989)	(2,579)
Net shipping cost	<u>\$(2,854)</u>	<u>\$ (2,437)</u>	<u>\$ (1,386)</u>
Year-over-year Percentage Growth:			
Shipping revenue	47%	30%	29%
Outbound shipping costs	29	55	45
Net shipping cost	17	76	63
Percent of Net Sales:			
Shipping revenue	3.7%	3.2%	3.5%
Outbound shipping costs	(8.4)	(8.3)	(7.5)
Net shipping cost	<u>(4.7)%</u>	<u>(5.1)%</u>	<u>(4.0)%</u>

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

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

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Net sales by similar products and services were as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
Net Sales:			
North America			
Media	\$ 9,189	\$ 7,959	\$ 6,881
Electronics and other general merchandise	23,273	17,315	10,998
Other (1)	2,351	1,431	828
Total North America	<u>\$ 34,813</u>	<u>\$26,705</u>	<u>\$ 18,707</u>
International			
Media	\$ 10,753	\$ 9,820	\$ 8,007
Electronics and other general merchandise	15,355	11,397	7,365
Other (1)	172	155	125
Total International	<u>\$ 26,280</u>	<u>\$ 21,372</u>	<u>\$ 15,497</u>
Consolidated			
Media	\$ 19,942	\$ 17,779	\$ 14,888
Electronics and other general merchandise	38,628	28,712	18,363
Other (1)	2,523	1,586	953
Total consolidated	<u>\$ 61,093</u>	<u>\$ 48,077</u>	<u>\$ 34,204</u>
Year-over-year Percentage Growth:			
North America			
Media	15%	16%	15%
Electronics and other general merchandise	34	57	74
Other	64	73	50
Total North America	30	43	46
International			
Media	9%	23%	18%
Electronics and other general merchandise	35	55	54
Other	11	24	22
Total International	23	38	33
Consolidated			
Media	12%	19%	17%
Electronics and other general merchandise	35	56	66
Other	59	66	46
Total consolidated	27	41	40
Year-over-year Percentage Growth:			
Excluding the effect of exchange rates			
International			
Media	12%	16%	18%
Electronics and other general merchandise	40	47	57
Other	15	18	24
Total International	27	31	34
Consolidated			
Media	14%	16%	16%
Electronics and other general merchandise	36	53	67
Other	59	66	46
Total consolidated	29	37	40
Consolidated Net Sales Mix:			
Media	33%	37%	43%
Electronics and other general merchandise	63	60	54
Other	4	3	3
Total consolidated	<u>100%</u>	<u>100%</u>	<u>100%</u>

- (1) Includes sales from non-retail activities, such as AWS in the North America segment, advertising services, and our co-branded credit card agreements in both segments.

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Operating Expenses

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

	Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010		
	As Reported	Stock-Based Compensation	Net	As Reported	Stock-Based Compensation	Net	As Reported	Stock-Based Compensation	Net
Operating Expenses:									
Cost of sales	\$ 45,971	\$ —	\$ 45,971	\$ 37,288	\$ —	\$ 37,288	\$ 26,561	\$ —	\$ 26,561
Fulfillment	6,419	(212)	6,207	4,576	(133)	4,443	2,898	(90)	2,808
Marketing	2,408	(61)	2,347	1,630	(39)	1,591	1,029	(27)	1,002
Technology and content	4,564	(434)	4,130	2,909	(292)	2,617	1,734	(223)	1,511
General and administrative	896	(126)	770	658	(93)	565	470	(84)	386
Other operating expense (income), net	159	—	159	154	—	154	106	—	106
Total operating expenses	\$ 60,417	\$ (833)	\$ 59,584	\$ 47,215	\$ (557)	\$ 46,658	\$ 32,798	\$ (424)	\$ 32,374
Year-over-year Percentage Growth:									
Fulfillment	40%		40%	58%		58%	41%		42%
Marketing	48		47	58		59	51		52
Technology and content	57		58	68		73	40		43
General and administrative	36		36	40		46	44		45
Percent of Net Sales:									
Fulfillment	10.5%		10.2%	9.5%		9.2%	8.5%		8.2%
Marketing	3.9		3.8	3.4		3.3	3.0		2.9
Technology and content	7.5		6.8	6.1		5.4	5.1		4.4
General and administrative	1.5		1.3	1.4		1.2	1.4		1.1

Operating expenses without stock-based compensation are non-GAAP financial measures. See “Non-GAAP Financial Measures” and Item 8 of Part I, “Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies—Stock-Based Compensation.”

Cost of Sales

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

The increase in cost of sales in absolute dollars in 2012, 2011, and 2010 compared to the comparable prior year periods, is primarily due to increased product, digital content, and shipping costs resulting from increased sales, as well as from expansion of digital offerings.

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

	Year Ended December 31,		
	2012	2011	2010
Gross profit (in millions)	\$ 15,122	\$ 10,789	\$ 7,643
Gross margin	24.8%	22.4%	22.3%

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

Fulfillment

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

The increase in fulfillment costs in absolute dollars in 2012, 2011, and 2010, compared to the comparable prior year periods, is primarily due to variable costs corresponding with increased physical and digital product and services sales volume, inventory levels, and sales mix; costs from expanding fulfillment capacity; and payment processing and related transaction costs.

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

Marketing

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

The increase in marketing costs in absolute dollars in 2012, 2011, and 2010, compared to the comparable prior year periods, is primarily due to increased spending on online marketing channels, such as sponsored search programs and our Associates program, payroll and related expenses, and television advertising.

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

Technology and Content

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

The increase in technology and content costs in absolute dollars in 2012, 2011, and 2010 compared to the comparable prior year periods is primarily due to increases in payroll and related expenses, including those associated with our digital initiatives, and increased spending on technology infrastructure, including AWS. We expect these trends to continue over time as we invest in these areas by increasing payroll and related expenses and adding technology infrastructure.

For 2012, 2011, and 2010, we capitalized \$454 million (including \$74 million of stock-based compensation), \$307 million (including \$51 million of stock-based compensation), and \$213 million (including

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\$38 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was \$327 million, \$236 million, and \$184 million for 2012, 2011, and 2010. A majority of our technology costs are incurred in the U.S., most of which are allocated to our North America segment. Infrastructure, other technology, and operating costs incurred to support AWS are included in technology and content.

General and Administrative

The increase in general and administrative costs in absolute dollars in 2012, 2011, and 2010 compared to the comparable prior year periods is primarily due to increases in payroll and related expenses and professional service fees.

Stock-Based Compensation

Stock-based compensation was \$833 million, \$557 million, and \$424 million during 2012, 2011, and 2010. The increase in 2012, 2011, and 2010 compared to the comparable prior year periods is primarily due to an increase in total stock-based compensation value granted to our employees and to a decrease in our estimated forfeiture rate.

Other Operating Expense (Income), Net

Other operating expense (income), net was \$159 million, \$154 million, and \$106 million during 2012, 2011, and 2010. In 2012, 2011, and 2010, the amounts primarily related to amortization of intangible assets.

Income from Operations

For the reasons discussed above, income from operations decreased 22% in 2012, decreased 39% in 2011, and increased 25% in 2010.

Interest Income and Expense

Our interest income was \$40 million, \$61 million, and \$51 million during 2012, 2011, and 2010. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Our interest income corresponds with the average balance of invested funds and the prevailing rates we are earning on them, which vary depending on the geographies and currencies in which they are invested.

The primary component of our interest expense is related to our long-term debt and capital and financing lease arrangements. Interest expense was \$92 million, \$65 million, and \$39 million in 2012, 2011, and 2010.

Our long-term debt was \$3.1 billion and \$255 million at December 31, 2012 and 2011. Our other long-term liabilities were \$2.3 billion and \$2.4 billion at December 31, 2012 and 2011. See Item 8 of Part II, "Financial Statements and Supplementary Data—Note 6—Long-Term Debt and Note 7—Other Long-Term Liabilities" for additional information.

Other Income (Expense), Net

Other income (expense), net was \$(80) million, \$76 million, and \$79 million during 2012, 2011, and 2010. The primary component of other income (expense), net, is related to foreign-currency gains (losses) on intercompany balances.

Income Taxes

Our effective tax rate is subject to significant variation due to several factors, including variability in our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, acquisitions (including integrations) and investments, audit developments, foreign currency gains (losses), changes in law, regulations, and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized.

We recorded a provision for income taxes of \$428 million, \$291 million, and \$352 million in 2012, 2011, and 2010. Our effective tax rate in 2012, 2011, and 2010 is significantly affected by two factors: the favorable impact of earnings in lower tax rate jurisdictions and the adverse effect of losses incurred in certain foreign jurisdictions for which we may not realize a tax benefit. Income earned in lower tax jurisdictions is primarily related to our European operations, which are headquartered in Luxembourg. Losses incurred in foreign jurisdictions for which we may not realize a tax benefit, primarily generated by subsidiaries located outside of Europe, reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate. We have recorded a valuation allowance against the related deferred tax assets.

In 2012, the adverse impact of such foreign jurisdiction losses was partially offset by the favorable impact of earnings in lower tax rate jurisdictions. Additionally, our effective tax rate in 2012 was more volatile as compared to prior years due to the lower level of pre-tax income generated during the year, relative to our tax expense. Our effective tax rate in 2012 was also adversely impacted by acquisitions (including integrations) and investments, audit developments, nondeductible expenses, and changes in tax law such as the expiration of the U.S. federal research and development credit at the end of 2011. These items collectively caused our annual effective tax rate to be higher than both the 35% U.S. federal statutory rate and our effective tax rates in 2011 and 2010. These items may also cause our effective tax rate in 2013 to be higher than the 35% U.S. federal statutory rate.

In 2011 and 2010, the favorable impact of earnings in lower tax rate jurisdictions offset the adverse impact of foreign jurisdiction losses and, as a result, the effective tax rate in both years was lower than the 35% U.S. federal statutory rate.

We have tax benefits relating to excess stock-based compensation deductions that are being utilized to reduce our U.S. taxable income. As of December 31, 2012, our federal net operating loss carryforward was approximately \$89 million. We also have approximately \$136 million of federal tax credits potentially available to offset future tax liabilities.

In January 2013, legislation was enacted to extend the federal research and development credit and other favorable tax benefits through December 31, 2013. As a result, we expect that our income tax provision for the first quarter of 2013 will include a discrete tax benefit for the research and development credit and other favorable tax benefits that were extended retroactively to January 1, 2012.

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Equity-Method Investment Activity, Net of Tax

Equity-method investment activity, net of tax, was \$(155) million, \$(12) million, and \$7 million in 2012, 2011, and 2010. Details of the activity are provided below (in millions):

	Year Ended December 31,		
	2012	2011	2010
Equity in earnings (loss) of LivingSocial:			
Impairment charges recorded by LivingSocial	\$ (170)	\$ —	\$—
Gain on existing equity interests, LivingSocial acquisitions	75	—	—
Operating and other losses	(96)	(178)	(2)
Total equity in earnings (loss) of LivingSocial	(191)	(178)	(2)
Other equity-method investment activity:			
Amazon dilution gains on LivingSocial investment	37	114	—
Recovery on sale of equity position	—	49	—
Gain on existing equity interests, Amazon acquisitions	—	6	18
Other, net	(1)	(3)	(9)
Total other equity-method investment activity	36	166	9
Equity-method investment activity, net of tax	<u>\$ (155)</u>	<u>\$ (12)</u>	<u>\$ 7</u>

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):

	Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010		
	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported
Net sales	\$ 61,947	\$ (854)	\$61,093	\$46,985	\$ 1,092	\$ 48,077	\$ 34,290	\$ (86)	\$ 34,204
Operating expenses	61,257	(840)	60,417	46,176	1,039	47,215	32,856	(58)	32,798
Income from operations	690	(14)	676	809	53	862	1,434	(28)	1,406

- (1) Represents the outcome that would have resulted had exchange rates in the reported period been the same as those in effect in the comparable prior year period for operating results.
- (2) Represents the increase or decrease in reported amounts resulting from changes in exchange rates from those in effect in the comparable prior year period for operating results.

Non-GAAP Financial Measures

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

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

Free cash flow, which we reconcile to “Net cash provided by (used in) operating activities,” is cash flow from operations reduced by “Purchases of property and equipment, including internal-use software and website

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development.” We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe it typically will present a more conservative measure of cash flows since purchases of property and equipment are a necessary component of ongoing operations.

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

The following is a reconciliation of free cash flow to the most comparable GAAP measure, “Net cash provided by (used in) operating activities” for 2012, 2011, and 2010 (in millions):

	Year Ended December 31,		
	2012	2011	2010
Net cash provided by operating activities	\$ 4,180	\$ 3,903	\$ 3,495
Purchases of property and equipment, including internal-use software and website development	(3,785)	(1,811)	(979)
Free cash flow	\$ 395	\$ 2,092	\$ 2,516
Net cash used in investing activities	\$ (3,595)	\$ (1,930)	\$ (3,360)
Net cash provided by (used in) financing activities	\$ 2,259	\$ (482)	\$ 181

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

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

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

Guidance

We provided guidance on January 29, 2013 in our earnings release furnished on Form 8-K as set forth below. These forward-looking statements reflect Amazon.com’s expectations as of January 29, 2013, and are subject to substantial uncertainty. Our results are inherently unpredictable and may be materially affected by many factors, such as fluctuations in foreign exchange rates, changes in global economic conditions and consumer spending, world events, the rate of growth of the Internet and online commerce, as well as those outlined in Item 1A of Part I, “Risk Factors.”

First Quarter 2013 Guidance

- Net sales are expected to be between \$15.0 billion and \$16.6 billion, or to grow between 14% and 26% compared with first quarter 2012.

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- Operating income (loss) is expected to be between \$(285) million and \$65 million, compared to \$192 million in the prior year period.
- This guidance includes approximately \$285 million for stock-based compensation and amortization of intangible assets, and it assumes, among other things, that no additional business acquisitions or investments are concluded and that there are no further revisions to stock-based compensation estimates.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk for the effect of interest rate changes, foreign currency fluctuations, and changes in the market values of our investments. Information relating to quantitative and qualitative disclosures about market risk is set forth below and in Item 7 of Part II, “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 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.

The following table provides information about our current and long-term cash equivalent and marketable fixed income securities, including principal cash flows by expected maturity and the related weighted average interest rates at December 31, 2012 (in millions, except percentages):

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Thereafter</u>	<u>Total</u>	<u>Estimated Fair Value at December 31, 2012</u>
Money market funds	\$5,561	\$ —	\$ —	\$ —	\$ —	\$ —	\$5,561	\$ 5,561
Weighted average interest rate	0.12%	0.00%	0.00%	0.00%	0.00%	0.00%	0.12%	
Corporate debt securities	223	243	204	27	—	—	697	725
Weighted average interest rate	0.45%	0.62%	0.84%	1.25%	0.00%	0.00%	0.65%	
U.S. Government and Agency Securities	771	561	433	20	5	—	1,790	1,810
Weighted average interest rate	0.30%	0.43%	0.65%	1.12%	1.00%	0.00%	0.43%	
Asset backed securities	26	16	7	—	—	—	49	49
Weighted average interest rate	0.48%	0.69%	0.67%	0.00%	0.00%	0.00%	0.58%	
Foreign government and agency securities	141	228	340	30	—	—	739	772
Weighted average interest rate	0.18%	0.10%	0.12%	0.06%	0.00%	0.00%	0.12%	
Other securities	8	9	10	5	—	—	32	33
Weighted average interest rate	0.88%	0.68%	0.80%	1.08%	0.00%	0.00%	0.83%	
	<u>\$ 6,730</u>	<u>\$ 1,057</u>	<u>\$ 994</u>	<u>\$ 82</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 8,868</u>	
Cash equivalents and marketable fixed-income securities								<u>\$ 8,950</u>

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At December 31, 2012, we had \$3.7 billion of debt, including the current portion, primarily consisting of fixed rate unsecured debt in three tranches: \$750 million of 0.65% notes due in 2015; \$1.0 billion of 1.20% notes due in 2017; and \$1.3 billion of 2.50% notes due in 2022. The fair value of our debt will fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. Based upon quoted market prices and Level 2 inputs, the fair value of our debt was \$3.7 billion at December 31, 2012.

Foreign Exchange Risk

During 2012, net sales from our International segment accounted for 43% of our consolidated revenues. Net sales and related expenses generated from our international websites, as well as those relating to www.amazon.ca (which is included in our North America segment), are denominated in the functional currencies of the corresponding websites and primarily include Euros, British Pounds, Japanese Yen, and Chinese Yuan. The functional currency of our subsidiaries that either operate or support these websites is the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our internationally-focused websites are exposed to foreign exchange rate fluctuations. Upon consolidation, as exchange rates vary, net sales and other operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. For example, as a result of fluctuations in foreign exchange rates during 2012, International segment revenues decreased \$853 million in comparison with the prior year.

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 December 31, 2012 of \$5.1 billion, an assumed 5%, 10%, and 20% negative currency movement would result in fair value declines of \$255 million, \$515 million, and \$1.0 billion. All investments are classified as “available for sale.” 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 various foreign currencies. Based on the intercompany balances at December 31, 2012, an assumed 5%, 10%, and 20% adverse change to foreign exchange would result in losses of \$10 million, \$20 million, and \$40 million, recorded to “Other income (expense), net.”

See Item 7 of Part II, “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 December 31, 2012, our recorded basis in equity investments was \$140 million. These investments primarily relate to equity and cost method investments in private companies. We review our investments for impairment when events and circumstances indicate that the decline in fair value of such assets below the carrying value is other-than-temporary. Our analysis includes review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data. The current global economic climate provides additional uncertainty. Valuations of private companies are inherently more difficult due to the lack of readily available market data. As such, we believe that market sensitivities are not practicable.

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Item 8. *Financial Statements and Supplementary Data*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Amazon.com, Inc.

We have audited the accompanying consolidated balance sheets of Amazon.com, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Amazon.com, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Amazon.com, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 29, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
January 29, 2013

AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2012	2011	2010
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 5,269	\$ 3,777	\$ 3,444
OPERATING ACTIVITIES:			
Net income (loss)	(39)	631	1,152
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation of property and equipment, including internal-use software and website development, and other amortization	2,159	1,083	568
Stock-based compensation	833	557	424
Other operating expense (income), net	154	154	106
Losses (gains) on sales of marketable securities, net	(9)	(4)	(2)
Other expense (income), net	253	(56)	(79)
Deferred income taxes	(265)	136	4
Excess tax benefits from stock-based compensation	(429)	(62)	(259)
Changes in operating assets and liabilities:			
Inventories	(999)	(1,777)	(1,019)
Accounts receivable, net and other	(861)	(866)	(295)
Accounts payable	2,070	2,997	2,373
Accrued expenses and other	1,038	1,067	740
Additions to unearned revenue	1,796	1,064	687
Amortization of previously unearned revenue	(1,521)	(1,021)	(905)
Net cash provided by (used in) operating activities	4,180	3,903	3,495
INVESTING ACTIVITIES:			
Purchases of property and equipment, including internal-use software and website development	(3,785)	(1,811)	(979)
Acquisitions, net of cash acquired, and other	(745)	(705)	(352)
Sales and maturities of marketable securities and other investments	4,237	6,843	4,250
Purchases of marketable securities and other investments	(3,302)	(6,257)	(6,279)
Net cash provided by (used in) investing activities	(3,595)	(1,930)	(3,360)
FINANCING ACTIVITIES:			
Excess tax benefits from stock-based compensation	429	62	259
Common stock repurchased	(960)	(277)	—
Proceeds from long-term debt and other	3,378	177	143
Repayments of long-term debt, capital lease, and finance lease obligations	(588)	(444)	(221)
Net cash provided by (used in) financing activities	2,259	(482)	181
Foreign-currency effect on cash and cash equivalents	(29)	1	17
Net increase (decrease) in cash and cash equivalents	2,815	1,492	333
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 8,084</u>	<u>\$ 5,269</u>	<u>\$ 3,777</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest on long-term debt	\$ 31	\$ 14	\$ 11
Cash paid for income taxes (net of refunds)	112	33	75
Property and equipment acquired under capital leases	802	753	405
Property and equipment acquired under build-to-suit leases	29	259	172

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2012	2011	2010
Net product sales	\$ 51,733	\$ 42,000	\$ 30,792
Net services sales	9,360	6,077	3,412
Total net sales	<u>61,093</u>	<u>48,077</u>	<u>34,204</u>
Operating expenses (1):			
Cost of sales	45,971	37,288	26,561
Fulfillment	6,419	4,576	2,898
Marketing	2,408	1,630	1,029
Technology and content	4,564	2,909	1,734
General and administrative	896	658	470
Other operating expense (income), net	159	154	106
Total operating expenses	<u>60,417</u>	<u>47,215</u>	<u>32,798</u>
Income from operations	676	862	1,406
Interest income	40	61	51
Interest expense	(92)	(65)	(39)
Other income (expense), net	(80)	76	79
Total non-operating income (expense)	<u>(132)</u>	<u>72</u>	<u>91</u>
Income before income taxes	544	934	1,497
Provision for income taxes	(428)	(291)	(352)
Equity-method investment activity, net of tax	(155)	(12)	7
Net income (loss)	<u>\$ (39)</u>	<u>\$ 631</u>	<u>\$ 1,152</u>
Basic earnings per share	<u>\$ (0.09)</u>	<u>\$ 1.39</u>	<u>\$ 2.58</u>
Diluted earnings per share	<u>\$ (0.09)</u>	<u>\$ 1.37</u>	<u>\$ 2.53</u>
Weighted average shares used in computation of earnings per share:			
Basic	<u>453</u>	<u>453</u>	<u>447</u>
Diluted	<u>453</u>	<u>461</u>	<u>456</u>

(1) Includes stock-based compensation as follows:

Fulfillment	\$ 212	\$ 133	\$ 90
Marketing	61	39	27
Technology and content	434	292	223
General and administrative	126	93	84

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net income (loss)	\$(39)	\$ 631	\$ 1,152
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax of \$(30), \$20, and \$29	76	(123)	(137)
Net change in unrealized gains on available-for-sale securities:			
Unrealized gains (losses), net of tax of \$(3), \$1, and \$(2)	8	(1)	5
Reclassification adjustment for losses (gains) included in net income, net of tax effect of \$3, \$1, and \$0	(7)	(2)	(2)
Net unrealized gains (losses) on available-for-sale securities	1	(3)	3
Total other comprehensive income (loss)	77	(126)	(134)
Comprehensive income	<u>\$ 38</u>	<u>\$ 505</u>	<u>\$ 1,018</u>

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 8,084	\$ 5,269
Marketable securities	3,364	4,307
Inventories	6,031	4,992
Accounts receivable, net and other	3,364	2,571
Deferred tax assets	453	351
Total current assets	<u>21,296</u>	<u>17,490</u>
Property and equipment, net	7,060	4,417
Deferred tax assets	123	28
Goodwill	2,552	1,955
Other assets	1,524	1,388
Total assets	<u>\$32,555</u>	<u>\$25,278</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 13,318	\$ 11,145
Accrued expenses and other	5,684	3,751
Total current liabilities	<u>19,002</u>	<u>14,896</u>
Long-term debt	3,084	255
Other long-term liabilities	2,277	2,370
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 — 478 and 473		
Outstanding shares — 454 and 455	5	5
Treasury stock, at cost	(1,837)	(877)
Additional paid-in capital	8,347	6,990
Accumulated other comprehensive loss	(239)	(316)
Retained earnings	1,916	1,955
Total stockholders' equity	<u>8,192</u>	<u>7,757</u>
Total liabilities and stockholders' equity	<u>\$32,555</u>	<u>\$25,278</u>

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions)

	Common Stock			Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Treasury Stock				
Balance at January 1, 2010	444	\$ 5	\$ (600)	\$ 5,736	\$ (56)	\$ 172	\$ 5,257
Net income	—	—	—	—	—	1,152	1,152
Other comprehensive income (loss)	—	—	—	—	(134)	—	(134)
Exercise of common stock options	7	—	—	16	—	—	16
Excess tax benefits from stock-based compensation	—	—	—	145	—	—	145
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	428	—	—	428
Balance at December 31, 2010	451	5	(600)	6,325	(190)	1,324	6,864
Net income	—	—	—	—	—	631	631
Other comprehensive income (loss)	—	—	—	—	(126)	—	(126)
Exercise of common stock options	5	—	—	7	—	—	7
Repurchase of common stock	(1)	—	(277)	—	—	—	(277)
Excess tax benefits from stock-based compensation	—	—	—	62	—	—	62
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	569	—	—	569
Issuance of common stock for acquisition activity	—	—	—	27	—	—	27
Balance at December 31, 2011	455	5	(877)	6,990	(316)	1,955	7,757
Net income (loss)	—	—	—	—	—	(39)	(39)
Other comprehensive income	—	—	—	—	77	—	77
Exercise of common stock options	4	—	—	8	—	—	8
Repurchase of common stock	(5)	—	(960)	—	—	—	(960)
Excess tax benefits from stock-based compensation	—	—	—	429	—	—	429
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	854	—	—	854
Issuance of common stock for acquisition activity	—	—	—	66	—	—	66
Balance at December 31, 2012	454	\$ 5	\$(1,837)	\$ 8,347	\$ (239)	\$ 1,916	\$ 8,192

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—DESCRIPTION OF BUSINESS AND ACCOUNTING POLICIES

Description of Business

Amazon.com opened its virtual doors on the World Wide Web in July 1995 and offers Earth's Biggest Selection. We seek to be Earth's most customer-centric company for four primary customer sets: consumers, sellers, enterprises, and content creators. We serve consumers through our retail websites and focus on selection, price, and convenience. We also manufacture and sell Kindle devices. We offer programs that enable sellers to sell their products on our websites and their own branded websites and to fulfill orders through us, and programs that allow authors, musicians, filmmakers, app developers, and others to publish and sell content. We serve developers and enterprises of all sizes through AWS, which provides access to technology infrastructure that enables virtually any type of business. In addition, we generate revenue through services, such as advertising services and co-branded credit card agreements.

We have organized our operations into two principal segments: North America and International. See "Note 12—Segment Information."

Prior Period Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. Long-term debt is now presented separately on our consolidated balance sheets.

Principles of Consolidation

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

Use of Estimates

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

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The following table shows the calculation of diluted shares (in millions):

	Year Ended		
	December 31,		
	2012	2011	2010
Shares used in computation of basic earnings per share	453	453	447
Total dilutive effect of outstanding stock awards (1)	—	8	9
Shares used in computation of diluted earnings per share	<u>453</u>	<u>461</u>	<u>456</u>

- (1) Calculated using the treasury stock method, which assumes proceeds are used to reduce the dilutive effect of outstanding stock awards. Assumed proceeds include the unrecognized deferred compensation of stock awards, and assumed tax proceeds from excess stock-based compensation deductions.

Cash and Cash Equivalents

We classify all highly liquid instruments with an original maturity of three months or less at the time of purchase as cash equivalents.

Inventories

Inventories, consisting of products available for sale, are primarily accounted for using the 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.

We provide Fulfillment by Amazon services in connection with certain of our sellers' programs. Third-party sellers maintain ownership of their inventory, regardless of whether fulfillment is provided by us or the third-party sellers, and therefore these products are not included in our inventories.

Accounts Receivable, Net, and Other

Included in "Accounts receivable, net and other" on our consolidated balance sheets are amounts primarily related to vendor and customer receivables. At December 31, 2012 and 2011, vendor receivables, net, were \$1.1 billion and \$934 million, and customer receivables, net, were \$1.5 billion and \$1.2 billion.

Allowance for Doubtful Accounts

We estimate losses on receivables based on known troubled accounts and historical experience of losses incurred. Receivables are considered impaired and written-off when it is probable that all contractual payments due will not be collected in accordance with the terms of the agreement. The allowance for doubtful accounts was \$116 million and \$82 million at December 31, 2012 and 2011.

Internal-use Software and Website Development

Costs incurred to develop software for internal use and our websites are capitalized and amortized over the estimated useful life of the software. Costs related to design or maintenance of internal-use software and website development are expensed as incurred. For the years ended 2012, 2011, and 2010, we capitalized \$454 million (including \$74 million of stock-based compensation), \$307 million (including \$51 million of stock-based compensation), and \$213 million (including \$38 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was \$327 million, \$236 million, and \$184 million for 2012, 2011, and 2010.

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Property and Equipment, Net

Property and equipment are stated at cost. Property includes buildings and land that we own, along with property we have acquired under build-to-suit, financing, and capital lease arrangements. Equipment includes assets such as furniture and fixtures, heavy equipment, servers and networking equipment, and internal-use software and website development. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets (generally the lesser of 40 years or the remaining life of the underlying building, two years for assets such as internal-use software, three years for our servers, five years for networking equipment, five years for furniture and fixtures, and ten years for heavy equipment). Depreciation expense is classified within the corresponding operating expense categories on our consolidated statements of operations.

Leases and Asset Retirement Obligations

We categorize leases at their inception as either operating or capital leases. On certain of our lease agreements, we may receive rent holidays and other incentives. We recognize lease costs on a straight-line basis without regard to deferred payment terms, such as rent holidays that defer the commencement date of required payments. Additionally, incentives we receive are treated as a reduction of our costs over the term of the agreement. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the non-cancellable term of the lease.

We establish assets and liabilities for the estimated construction costs incurred under build-to-suit lease arrangements to the extent we are involved in the construction of structural improvements or take construction risk prior to commencement of a lease. Upon occupancy of facilities under build-to-suit leases, we assess whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If we continue to be the deemed owner, the facilities are accounted for as financing leases.

We establish assets and liabilities for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Such assets are depreciated over the lease period into operating expense, and the recorded liabilities are accreted to the future value of the estimated retirement costs.

Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions.

We conduct our annual impairment test as of October 1 of each year, and have determined there to be no impairment for any of the periods presented. There were no triggering events identified from the date of our assessment through December 31, 2012 that would require an update to our annual impairment test. See “Note 4—Acquisitions, Goodwill, and Acquired Intangible Assets.”

Other Assets

Included in “Other assets” on our consolidated balance sheets are amounts primarily related to acquired intangible assets, net of amortization; digital video content, net of amortization; certain equity investments; 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; and intellectual property rights, net of amortization.

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Investments

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 reported at fair value with unrealized gains and losses included in “Accumulated other comprehensive loss.”

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

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

Equity investments without readily determinable fair values for which we do not have the ability to exercise significant influence are accounted for using the cost method of accounting and classified as “Other assets” on our consolidated balance sheets. Under the cost method, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions, and additional investments.

Equity investments that have readily determinable fair values are classified as available for sale and are included in “Marketable securities” in our consolidated balance sheet and are recorded at fair value with unrealized gains and losses, net of tax, included in “Accumulated other comprehensive loss.”

We periodically evaluate whether declines in fair values of our investments below their book value 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. Additionally, we assess whether we have plans to sell the security or it is more likely than not we will be required to sell any investment before recovery of its amortized cost basis. Factors considered include quoted market prices; recent financial results and operating trends; implied values from any recent transactions or offers of investee securities; credit quality of debt instrument issuers; other publicly available information that may affect the value of our investments; duration and severity of the decline in value; and our strategy and intentions for holding the investment.

Long-Lived Assets

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable.

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For long-lived assets used in operations, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and estimated fair value. Long-lived assets are considered held for sale when certain criteria are met, including when management has committed to a plan to sell the asset, the asset is available for sale in its immediate condition, and the sale is probable within one year of the reporting date. Assets held for sale are reported at the lower of cost or fair value less costs to sell. Assets held for sale were not significant at December 31, 2012 or 2011.

Accrued Expenses and Other

Included in "Accrued expenses and other" at December 31, 2012 and 2011 were liabilities of \$1.1 billion and \$788 million for unredeemed gift certificates. We reduce the liability for a gift certificate when redeemed by a customer. 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 the 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. Unearned revenue primarily relates to Amazon Prime memberships and AWS services. 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 \$792 million and \$462 million at December 31, 2012 and 2011. Non-current unearned revenue was \$108 million and \$87 million at December 31, 2012 and 2011.

Income Taxes

Income tax expense includes U.S. and international income taxes. Except as required under U.S. tax law, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings. Undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S. were \$2.1 billion at December 31, 2012. Determination of the unrecognized deferred tax liability that would be incurred if such amounts were repatriated is not practicable.

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.

Deferred tax assets are 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 and capital gains by taxing jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors. We allocate our valuation allowance to current and long-term deferred tax assets on a pro-rata basis.

We utilize a two-step approach to recognizing and measuring uncertain income tax positions (tax contingencies). 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. 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. We include interest and penalties related to our tax contingencies in income tax expense.

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Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

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

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

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

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

Revenue

We recognize revenue from product sales or services rendered when the following four 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 collectability is reasonably assured. Revenue arrangements with multiple deliverables are divided into separate units and revenue is allocated using estimated selling prices if we do not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables. We allocate the arrangement price to each of the elements based on the estimated selling prices of each element. Estimated selling prices are management's best estimates of the prices that we would charge our customers if we were to sell the standalone elements separately and include considerations of customer demand, prices charged by us and others for similar deliverables, and the price if largely based on costs. Sales of our Kindle device are considered arrangements with multiple deliverables, consisting of the device, 3G wireless access and delivery for some models, and software upgrades. The revenue related to the device, which is the substantial portion of the total sale price, and related costs are recognized upon delivery. Revenue related to 3G wireless access and delivery and software upgrades is amortized over the average life of the device, which is estimated to be three years.

We evaluate 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 primarily 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 at the gross sales price. We generally record the net amounts as commissions earned if we are not primarily obligated and do not have latitude in establishing prices. Such amounts earned are determined using a fixed percentage, a fixed-payment schedule, or a combination of the two.

Product sales represent revenue from the sale of products and related shipping fees and digital content where we are the seller of record. 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. Kindle devices sold through retailers are recognized at the point of sale to consumers. Retail sales to customers are made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier.

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Services sales represent third-party seller fees earned (including commissions) and related shipping fees, and non-retail activities such as AWS, advertising services, and our co-branded credit card agreements. Services sales, net of promotional discounts and return allowances, are recognized when services have been rendered. Amounts received in advance for services, including amounts received for Amazon Prime and web services, are deferred and recognized as revenue over the term.

Return allowances, which reduce revenue, are estimated using historical experience. Revenue from product sales and services rendered is recorded net of sales and consumption taxes. Additionally, 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 presented as a net amount in "Total net sales."

Cost of Sales

Cost of sales consists of the purchase price of consumer products and digital content where we are the seller of record, inbound and outbound shipping charges, and packaging supplies. Shipping charges to receive products from our suppliers are included in our inventory, and recognized as cost of sales upon sale of products to our customers. Payment processing and related transaction costs, including those associated with seller transactions, are classified in "Fulfillment" on our consolidated statements of operations.

Content Costs

We obtain digital video content through licensing agreements that have a wide range of licensing provisions and are generally from one to five years with fixed payment schedules. When the license fee for a specific movie or television title is determinable or reasonably estimable and available for streaming, we recognize an asset representing the fee per title and a corresponding liability for the amounts owed. We amortize the asset on a straight-line basis over each title's contractual window of availability, which typically ranges from six months to five years. If we are unable to reasonably estimate the cost per title, no asset or liability is recorded and licensing costs are expensed as incurred.

Vendor Agreements

We have agreements to receive cash consideration from certain of our vendors, including rebates and cooperative marketing reimbursements. We generally consider amounts received from our vendors as a reduction of the prices we pay for their products and, therefore, record such amounts as a reduction of the cost of inventory we buy from them. Vendor rebates are typically dependent upon reaching minimum purchase thresholds. We evaluate the likelihood of reaching purchase thresholds using past experience and current year forecasts. When volume rebates can be reasonably estimated, we record a portion of the rebate as we make progress towards the purchase threshold.

When we receive direct reimbursements for costs incurred by us in advertising the vendor's product or service, the amount we receive is recorded as an offset to "Marketing" on our consolidated statements of operations.

Fulfillment

Fulfillment costs represent those costs incurred in operating and staffing our fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting, and warehousing inventories;

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picking, packaging, and preparing customer orders for shipment; payment processing and related transaction costs, including costs associated with our guarantee for certain seller transactions; responding to inquiries from customers, and supply chain management for our manufactured Kindle devices. Fulfillment costs also include amounts paid to third parties that assist us in fulfillment and customer service operations.

Marketing

Marketing costs consist primarily of targeted online advertising, television advertising, public relations expenditures; and payroll and related expenses for personnel engaged in marketing, business development, and selling activities. We pay commissions to participants in our Associates program when their customer referrals result in product sales and classify such costs as “Marketing” on our consolidated statements of operations. We also participate in cooperative advertising arrangements with certain of our vendors, and other third parties.

Advertising and other promotional costs are expensed as incurred and were \$2.0 billion, \$1.4 billion, and \$890 million in 2012, 2011, and 2010. Prepaid advertising costs were not significant at December 31, 2012 and 2011.

Technology and Content

Technology and content expenses consist principally of technology infrastructure expenses and payroll and related expenses for employees involved in application, product, and platform development, category expansion, editorial content, buying, merchandising selection, systems support, and digital initiatives, as well as costs associated with the compute, storage, and telecommunications infrastructure used internally and supporting AWS.

Technology and content costs are expensed as incurred, except for certain costs relating to the development of internal-use software and website development, including software used to upgrade and enhance our websites and applications supporting our business, which are capitalized and amortized over two years.

General and Administrative

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, including accounting, finance, tax, legal, and human relations, among others; costs associated with use by these functions of facilities and equipment, such as depreciation expense and rent; professional fees and litigation costs; and other general corporate costs.

Stock-Based Compensation

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

Other Operating Expense (Income), Net

Other operating expense (income), net, consists primarily of intangible asset amortization expense and expenses related to legal settlements.

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Other Income (Expense), Net

Other income (expense), net, consists primarily of foreign currency gains and losses of \$(95) million, \$64 million, and \$75 million in 2012, 2011, and 2010, and realized gains and losses on marketable securities sales of \$10 million, \$4 million, and \$1 million in 2012, 2011, and 2010.

Foreign Currency

We have internationally-focused websites for the United Kingdom, Germany, France, Japan, Canada, China, Italy, Spain, and Brazil. Net sales generated from these websites, as well as most of the related expenses directly incurred from those operations, are denominated in the functional currencies of the resident countries. The functional currency of our subsidiaries that either operate or support these websites is the same as the local currency. Assets and liabilities of these subsidiaries are translated into U.S. Dollars at period-end exchange rates, and revenues and expenses are translated at average rates prevailing throughout the period. Translation adjustments are included in "Accumulated other comprehensive income (loss)," a separate component of stockholders' equity, and in the "Foreign-currency effect on cash and cash equivalents," on our consolidated statements of cash flows. Transaction gains and losses including intercompany transactions denominated in a currency other than the functional currency of the entity involved are included in "Other income (expense), net" on our consolidated statements of operations. In connection with the settlement and remeasurement of intercompany balances, we recorded gains (losses) of \$(95) million in 2012 and \$70 million in both 2011 and 2010.

Recent Accounting Pronouncements

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

Note 2—CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

As of December 31, 2012 and 2011, our cash, cash equivalents, and marketable securities primarily consisted of cash, U.S. and foreign government and agency securities, AAA-rated money market funds, and other investment grade securities. Our marketable fixed-income securities have effective maturities of less than 5 years. Cash equivalents and marketable securities are recorded at fair value. The following table summarizes,

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

	December 31, 2012			Total Estimated Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Cash	\$ 2,595	—	—	\$ 2,595
Level 1 securities:				
Money market funds	5,561	—	—	5,561
Equity securities	2	—	—	2
Level 2 securities:				
Foreign government and agency securities	763	9	—	772
U.S. government and agency securities	1,809	3	(2)	1,810
Corporate debt securities	719	6	—	725
Asset-backed securities	49	—	—	49
Other fixed income securities	33	—	—	33
	<u>\$11,531</u>	<u>\$ 18</u>	<u>\$ (2)</u>	<u>\$11,547</u>
Less: Restricted cash, cash equivalents, and marketable securities (1)				(99)
Total cash, cash equivalents, and marketable securities				<u>\$ 11,448</u>

	December 31, 2011			Total Estimated Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Cash	\$ 1,207	—	—	\$ 1,207
Level 1 securities:				
Money market funds	3,651	—	—	3,651
Equity securities	2	—	(1)	1
Level 2 securities:				
Foreign government and agency securities	1,627	14	(1)	1,640
U.S. government and agency securities	2,592	3	(2)	2,593
Corporate debt securities	562	3	(2)	563
Asset-backed securities	56	—	(1)	55
Other fixed income securities	22	—	—	22
	<u>\$9,719</u>	<u>\$ 20</u>	<u>\$ (7)</u>	<u>\$ 9,732</u>
Less: Restricted cash, cash equivalents, and marketable securities (1)				(156)
Total cash, cash equivalents, and marketable securities				<u>\$9,576</u>

- (1) We are required to pledge or otherwise restrict a portion of our cash, cash equivalents, and marketable securities as collateral for standby and trade letters of credit, guarantees, debt, and real estate lease agreements. We classify cash and marketable securities with use restrictions of less than twelve months as “Accounts receivable, net and other” and of twelve months or longer as non-current “Other assets” on our consolidated balance sheets. See “Note 8—Commitments and Contingencies.”

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The following table summarizes gross gains and gross losses realized on sales of available-for-sale marketable securities (in millions):

	Year Ended		
	December 31,		
	2012	2011	2010
Realized gains	\$20	\$15	\$5
Realized losses	10	11	4

The following table summarizes the maturities of our cash equivalent and marketable fixed-income securities as of December 31, 2012 (in millions):

	Amortized	Estimated
	Cost	Fair Value
Due within one year	\$6,689	\$6,691
Due after one year through five years	1,968	1,981
Due after five years	277	278
	<u>\$ 8,934</u>	<u>\$ 8,950</u>

Actual maturities may differ from the contractual maturities because borrowers may have certain prepayment conditions.

Note 3—PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of the following (in millions):

	December 31,	
	2012	2011
Gross Property and Equipment (1):		
Land and buildings	\$2,966	\$ 1,437
Equipment and internal-use software (2)	6,228	4,106
Other corporate assets	174	137
Construction in progress	214	106
Gross property and equipment	<u>\$ 9,582</u>	<u>\$5,786</u>
Total accumulated depreciation (1)	<u>2,522</u>	<u>1,369</u>
Total property and equipment, net	<u>\$ 7,060</u>	<u>\$ 4,417</u>

- (1) Excludes the original cost and accumulated depreciation of fully-depreciated assets.
(2) Includes internal-use software of \$866 million and \$623 million at December 31, 2012 and 2011.

In December 2012, we acquired our corporate headquarters for \$1.2 billion consisting of land and 11 buildings that were previously accounted for as financing leases. The acquired building assets will be depreciated over their estimated useful lives of 40 years. We also acquired three city blocks of land for the expansion of our corporate headquarters for approximately \$210 million.

Depreciation expense on property and equipment was \$1.7 billion, \$1.0 billion, and \$552 million, which includes amortization of property and equipment acquired under capital lease obligations of \$510 million, \$335 million, and \$164 million for 2012, 2011, and 2010. Gross assets remaining under capital leases were \$2.3 billion and \$1.6 billion at December 31, 2012 and 2011. Accumulated depreciation associated with capital leases was \$1.1 billion and \$603 million at December 31, 2012 and 2011. Cash paid for interest on capital leases was \$51 million, \$44 million, and \$26 million for 2012, 2011, and 2010.

Note 4—ACQUISITIONS, GOODWILL, AND ACQUIRED INTANGIBLE ASSETS*2012 Acquisition Activity*

In May 2012, we acquired Kiva Systems, Inc. (“Kiva”) for a purchase price of \$678 million. The primary reason for this acquisition was to improve fulfillment center productivity. Acquisition-related costs were expensed as incurred and were not significant. The aggregate purchase price of this acquisition was allocated as follows (in millions):

Purchase Price	
Cash paid, net of cash acquired	\$ 613
Stock options assumed	65
	<u>\$678</u>
Allocation	
Goodwill	\$560
Intangible assets (1):	
Marketing-related	5
Contract-based	3
Technology-based	168
Customer-related	17
	<u>193</u>
Property and equipment	9
Deferred tax assets	34
Other assets acquired	41
Deferred tax liabilities	(81)
Other liabilities assumed	(78)
	<u>\$678</u>

(1) Acquired intangible assets have estimated useful lives of between four and 10 years, with a weighted-average amortization period of five years.

The fair value of assumed stock options was estimated using the Black-Scholes model. We determined the estimated fair value of identifiable intangible assets acquired primarily by using the income and cost approaches. These assets are included within “Other assets” on our consolidated balance sheets and are being amortized to operating expenses on a straight-line or accelerated basis over their estimated useful lives.

Pro Forma Financial Information – 2012 Acquisition Activity (unaudited)

Kiva was consolidated into our financial statements starting on its acquisition date. The net sales and operating loss of Kiva recorded in our consolidated statement of operations from its acquisition date through December 31, 2012, were \$61 million and \$(62) million. The following pro forma financial information presents our results as if the Kiva acquisition had occurred at the beginning of 2011 (in millions):

	Year Ended December 31,	
	2012	2011
Net sales	\$61,118	\$48,157
Net income (loss)	(2)	499

[Table of Contents](#)*2011 Acquisition Activity*

In 2011, we acquired certain companies for an aggregate purchase price of \$771 million. The primary reasons for these acquisitions, none of which was individually material to our consolidated financial statements, were to expand our customer base and sales channels, including our consumer channels and subscription entertainment services. Acquisition-related costs were expensed as incurred and were not significant. The aggregate purchase price of these acquisitions was allocated as follows (in millions):

Purchase Price	
Cash paid, net of cash acquired	\$ 637
Existing equity interest	89
Indemnification holdbacks	25
Stock options assumed	20
	<u>\$ 771</u>
Allocation	
Goodwill	\$ 615
Intangible assets (1):	
Marketing-related	130
Customer-related	94
Contract-based	6
	<u>230</u>
Property and equipment	119
Deferred tax assets	49
Other assets acquired	68
Accounts payable	(65)
Debt	(70)
Deferred tax liabilities	(75)
Other liabilities assumed (2)	(100)
	<u>\$ 771</u>

- (1) Amortization periods range from two to 10 years, with a weighted-average amortization period of eight years.
(2) Includes a \$38 million contingent liability related to historic tax exposures.

In addition to cash consideration and the fair value of vested stock options, the aggregate purchase price included the estimated fair value of our previous, noncontrolling interest in one of the acquired companies. We remeasured this equity interest to fair value at the acquisition date and recognized a non-cash gain of \$6 million in "Equity-method investment activity, net of tax," in our 2011 consolidated statement of operations. The fair value of assumed stock options was estimated using the Black-Scholes model. We determined the estimated fair value of identifiable intangible assets acquired primarily by using the income and cost approaches. Purchased identifiable intangible assets are included within "Other assets" on our consolidated balance sheets and are being amortized to operating expenses on a straight-line or accelerated basis over their estimated useful lives.

Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in the aggregate, were not material to our consolidated results of operations.

2010 Acquisition Activity

In 2010, we acquired certain companies for an aggregate purchase price of \$228 million, resulting in goodwill of \$111 million and acquired intangible assets of \$91 million. The primary reasons for these acquisitions were to expand our customer base and sales channels. The purchase price was allocated to the

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tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated purchase price recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was determined primarily by using the income and cost approaches. These intangible assets are being amortized on a straight-line or accelerated basis over their respective useful lives.

Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in the aggregate, were not material to our consolidated results of operations.

Goodwill

The goodwill of the acquired companies is generally not deductible for tax purposes and is primarily related to expected improvements in fulfillment center productivity and sales growth from future product offerings and customers, together with certain intangible assets that do not qualify for separate recognition.

The following summarizes our goodwill activity in 2012 and 2011 by segment (in millions):

	North America	International	Consolidated
Goodwill - January 1, 2011	\$1,116	\$ 233	\$ 1,349
New acquisitions	417	198	615
Other adjustments (1)	—	(9)	(9)
Goodwill - December 31, 2011	<u>1,533</u>	<u>422</u>	<u>1,955</u>
New acquisitions (2)	403	184	587
Other adjustments (1)	1	9	10
Goodwill - December 31, 2012	<u>\$ 1,937</u>	<u>\$ 615</u>	<u>\$ 2,552</u>

- (1) Primarily includes changes in foreign exchange.
(2) Primarily includes the goodwill of Kiva.

Intangible Assets

Acquired intangible assets, included within “Other assets” on our consolidated balance sheets, consist of the following (in millions):

	Weighted Average Life Remaining	December 31,					
		2012		2011			
		Acquired Intangibles, Gross (1)	Accumulated Amortization (1)	Acquired Intangibles, Net	Acquired Intangibles, Gross (1)	Accumulated Amortization (1)	Acquired Intangibles, Net
Marketing-related	7.3	\$ 422	\$ (113)	\$ 309	\$ 408	\$ (74)	\$ 334
Contract-based	3.9	177	(89)	88	189	(74)	115
Technology- and content-based	4.9	231	(30)	201	37	(13)	24
Customer-related	3.2	332	(205)	127	343	(169)	174
Acquired intangibles (2)	5.1	<u>\$ 1,162</u>	<u>\$ (437)</u>	<u>\$ 725</u>	<u>\$ 977</u>	<u>\$ (330)</u>	<u>\$ 647</u>

- (1) Excludes the original cost and accumulated amortization of fully-amortized intangibles.
(2) Intangible assets have estimated useful lives of between one and 10 years.

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Amortization expense for acquired intangibles was \$163 million, \$149 million, and \$105 million in 2012, 2011, and 2010. Expected future amortization expense of acquired intangible assets as of December 31, 2012 is as follows (in millions):

Year Ended December 31,	
2013	\$159
2014	143
2015	126
2016	103
2017	82
Thereafter	112
	<u>\$725</u>

Note 5—EQUITY-METHOD INVESTMENTS

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

Statement of Operations:	Year Ended December 31,	
	2012	2011
Revenue	\$ 536	\$ 250
Operating expense	862	669
Impairment charge	579	—
Operating loss	(905)	(419)
Net loss (1)	\$(650)	\$(499)

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

Balance Sheet:	December 31,	
	2012	2011
Current assets	\$ 76	\$176
Noncurrent assets	218	271
Current liabilities	338	210
Noncurrent liabilities	14	32
Mandatorily redeemable stock	205	201

LivingSocial tested its goodwill and certain long-lived assets for impairment based on certain triggering events. Although its goodwill impairment test is not complete as of the date of this filing, LivingSocial believes an impairment loss is probable and has provided to us its best estimate. Completion of this impairment test by LivingSocial may result in an adjustment to this estimate.

As of December 31, 2012, the book value of our LivingSocial investment was \$52 million. The summarized financial information is included for the periods in which we held an equity method ownership interest.

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Note 6—LONG-TERM DEBT

In November 2012, we issued \$3.0 billion of unsecured senior notes in three tranches as described in the table below (collectively, the “Notes”). The net carrying amount of the Notes was \$3.0 billion and the unamortized discount was \$27 million at December 31, 2012. We also have other long-term debt with a carrying amount, including the current portion, of \$691 million and \$384 million at December 31, 2012 and 2011. The face value of our total long-term debt obligations is as follows (in millions):

	December 31,	
	2012	2011
0.65% Notes due on November 27, 2015	\$ 750	\$ —
1.20% Notes due on November 29, 2017	1,000	—
2.50% Notes due on November 29, 2022	1,250	—
Other long-term debt	691	384
Total debt	3,691	384
Less current portion of long-term debt	(579)	(129)
face value of long-term debt	<u>\$ 3,112</u>	<u>\$ 255</u>

The effective interest rates of the 2015, 2017, and 2022 Notes were 0.84%, 1.38%, and 2.66%. Interest on the Notes is payable semi-annually in arrears in May and November. We may redeem the Notes at any time in whole, or from time to time, in part at specified redemption prices. We are not subject to any financial covenants under the Notes. We used the net proceeds from the issuance of the Notes for general corporate purposes. The estimated fair value of the Notes was approximately \$3.0 billion at December 31, 2012, which is based on quoted prices for our publicly-traded debt as of that date.

The other debt, including the current portion, had a weighted average interest rate of 6.4% and 5.9% in 2012 and 2011. We used the net proceeds from the issuance of the debt to fund certain international operations. The estimated fair value of the other long-term debt, which is based on Level 2 inputs, approximated its carrying value at December 31, 2012 and December 31, 2011.

At December 31, 2012, future principal payments for debt were as follows (in millions):

Year Ended December 31,	
2013	\$ 579
2014	46
2015	816
2016	—
2017	1,000
Thereafter	1,250
	<u>\$3,691</u>

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Note 7—OTHER LONG-TERM LIABILITIES

Our other long-term liabilities are summarized as follows (in millions):

	December 31,	
	2012	2011
Long-term capital lease obligations	\$ 737	\$ 598
Long-term financing lease obligations (1)	9	562
Construction liabilities	87	59
Tax contingencies	336	266
Other (2)	1,108	885
	<u>\$2,277</u>	<u>\$2,370</u>

- (1) Long-term financing lease obligations related to our corporate headquarters leases are no longer included as we acquired the associated land and buildings in December 2012. See “Note 3 – Property and Equipment.”
- (2) Primarily includes long-term deferred tax liabilities.

Capital Leases

Certain of our equipment, primarily related to technology infrastructure, and buildings have been acquired under capital leases. Long-term capital lease obligations are as follows (in millions):

	December 31,
	2012
Gross capital lease obligations	\$ 1,342
Less imputed interest	(50)
Present value of net minimum lease payments	1,292
Less current portion of capital lease obligation	(555)
Total long-term capital lease obligations	<u>\$ 737</u>

Construction Liabilities

We capitalize construction in progress and record a corresponding long-term liability for build-to-suit lease agreements where we are considered the owner during the construction period for accounting purposes.

Tax Contingencies

We have recorded tax reserves for tax contingencies, inclusive of accrued interest and penalties, of approximately \$336 million as of December 31, 2012, and \$266 million as of December 31, 2011, for U.S. and foreign income taxes. These contingencies primarily relate to transfer pricing, state income taxes, and research and development credits. See “Note 11—Income Taxes” for discussion of tax contingencies.

The remainder of our long-term liabilities primarily includes deferred tax liabilities, unearned revenue, asset retirement obligations, and deferred rental liabilities.

Note 8—COMMITMENTS AND CONTINGENCIES

Commitments

We have entered into non-cancellable operating, capital, and financing leases for equipment and office, fulfillment center, and data center facilities. Rental expense under operating lease agreements was \$541 million, \$362 million, and \$225 million for 2012, 2011, and 2010.

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The following summarizes our principal contractual commitments, excluding open orders for purchases that support normal operations, as of December 31, 2012 (in millions):

	Year Ended December 31,					Thereafter	Total
	2013	2014	2015	2016	2017		
Operating and capital commitments:							
Debt principal and interest	\$ 656	\$ 105	\$ 866	\$ 43	\$ 1,069	\$ 1,380	\$ 4,119
Capital leases, including interest	562	403	214	51	17	95	1,342
Financing lease obligations, including interest	1	1	1	1	1	9	14
Operating leases	595	634	570	514	453	2,688	5,454
Unconditional purchase obligations (1)	302	239	143	38	1	—	723
Other commitments (2) (3)	380	276	253	110	78	436	1,533
Total commitments	<u>\$2,496</u>	<u>\$1,658</u>	<u>\$2,047</u>	<u>\$757</u>	<u>\$1,619</u>	<u>\$ 4,608</u>	<u>\$13,185</u>

- (1) Includes unconditional purchase obligations related to agreements to acquire and license digital video content that represent long-term liabilities or that are not reflected on the consolidated balance sheets.
- (2) Includes the estimated timing and amounts of payments for rent and tenant improvements associated with build-to-suit lease arrangements that have not been placed in service.
- (3) Excludes \$294 million of tax contingencies for which we cannot make a reasonably reliable estimate of the amount and period of payment, if any.

Pledged Securities

We have pledged or otherwise restricted \$99 million and \$156 million in 2012 and 2011 of our cash and marketable securities as collateral for standby and trade letters of credit, guarantees, debt related to our international operations, as well as real estate leases.

Inventory Suppliers

During 2012, no vendor accounted for 10% or more of our inventory purchases. We generally do not have long-term contracts or arrangements with our vendors to guarantee the availability of merchandise, particular payment terms, or the extension of credit limits.

Legal Proceedings

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

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. The Hurst case was dismissed with prejudice in June 2012. 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.

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In November 2007, an Austrian copyright collection society, Austro-Mechana, filed lawsuits against several Amazon.com EU subsidiaries in the Commercial Court of Vienna, Austria and in the District Court of Munich, Germany seeking to collect a tariff on blank digital media sold by our EU-based retail websites to customers located in Austria. In July 2008, the German court stayed the German case pending a final decision in the Austrian case. In July 2010, the Austrian court ruled in favor of Austro-Mechana and ordered us to report all sales of products to which the tariff potentially applies for a determination of damages. We contested Austro-Mechana's claim and in September 2010 commenced an appeal in the Commercial Court of Vienna. We lost this appeal and in March 2011 commenced an appeal in the Supreme Court of Austria. In October 2011, the Austrian Supreme Court referred the case to the European Court of Justice.

In April 2009, Parallel Networks, LLC filed a complaint against us for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleged, among other things, that our website technology infringed a patent owned by Parallel Networks purporting to cover a "Method And Apparatus For Client-Server Communication Using a Limited Capability Client Over A Low-Speed Communications Link" (U.S. Patent No. 6,446,111) and sought injunctive relief, monetary damages, costs and attorneys' fees. The complaint was dismissed without prejudice in February 2010, but the plaintiff filed a new complaint against us the following month containing similar allegations. In December 2011, the court granted Amazon's motion for summary judgment and dismissed the claims against Amazon with prejudice. In January 2013, the United States Court of Appeals for the Federal Circuit affirmed the judgment of the district court.

In May 2009, Big Baboon, Inc. filed a complaint against us for patent infringement in the United States District Court for the Central District of California. The complaint alleges, among other things, that our third-party selling and payments technology infringes a patent owned by Big Baboon, Inc. purporting to cover an "Integrated Business-to-Business Web Commerce and Business Automation System" (U.S. Patent No. 6,115,690) and seeks injunctive relief, monetary damages, treble damages, costs and attorneys' fees. In February 2011, the Court entered an order staying the lawsuit pending the outcome of the Patent and Trademark Office's re-examination of the patent in suit. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In September 2009, SpeedTrack, Inc. filed a complaint against us for patent infringement in the United States District Court for the Northern District of California. The complaint alleges, among other things, that our website technology infringes a patent owned by SpeedTrack purporting to cover a "Method For Accessing Computer Files and Data, Using Linked Categories Assigned to Each Data File Record on Entry of the Data File Record" (U.S. Patent Nos. 5,544,360) and seeks injunctive relief, monetary damages, enhanced damages, costs and attorneys' fees. In November 2009, the Court entered an order staying the lawsuit pending the outcome of the Patent and Trademark Office's re-examination of the patent in suit and the resolution of similar litigation against another party. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

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

In December 2009, Nazomi Communications, Inc. filed a complaint against us for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that

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the processor core in our Kindle e-reader infringes two patents owned by Nazomi purporting to cover “Java virtual machine hardware for RISC and CISC processors” and “Java hardware accelerator using microcode engine” (U.S. Patent Nos. 7,080,362 and 7,225,436) and seeks monetary damages, injunctive relief, costs and attorneys’ fees. In October 2010, the case was transferred to the United States District Court for the Northern District of California. In January 2012, Nazomi added Amazon to a second lawsuit, which alleges, among other things, that the Kindle Fire infringes a patent owned by Nazomi purporting to cover a “Constant Pool Reference Resolution Method” (U.S. Patent No. 6,338,160) also seeking monetary damages, injunctive relief, costs and attorneys’ fees. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In July 2010, Positive Technologies Inc. filed a complaint against us for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that certain of our products, including our Kindle e-reader, infringe three patents owned by the plaintiff purporting to cover a “DC Integrating Display Driver Employing Pixel Status Memories” (U.S. Patent Nos. 5,444,457; 5,627,558 and 5,831,588) and seeks monetary damages, injunctive relief, costs and attorneys’ fees. In April 2011, the case was transferred to the United States District Court for the Northern District of California. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In July 2010, the Federal Trade Commission (“FTC”) staff informed us that it was considering whether to recommend enforcement proceedings against us for advertising and selling certain textile fiber products as “bamboo” when they are made of rayon manufactured from bamboo, in violation of the Textile Fiber Product Identification Act, the FTC Act, and the regulations promulgated thereunder. We do not believe we violated these laws and regulations and cooperated voluntarily with the Commission’s inquiry. In September 2011, we learned that the Commission voted to refer the matter to the Department of Justice for enforcement proceedings. In January 2013, we entered into a settlement of the inquiry that included, among other things, payment of a civil penalty. The payment was not material to either the current or future years.

In September 2010, Olympic Developments AG, LLC filed a complaint against us for patent infringement in the United States District Court for the Central District of California. The complaint alleges, among other things, that certain aspects of our technology, including our Kindle e-reader, infringe two patents owned by the plaintiff purporting to cover a “Transactional Processing System” (U.S. Patent No. 5,475,585) and a “Device for Controlling Remote Interactive Receiver” (U.S. Patent No. 6,246,400B1) and seeks monetary damages, injunctive relief, costs and attorneys’ fees. In February 2011, the case was transferred to the United States District Court for the Western District of Washington. In September 2011, 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. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In November 2010, Kelora Systems, LLC filed a complaint against us for patent infringement in the United States District Court for the Western District of Wisconsin. The complaint alleged that our website infringes a patent owned by Kelora Systems purporting to cover a “Method and system for executing a guided parametric search” (U.S. Patent No. 6,275,821) and sought monetary damages, costs, attorneys’ fees, and injunctive relief. In March 2011, the case was transferred to the United States District Court for the Northern District of California. In August 2011, Kelora filed an amended complaint adding Amazon subsidiaries Audible and Zappos as defendants. In May 2012, the lawsuit was dismissed on summary judgment. In June 2012, Kelora appealed to the United States Court of Appeals for the Federal Circuit. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In December 2010, Technology Innovations, LLC filed a complaint against us for patent infringement in the United States District Court for the Southern District of Texas. The complaint alleges, among other things, that Amazon’s sale of e-books and Kindle e-readers infringes a patent owned by the plaintiff purporting to cover a “Device For Including Enhancing Information With Printed Information And Method For Electronic Searching Thereof” (U.S. Patent No. 5,517,407) and seeks monetary damages, injunctive relief, costs, interest, and

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attorneys' fees. The complaint was dismissed without prejudice in August 2011, but the plaintiff filed a new complaint against us in the United States District Court for the District of Delaware containing similar allegations and alleging infringement of an additional patent purporting to cover an "Apparatus for the Display of Embedded Information" (U.S. Patent No. 7,429,965). We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In January 2011, Rovi Corporation, Rovi Guides, Inc., United Video Properties, Inc., TV Guide Online, LLC, and TV Guide Online, Inc. filed a complaint against Amazon.com, Inc. and IMDb.com, Inc. in the United States District Court for the District of Delaware. The plaintiffs allege, among other things, that the use of links on instant video web pages to DVD and Blu-ray discs; instant video preview, TV season, and season pass options; IMDb TV listings (localized listings); and links on IMDb title pages to DVD and Blue-ray pages on Amazon's website infringe one or more of U.S. Patent No. 5,988,078, entitled "Method and Apparatus for Receiving Customized Television Programming Information by Transmitting Geographic Location to a Service Provider Through a Wide-Area Network"; U.S. Patent No. 6,275,268, entitled "Electronic Television Program Guide with Remote Product Ordering"; U.S. Patent No. 6,769,128, entitled "Electronic Television Program Guide Schedule System and Method with Data Feed Access"; U.S. Patent No. 7,493,643, entitled "Program Guide System with Video-On-Demand Browsing"; and U.S. Patent No. 7,603,690, entitled "Interactive Television Program Guide System with Pay Program Package Promotion." The complaint seeks an unspecified amount of damages, enhanced damages, interest, attorneys' fees, and an injunction. In August 2012, the court granted a stipulated judgment of non-infringement for U.S. Patent No. 6,769,128. In November 2012, Rovi's damages expert opined that, if we are found to infringe the patents-in-suit and the patents are found to be valid (both of which we dispute), Amazon and its affiliates should pay damages of approximately \$40 million, subject to enhancement. In December 2012, the court dismissed with prejudice plaintiffs' claims for infringement of U.S. Patent Nos. 5,988,078 and 7,493,643. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In February 2011, SFA Systems, LLC, filed a complaint against us for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that by using computer-implemented systems and methods for personalization Amazon and Zappos infringe a patent owned by the plaintiff purporting to cover an "Integrated Computerized Sales Force Automation System" (U.S. Patent No. 6,067,525), and seeks monetary damages, interest, costs, and attorneys' fees. In August 2011, the plaintiff filed an additional complaint against us in the United States District Court for the Eastern District of Texas alleging, among other things, that certain supply chain, sales, marketing, and inventory systems and methods used by Amazon and Zappos infringe a patent owned by the plaintiff purporting to cover a "Sales Force Automation System and Method" (U.S. Patent No. 7,941,341), and seeking monetary damages, interest, costs, and attorneys' fees. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In April 2011, Walker Digital LLC filed several complaints against us for patent infringement in the United States District Court for the District of Delaware. The complaints allege that we infringe several of the plaintiff's U.S. patents by, among other things, providing "cross benefits" to customers through our promotions, (U.S. Patent Nos. 7,831,470 and 7,827,056), using a customer's identified original product to offer a substitute product (U.S. Patent No. 7,236,942), using our product recommendations and personalization features to offer complementary products together (U.S. Patent Nos. 6,601,036 and 6,138,105), enabling customers to subscribe to a delivery schedule for products they routinely use at reduced prices (U.S. Patent No. 5,970,470), and offering personalized advertising based on customers' preferences identified using a data pattern (U.S. Patent No. 7,933,893). Another complaint, filed in the same court in October 2011, alleges that we infringe plaintiff's U.S. Patent No. 8,041,711 by offering personalized advertising based on customer preferences that associate data with resource locators. Another complaint, filed in the same court in February 2012, alleges that we infringe plaintiff's U.S. Patent No. 8,112,359 by using product information received from customers to identify and offer substitute products using a manufacturer database. The complaints seek monetary damages, interest, injunctive relief, costs, and attorneys' fees. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in these matters.

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In July 2011, GPNE Corp. filed a complaint against us for patent infringement in the United States District Court for the District of Hawaii. The complaint alleges, among other things, that certain aspects of our technology, including our Kindle e-reader, infringe three patents owned by the plaintiff purporting to cover a “Network Communication System Wherein a Node Obtains Resources for Transmitting Data by Transmitting Two Reservation Requests” (U.S. Patent No. 7,555,267), a “Communication System Wherein a Clocking Signal from a Controller, a Request from a Node, Acknowledgement of the Request, and Data Transferred from the Node are all Provided on Different Frequencies, Enabling Simultaneous Transmission of these Signals” (U.S. Patent No. 7,570,954) and a “Network Communication System with an Alignment Signal to Allow a Controller to Provide Messages to Nodes and Transmission of the Messages over Four Independent Frequencies” (U.S. Patent No. 7,792,492) and seeks monetary damages, interest, costs, and attorneys’ fees. In June 2012, the case was transferred to the United States District Court for the Northern District of California. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In September 2011, Parallel Iron, LLC, filed a complaint against us for patent infringement in the United States District Court for the District of Delaware. The complaint alleged, among other things, that certain AWS file storage systems that include a Hadoop Distributed File System infringe a patent owned by the plaintiff purporting to cover “Methods and Systems for a Storage System With a Program-Controlled Switch for Routing Data” (U.S. Patent No. 7,415,565), and sought monetary damages, injunctive relief, costs, and attorneys’ fees. In June 2012, the complaint was dismissed with prejudice. Later in June 2012, the plaintiff filed a new complaint in the United States District Court for the District of Delaware alleging that the same AWS file storage systems infringe three additional patents, all entitled “Methods and Systems for a Storage System” (U.S. Patent Nos. 7,197,662; 7,958,388; and 7,543,177), and seeking monetary damages, injunctive relief, costs, and attorneys’ fees. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In September 2011, Droplets, Inc. filed a complaint against us for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleged, among other things, that by offering web applications and software Amazon infringed two patents owned by the plaintiff purporting to cover a “System and Method for Delivering a Graphical User Interface of Remote Applications Over a Thin Bandwidth Connection” (U.S. Patent No. 6,687,745) and a “System and Method for Delivering Remotely Stored Applications and Information” (U.S. Patent No. 7,502,838), and sought monetary damages, injunctive relief, costs, and attorneys’ fees. In June 2012, the case was transferred to the United States District Court for the Northern District of California. In December 2012, we entered into a settlement of the litigation that included, among other things, a payment to the plaintiff. The settlement was not material to either the current or future years.

In September 2011, LVL Patent Group, LLC filed three complaints against us for patent infringement in the United States District Court for the District of Delaware. The complaints allege, among other things, that certain aspects of our technology, including our mobile applications, infringe four patents owned by the plaintiff purporting to cover a “Telephone/Transaction Entry Device and System for Entering Transaction Data into Databases (U.S. Patent Nos. 5,805,676; 5,987,103; and 8,019,060) and a “Data Transaction Assembly Server” (U.S. Patent No. 6,044,382), and seek monetary damages, injunctive relief, costs, and attorneys’ fees. In August 2012, the court entered judgment declaring the ’060 patent to be invalid; the case is proceeding with respect to the ’676, ’103, and ’382 patents. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In December 2011, Personalweb Technologies LLC filed a complaint against Amazon.com, Inc. and Amazon Web Services LLC in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that “Amazon Simple Storage Service (S3) and Amazon ElastiCache” infringe U.S. Patent No. 5,978,791, entitled “Data Processing System Using Substantially Unique Identifiers To Identify Data Items, Whereby Data Items Have The Same Identifiers”; U.S Patent No. 6,415,280, entitled “Identifying And Requesting Data In Network Using Identifiers Which Are Based On Contents Of Data”; U.S Patent No. 6,928,442, entitled “Enforcement And Policing Of Licensed Content Using Content-Based Identifiers”;

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U.S. Patent No. 7,802,310, entitled “Controlling Access To Data In A Data Processing System”; U.S. Patent No. 7,945,539, entitled “Distributing And Accessing Data In A Data Processing System”; U.S. Patent No. 7,945,544, entitled “Similarity-Based Access Control Of Data In A Data Processing System”; U.S. Patent No. 7,949,662, entitled “De-Duplication Of Data In A Data Processing System”; and U.S. Patent No. 8,001,096, entitled “Computer File System Using Content-Dependent File Identifiers.” The complaint seeks an unspecified amount of damages, interest, attorneys’ fees, and an injunction. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In December 2011, Round Rock Research, LLC filed a complaint against Amazon.com, Inc. in the United States District Court for the District of Delaware. The complaint alleges, among other things, that “RFID products” and “Kindle products with unlicensed DRAM” infringe U.S. Patent Nos. 5,500,650 and 5,627,544, entitled “Data Communication Method Using Identification Protocol”; U.S. Patent No. 5,974,078, entitled “Modulated Spread Spectrum In RF Identification Systems Method”; U.S. Patent No. 6,459,726, entitled “Backscatter Interrogators, Communication Systems And Backscatter Communication Methods”; U.S. Patent No. RE41,531, entitled “Communications Systems For Radio Frequency Identification (RFID)”; U.S. Patent Nos. 6,975,556 and 7,106,646, entitled “Circuit And Method For Controlling A Clock Synchronizing Circuit For Low Power Refresh Operation”; U.S. Patent No. 7,221,020, entitled “Method To Construct A Self Aligned Recess Gate For DRAM Access Devices”; and U.S. Patent No. 7,389,369, entitled “Active Termination Control.” In February 2012, the plaintiff filed an amended complaint that further alleges, among other things, that Kindle products allegedly including “unlicensed flash memory” infringe U.S. Patent No. 5,801,985, entitled “Memory System Having Programmable Control Parameters” and U.S. Patent No. 5,880,996, entitled “Memory System Having Non-Volatile Data Storage Structure For Memory Control Parameters And Method.” The complaint seeks an unspecified amount of damages, enhanced damages, interest, and attorneys’ fees. In April 2012, the case was stayed pending reexamination of ten of the asserted patents. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In March 2012, OIP Technologies, Inc. filed a complaint against us for patent infringement in the United States District Court for the Northern District of California. The complaint alleged, among other things, that certain aspects of our pricing methods infringed U.S. Patent No. 7,970,713, entitled “Method and Apparatus for Automatic Pricing in Electronic Commerce.” The complaint sought three times an unspecified amount of damages, attorneys’ fees, and interest. In September 2012, the Court invalidated the plaintiff’s patent and dismissed the case with prejudice. In September 2012, OIP appealed the judgment of the district court to the United States Court of Appeals for the Federal Circuit, which, in November 2012, stayed all proceedings pending its decision in a separate case that raises a related question of law.

In May 2012, Clouding IP, LLC f/k/a/ STEC IP, LLC filed a complaint against Amazon.com, Inc. and Amazon Web Services, LLC in the United States District Court for the District of Delaware. The complaint alleges, among other things, that our “Elastic Compute Cloud,” “WhisperSync,” “Virtual Private Cloud,” “Cloud Drive,” and “Kindle Store” services infringe one or more of 11 patents: U.S. Patent Nos. 7,596,784, entitled “Method System and Apparatus for Providing Pay-Per-Use Distributed Computing Resources”; 7,065,637, entitled “System for Configuration of Dynamic Computing Environments Using a Visual Interface”; 6,738,799, entitled “Methods and Apparatuses for File Synchronization and Updating Using a Signature List”; 5,944,839, entitled “System and Method for Automatically Maintaining A Computer System”; 5,825,891, entitled “Key Management for Network Communication”; 5,495,607, entitled “Network Management System Having Virtual Catalog Overview of Files Distributively Stored Across Network Domain”; 6,925,481, entitled “Technique for Enabling Remote Data Access And Manipulation From A Pervasive Device”; 7,254,621, entitled “Technique for Enabling Remote Data Access And Manipulation From A Pervasive Device”; 6,631,449, entitled “Dynamic Distributed Data System and Method”; 6,918,014, entitled “Dynamic Distributed Data System and Method”; and 6,963,908, entitled “System for Transferring Customized Hardware and Software Settings from One Computer to Another Computer to Provide Personalized Operating Environments.” The complaint seeks an unspecified amount of damages together with interest. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

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In June 2012, Hand Held Products, Inc., a subsidiary of Honeywell, filed a complaint against Amazon.com, Inc., AMZN Mobile LLC, AmazonFresh LLC, A9.com, Inc., A9 Innovations LLC, and Quidsi, Inc. in the United States District Court for the District of Delaware. The complaint alleges, among other things, that the use of mobile barcode reader applications, including Amazon Mobile, Amazon Price Check, Flow, and AmazonFresh, infringes U.S. Patent No. 6,015,088, entitled “Decoding of Real Time Video Imaging.” The complaint seeks an unspecified amount of damages, interest, and an injunction. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In July 2012, Norman Blagman filed a purported class-action complaint against us for copyright infringement in the United States District Court for the Southern District of New York. The complaint alleges, among other things, that we sell digital music in our Amazon MP3 Store obtained from defendant Orchard Enterprises and other unnamed “digital music aggregators” without obtaining mechanical licenses for the compositions embodied in that music. The complaint seeks certification as a class action, statutory damages, attorneys’ fees, and interest. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In July 2012, Technology Properties Limited, Phoenix Digital Solutions LLC, and Patriot Scientific Corporation filed a complaint against us for patent infringement in the United States International Trade Commission and in the United States District Court for the Northern District of California. The complaints allege, among other things, that using the Kindle Fire in combination with certain peripheral devices infringes U.S. Patent No. 5,809,336, entitled “High Performance Microprocessor Having Variable Speed System Clock.” The ITC complaint seeks an exclusion order preventing the importation of Kindle Fire into the United States. The district court complaint asserts infringement of two additional patents—U.S. Patent Nos. 5,440,749 and 5,530,890, both entitled “High Performance, Low Cost Microprocessor Architecture”—and seeks an unspecified amount of damages, enhanced damages, attorneys’ fees, interest, and an injunction. In a November 2012 letter to the Company plaintiff alleged specifically that, if we are found to infringe the patents-in-suit and the patents are found to be valid (both of which we dispute), Amazon and its affiliates should pay damages of approximately \$42 million, subject to enhancement, plus \$17 million in prejudgment interest. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In August 2012, an Australian quasi-government entity named Commonwealth Scientific and Industrial Research Organization filed a complaint against us in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that the sale of “products which are operable according to the Institute of Electrical and Electronics Engineers (“IEEE”) 802.11a, g, n, and/or draft n standards” infringe U.S. Patent No. 5,487,069, entitled “Wireless LAN.” The complaint seeks an unspecified amount of damages, enhanced damages, attorneys’ fees, and injunctive relief. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In September 2012, B.E. Technology, LLC filed a complaint against Amazon Digital Services, Inc. in the United States District Court for the Western District of Tennessee. The complaint alleges, among other things, that Kindle, Kindle Touch, Kindle Touch 3G, Kindle Keyboard 3G, Kindle DX, and Kindle Fire infringe U.S. Patent No. 6,771,290, entitled “Computer Interface Method And Apparatus With Portable Network Organization System And Targeted Advertising.” The complaint seeks an unspecified amount of damages, interest, and injunctive relief. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In November 2012, Innovative Automation LLC filed a complaint against Amazon.com, Inc., Audible, Inc., and On-Demand Publishing LLC dba CreateSpace in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that Amazon products and services relating to Kindle content distribution, Audible audiobooks, Amazon Cloud Player, and on-demand CD and DVD duplication infringe U.S. Patent Nos. 7,392,283 and 7,174,362, both entitled “Method and System for Supplying Products and Pre-Stored Digital Data in Response to Demands Transmitted Via Computer Network.” The complaint seeks an

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unspecified amount of damages, interest, and injunctive relief. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

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

See also “Note 11—Income Taxes.”

Note 9—STOCKHOLDERS’ EQUITY

Preferred Stock

We have authorized 500 million shares of \$0.01 par value Preferred Stock. No preferred stock was outstanding for any period presented.

Common Stock

Common shares outstanding plus shares underlying outstanding stock awards totaled 470 million, 468 million, and 465 million, at December 31, 2012, 2011, and 2010. These totals include all vested and unvested stock-based awards outstanding, including those awards we estimate will be forfeited.

Stock Repurchase Activity

In January 2010, our Board of Directors authorized the Company to repurchase up to \$2.0 billion of our common stock with no fixed expiration. We have \$763 million remaining under the \$2.0 billion repurchase program.

Stock Award Plans

Employees vest in restricted stock unit awards over the corresponding service term, generally between two and five years.

Stock Award Activity

The following summarizes our restricted stock unit activity (in millions):

	<u>Number of Units</u>	<u>Weighted Average Grant-Date Fair Value</u>
Outstanding at January 1, 2010	15.7	\$ 66.75
Units granted	5.3	140.43
Units vested	(5.7)	60.44
Units forfeited	(1.3)	82.85
Outstanding at December 31, 2010	<u>14.0</u>	<u>\$ 95.86</u>
Units granted	5.4	192.82
Units vested	(5.1)	72.51
Units forfeited	(1.2)	122.17
Outstanding at December 31, 2011	<u>13.1</u>	<u>\$ 142.54</u>
Units granted	8.2	209.30
Units vested	(4.2)	109.67
Units forfeited	(1.7)	168.20
Outstanding at December 31, 2012	<u>15.4</u>	<u>\$ 184.29</u>

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

	Year Ended December 31,					Thereafter	Total
	2013	2014	2015	2016	2017		
Scheduled vesting—restricted stock units	4.8	5.2	3.2	1.7	0.3	0.2	15.4

As of December 31, 2012, there was \$1.3 billion of net unrecognized compensation cost related to unvested stock-based compensation arrangements. This compensation is recognized on an accelerated basis with approximately half of the compensation expected to be expensed in the next twelve months, and has a weighted average recognition period of 1.2 years.

During 2012 and 2011, the fair value of restricted stock units that vested was \$928 million and \$1.0 billion.

As matching contributions under our 401(k) savings plan, we granted 0.1 million shares of common stock in 2012 and 2011. Shares granted as matching contributions under our 401(k) plan are included in outstanding common stock when issued.

Common Stock Available for Future Issuance

At December 31, 2012, common stock available for future issuance to employees is 149 million shares.

Note 10—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in the composition of accumulated other comprehensive income (loss) for 2012, 2011, and 2010 are as follows (in millions):

	Foreign currency translation adjustments	Unrealized gains on available-for-sale securities	Total
Balances as of January 1, 2010	\$ (66)	\$ 10	\$ (56)
Other comprehensive income (loss)	(137)	3	(134)
Balances as of December 31, 2010	\$ (203)	\$ 13	\$ (190)
Other comprehensive income (loss)	(123)	(3)	(126)
Balances as of December 31, 2011	\$ (326)	\$ 10	\$ (316)
Other comprehensive income (loss)	76	1	77
Balances as of December 31, 2012	\$ (250)	\$ 11	\$ (239)

Amounts included in accumulated other comprehensive income (loss) are recorded net of their related income tax effects.

Note 11—INCOME TAXES

In 2012, 2011, and 2010, we recorded net tax provisions of \$428 million, \$291 million, and \$352 million. A majority of this provision is non-cash. We have tax benefits relating to excess stock-based compensation that are being utilized to reduce our U.S. taxable income. As such, cash taxes paid, net of refunds, were \$112 million, \$33 million, and \$75 million for 2012, 2011, and 2010.

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The components of the provision for income taxes, net are as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
Current taxes:			
U.S. and state	\$ 562	\$ 103	\$ 311
International	131	52	37
Current taxes	693	155	348
Deferred taxes:			
U.S. and state	(156)	157	1
International	(109)	(21)	3
Deferred taxes	(265)	136	4
Provision for income taxes, net	<u>\$ 428</u>	<u>\$ 291</u>	<u>\$ 352</u>

U.S. and international components of income before income taxes are as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
U.S.	\$ 882	\$ 658	\$ 886
International	(338)	276	611
Income before income taxes	<u>\$ 544</u>	<u>\$ 934</u>	<u>\$ 1,497</u>

The items accounting for differences between income taxes computed at the federal statutory rate and the provision recorded for income taxes are as follows:

	Year Ended December 31,		
	2012	2011	2010
Federal statutory rate	35.0%	35.0%	35.0%
Effect of:			
Impact of foreign tax differential	31.5	(8.4)	(12.7)
State taxes, net of federal benefits	0.2	1.5	1.5
Tax credits	(4.4)	(3.2)	(1.1)
Nondeductible stock-based compensation	11.1	4.1	1.6
Other, net	5.2	2.2	(0.8)
Total	<u>78.6%</u>	<u>31.2%</u>	<u>23.5%</u>

Our effective tax rate in 2012, 2011, and 2010 was significantly affected by two factors: the favorable impact of earnings in lower tax rate jurisdictions and the adverse effect of losses incurred in certain foreign jurisdictions for which we may not realize a tax benefit. Income earned in lower tax jurisdictions is primarily related to our European operations, which are headquartered in Luxembourg. Losses incurred in foreign jurisdictions for which we may not realize a tax benefit, primarily generated by subsidiaries located outside of Europe, reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate. We have recorded a valuation allowance against the related deferred tax assets.

In 2012, the adverse impact of such foreign jurisdiction losses was partially offset by the favorable impact of earnings in lower tax rate jurisdictions. Additionally, our effective tax rate in 2012 was more volatile as compared to prior years due to the lower level of pre-tax income generated during the year, relative to our tax expense. For example, the impact of non-deductible expenses on our effective tax rate was greater as a result of our lower pre-tax income. Our effective tax rate in 2012 was also adversely impacted by acquisitions (including integrations) and investments, audit developments, nondeductible expenses, and changes in tax law such as the

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expiration of the U.S. federal research and development credit at the end of 2011. These items collectively caused our annual effective tax rate to be higher than both the 35% U.S. federal statutory rate and our effective tax rates in 2011 and 2010.

In 2011 and 2010, the favorable impact of earnings in lower tax rate jurisdictions offset the adverse impact of foreign jurisdiction losses and as a result, the effective tax rate in both years was lower than the 35% U.S. federal statutory rate.

Deferred income tax assets and liabilities are as follows (in millions):

	Year Ended December 31,	
	2012	2011
Deferred tax assets:		
Net operating losses U.S. - Federal/States (1)	\$ 47	\$ 43
Net operating losses foreign (2)	289	113
Accrued liabilities, reserves, & other expenses	482	412
Stock-based compensation	281	178
Deferred revenue	129	41
Assets held for investment	129	64
Other items	133	98
Tax credits (3)	12	7
Total gross deferred tax assets	1,502	956
Less valuation allowance (4)	(415)	(227)
Deferred tax assets, net of valuation allowance	1,087	729
Deferred tax liabilities:		
Depreciation & amortization	(698)	(572)
Acquisition related intangible assets	(274)	(231)
Other items	(29)	(21)
Net deferred tax assets (liabilities), net of valuation allowance	<u>\$ 86</u>	<u>\$ (95)</u>

- (1) Excluding \$9 million and \$116 million of deferred tax assets at December 31, 2012 and 2011, related to net operating losses that result from excess stock-based compensation and for which any benefit realized will be recorded to stockholders' equity.
- (2) Excluding \$2 million and \$13 million of deferred tax assets at December 31, 2012 and 2011, related to net operating losses that result from excess stock-based compensation and for which any benefit realized will be recorded to stockholders' equity.
- (3) Excluding \$146 million and \$278 million of deferred tax assets at December 31, 2012 and 2011, related to tax credits that result from excess stock-based compensation and for which any benefit realized will be recorded to stockholders' equity.
- (4) Relates primarily to deferred tax assets that would only be realizable upon the generation of future capital gains and net income in certain foreign taxing jurisdictions.

As of December 31, 2012, our federal, foreign, and state net operating loss carryforwards for income tax purposes were approximately \$89 million, \$1.1 billion, and \$606 million. The federal and state net operating loss carryforwards are subject to limitations under Section 382 of the Internal Revenue Code and applicable state tax law. If not utilized, a portion of the federal, foreign, and state net operating loss carryforwards will begin to expire in 2026, 2013, and 2013, respectively. As of December 31, 2012, our tax credit carryforwards for income tax purposes were approximately \$158 million. If not utilized, a portion of the tax credit carryforwards will begin to expire in 2020.

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The company's consolidated balance sheet reflects tax credit carryforwards excluding amounts resulting from excess stock-based compensation. Accordingly, such credits from excess stock-based compensation are accounted for as an increase to additional paid-in capital if and when realized through a reduction in income taxes payable.

Tax Contingencies

We are subject to income taxes in 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 audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

The reconciliation of our tax contingencies is as follows (in millions):

	<u>December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Gross tax contingencies – January 1	\$229	\$ 213	\$181
Gross increases to tax positions in prior periods	91	22	31
Gross decreases to tax positions in prior periods	(47)	(3)	(1)
Gross increases to current period tax positions	26	4	5
Audit settlements paid	(4)	(1)	(3)
Lapse of statute of limitations	(1)	(6)	—
Gross tax contingencies – December 31 (1)	<u>\$ 294</u>	<u>\$229</u>	<u>\$ 213</u>

(1) As of December 31, 2012, we had \$294 million of tax contingencies all of which, if fully recognized, would decrease our effective tax rate.

As of December 31, 2012 and 2011, we had accrued interest and penalties, net of federal income tax benefit, related to tax contingencies of \$25 million and \$24 million. Interest and penalties, net of federal income tax benefit, recognized for the year ended December 31, 2012, 2011, and 2010 was \$1 million, \$3 million, and \$4 million.

We are under examination, or may be subject to examination, by the Internal Revenue Service (“IRS”) for the calendar year 2005 or thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes or our net operating losses. As previously disclosed, we have received Notices of Proposed Adjustment from the IRS for the 2005 and 2006 calendar years relating to transfer pricing with our foreign subsidiaries. The IRS is seeking to increase our U.S. taxable income by an amount that would result in additional federal tax over a seven year period beginning in 2005, totaling approximately \$1.5 billion, subject to interest. To date, we have not resolved this matter administratively and, in December 2012, we petitioned the U.S. Tax Court to resolve the matter. We continue to disagree with these IRS positions and intend to vigorously contest them.

Certain of our subsidiaries are under examination or investigation or may be subject to examination or investigation by the French Tax Administration (FTA) for calendar year 2006 or thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes. While we have not yet received a final assessment from the FTA, in September 2012, we received proposed tax assessment notices for calendar years 2006 through 2010 relating to the allocation of income between foreign jurisdictions. The notices propose additional French tax of approximately \$250 million, including interest and penalties through the date of the

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assessment. We disagree with the proposed assessment and intend to vigorously contest it. We plan to pursue all available administrative remedies at the FTA, and if we are not able to resolve this matter with the FTA, we plan to pursue judicial remedies. We are also subject to taxation in various states and other foreign jurisdictions including China, Germany, Luxembourg, and the United Kingdom. We are or may be subject to examination by these particular tax authorities for the calendar year 2003 and thereafter.

We expect the total amount of tax contingencies will grow in 2013. In addition, changes in state, federal, and foreign tax laws may increase our tax contingencies. The timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from the amounts accrued. It is reasonably possible that within the next 12 months we will receive additional assessments by various tax authorities or possibly reach resolution of income tax examinations in one or more jurisdictions. These assessments or settlements may or may not result in changes to our contingencies related to positions on tax filings in years through 2012. The actual amount of any change could vary significantly depending on the ultimate timing and nature of any settlements. We cannot currently provide an estimate of the range of possible outcomes.

Note 12—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 Officer reviews our operating results in assessing performance and allocating resources.

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

North America

The North America segment consists of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through North America-focused websites such as www.amazon.com and www.amazon.ca and include amounts earned from AWS. This segment includes export sales from www.amazon.com and www.amazon.ca.

International

The International segment consists of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through internationally-focused websites. This segment includes export sales from these internationally based websites (including export sales from these sites to customers in the U.S. and Canada), but excludes export sales from our U.S. and Canadian websites.

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Information on reportable segments and reconciliation to consolidated net income (loss) is as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
North America			
Net sales	\$ 34,813	\$ 26,705	\$ 18,707
Segment operating expenses (1)	33,221	25,772	17,752
Segment operating income	<u>\$ 1,592</u>	<u>\$ 933</u>	<u>\$ 955</u>
International			
Net sales	\$ 26,280	\$ 21,372	\$ 15,497
Segment operating expenses (1)	26,204	20,732	14,516
Segment operating income	<u>\$ 76</u>	<u>\$ 640</u>	<u>\$ 981</u>
Consolidated			
Net sales	\$ 61,093	\$ 48,077	\$ 34,204
Segment operating expenses (1)	59,425	46,504	32,268
Segment operating income	1,668	1,573	1,936
Stock-based compensation	(833)	(557)	(424)
Other operating income (expense), net	(159)	(154)	(106)
Income from operations	676	862	1,406
Total non-operating income (expense)	(132)	72	91
Provision for income taxes	(428)	(291)	(352)
Equity-method investment activity, net of tax	(155)	(12)	7
Net income (loss)	<u>\$ (39)</u>	<u>\$ 631</u>	<u>\$ 1,152</u>

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

Net sales of similar products and services were as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
Net Sales:			
Consolidated			
Media	\$ 19,942	\$ 17,779	\$ 14,888
Electronics and other general merchandise	38,628	28,712	18,363
Other (1)	2,523	1,586	953
Total consolidated	<u>\$ 61,093</u>	<u>\$ 48,077</u>	<u>\$ 34,204</u>

- (1) Includes sales from non-retail activities, such as AWS in the North America segment, advertising services, and our co-branded credit card agreements in both segments.

Net sales attributed to foreign countries are as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
Germany	\$ 8,732	\$ 7,230	\$ 5,296
Japan	7,800	6,576	5,025
United Kingdom	6,478	5,348	3,929

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Total assets, property and equipment, net, and total property and equipment additions, by segment, reconciled to consolidated amounts are (in millions):

	Year Ended December 31,	
	2012	2011
North America		
Total assets	\$ 20,703	\$ 16,461
Property and equipment, net	5,481	3,413
Total property and equipment additions	3,348	2,259
International		
Total assets	\$ 11,852	\$ 8,817
Property and equipment, net	1,579	1,004
Total property and equipment additions	969	785
Consolidated		
Total assets	\$ 32,555	\$ 25,278
Property and equipment, net	7,060	4,417
Total property and equipment additions	4,317	3,044

Fixed assets, net, located outside of the U.S. represented less than 10% of consolidated fixed assets, net, for any individual country.

Depreciation expense, by segment, is as follows (in millions):

	Year Ended December 31,		
	2012	2011	2010
North America	\$ 1,229	\$ 795	\$ 455
International	424	239	97
Consolidated	<u>\$ 1,653</u>	<u>\$ 1,034</u>	<u>\$ 552</u>

Note 13—QUARTERLY RESULTS (UNAUDITED)

The following tables contain selected unaudited statement of operations information for each quarter of 2012 and 2011. The following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period. Our business is affected by seasonality, which historically has resulted in higher sales volume during our fourth quarter. Unaudited quarterly results are as follows (in millions, except per share data):

	Year Ended December 31, 2012 (1)			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net sales	\$ 21,268	\$ 13,806	\$ 12,834	\$ 13,185
Income (loss) before income taxes	337	(22)	146	84
Provision for income taxes	194	83	109	43
Net income (loss)	97	(274)	7	130
Basic earnings per share	\$ 0.21	\$ (0.60)	\$ 0.02	\$ 0.29
Diluted earnings per share	\$ 0.21	\$ (0.60)	\$ 0.01	\$ 0.28
Shares used in computation of earnings per share:				
Basic	454	452	451	453
Diluted	461	452	458	460

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	Year Ended December 31, 2011 (1)			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net sales	\$17,431	\$10,876	\$9,913	\$9,857
Income before income taxes	273	130	225	307
Provision for income taxes	86	67	49	89
Net income	177	63	191	201
Basic earnings per share	\$ 0.39	\$ 0.14	\$ 0.42	\$ 0.44
Diluted earnings per share	\$ 0.38	\$ 0.14	\$ 0.41	\$ 0.44
Shares used in computation of earnings per share:				
Basic	455	454	453	451
Diluted	462	461	460	459

- (1) The sum of quarterly amounts, including per share amounts, may not equal amounts reported for year-to-date periods. This is due to the effects of rounding and changes in the number of weighted-average shares outstanding for each period.

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Item 9. *Changes in and Disagreements with Accountants On Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by 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 December 31, 2012. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2012, 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 disclosures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the 1934 Act. Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2012 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2012, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Ernst & Young has independently assessed the effectiveness of our internal control over financial reporting and its report is included below.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting 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.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Amazon.com, Inc.

We have audited Amazon.com, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Amazon.com, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Amazon.com, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Amazon.com, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of Amazon.com, Inc. and our report dated January 29, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
January 29, 2013

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Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Information regarding our Executive Officers required by Item 10 of Part III is set forth in Item 1 of Part I “Business—Executive Officers and Directors.” Information required by Item 10 of Part III regarding our Directors and any material changes to the process by which security holders may recommend nominees to the Board of Directors is included in our Proxy Statement relating to our 2013 Annual Meeting of Shareholders, and is incorporated herein by reference. Information relating to our Code of Business Conduct and Ethics and to compliance with Section 16(a) of the 1934 Act is set forth in our Proxy Statement relating to our 2013 Annual Meeting of Shareholders and is incorporated herein by reference. To the extent permissible under Nasdaq rules, we intend to disclose amendments to our Code of Business Conduct and Ethics, as well as waivers of the provisions thereof, on our investor relations website under the heading “Corporate Governance” at www.amazon.com/ir.

Item 11. *Executive Compensation*

Information required by Item 11 of Part III is included in our Proxy Statement relating to our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters*

Information required by Item 12 of Part III is included in our Proxy Statement relating to our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

Information required by Item 13 of Part III is included in our Proxy Statement relating to our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

Information required by Item 14 of Part III is included in our Proxy Statement relating our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) *List of Documents Filed as a Part of This Report:*

(1) *Index to Consolidated Financial Statements:*

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm
Consolidated Statements of Cash Flows for each of the three years ended December 31, 2012
Consolidated Statements of Operations for each of the three years ended December 31, 2012
Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2012
Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 2012
Notes to Consolidated Financial Statements
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

(2) *Index to Financial Statement Schedules:*

Schedule II – Valuation and Qualifying Accounts

All other schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or because it is not required.

(3) *Index to Exhibits*

See exhibits listed under the Exhibit Index below.

AMAZON.COM, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(in millions)

	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expense</u>	<u>Amounts Written Off</u>	<u>Balance at End of Period</u>
Allowance for doubtful accounts				
December 31, 2012	\$ 82	\$ 136	\$ (102)	\$ 116
December 31, 2011	77	87	(82)	82
December 31, 2010	66	75	(64)	77
Allowance for sales returns and commissions				
December 31, 2012	\$ 155	\$ (659)	\$ 702	\$ 198
December 31, 2011	103	(490)	542	155
December 31, 2010	76	(396)	423	103

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
2.1	Form of Purchase and Sale Agreement dated as of October 1, 2012, between Acorn Development LLC, a wholly owned subsidiary of the Company, and Lake Union III LLC, Lake Union IV LLC, City Place V LLC, City Place II LLC, City Place III LLC, City Place IV LLC, and City Place V LLC, respectively.
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000).
3.2	Restated Bylaws of the Company (incorporated by reference to the Company's Current Report on Form 8-K, filed February 18, 2009).
10.1†	1997 Stock Incentive Plan (1997 Stock Incentive Plan (incorporated by reference to the Company's Proxy Statement filed April 13, 2012).
10.2†	1999 Non-Officer Employee Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-74419) filed March 15, 1999).
10.3†	Offer Letter of Employment to Diego Piacentini, dated January 17, 2000 (incorporated by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 2000).
10.4†	Form of Indemnification Agreement between the Company and each of its Directors (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).
10.5†	Form of Restricted Stock Unit Agreement for Officers and Employees (incorporated by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 2002).
10.6†	Form of Restricted Stock Unit Agreement for Directors (incorporated by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 2002).
10.7†	Form of Restricted Stock Agreement (incorporated by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 2001).
12.1	Computation of Ratio of Earnings to Fixed Charges.
21.1	List of Significant Subsidiaries.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Certification of Jeffrey P. Bezos, Chairman and Chief Executive Officer of Amazon.com, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Thomas J. Szkutak, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Jeffrey P. Bezos, Chairman and Chief Executive Officer of Amazon.com, Inc., pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Thomas J. Szkutak, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., pursuant to 18 U.S.C. Section 1350.
101	The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL: (i) Consolidated Statements of Cash Flows, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Balance Sheets, (v) Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags.

† Executive Compensation Plan or Agreement

FORM OF PURCHASE AND SALE AGREEMENT¹

THIS PURCHASE AND SALE AGREEMENT (this “**Agreement**”) is entered into by [NAME OF SELLER ENTITY] LLC, a Washington limited liability company (“**Seller**”), and ACORN DEVELOPMENT LLC, a Delaware limited liability company (“**Purchaser**”), as of October 1, 2012 (“**Effective Date**”).

RECITALS:

A. Seller owns a fee simple interest in and to certain real property known as [VARIES] as more particularly described in Exhibit A attached hereto and made a part hereof (“**Premises**”).

B. The parties to this Agreement have agreed to the sale and purchase of the Property (as hereinafter defined), of which the Premises are a part, on terms and conditions more particularly set forth in this Agreement.

ARTICLE 1
PURCHASE AND SALE OF PROPERTY.

On the terms and conditions stated in this Agreement, Seller hereby agrees to sell to Purchaser, and Purchaser hereby agrees to purchase from Seller, all of Seller’s right, title, and interest in and to the following described property (collectively, the “**Property**”):

1.1 Land. The Premises, together with all rights and appurtenances pertaining to the Premises, including, without limitation, all of Seller’s right, title and interest in and to (i) all minerals, oil, gas, and other hydrocarbon substances thereon or thereunder, (ii) all adjacent strips, streets, roads, alleys and rights-of-way, public or private, open or proposed, (iii) all covenants, easements, privileges, and hereditaments pertaining thereto, regardless of record, and (iv) all access, air, water, riparian, development, utility, and solar rights (collectively, the “**Land**”).

1.2 Improvements. The office buildings located at [VARIES]² Seattle, Washington (the “**Buildings**”) constructed on the Premises, together with all parking structures and all other improvements and structures constructed on the Premises (collectively, the “**Improvements**”).

1.3 Personal Property. All of Seller’s right, title, and interest in and to (specifically excluding any fixtures or personal property owned by tenants pursuant to Leases or licensees pursuant to Licenses or personal property owned by the property manager) the following:

¹ On October 1, 2012, a subsidiary of the Company entered into a series of substantially identical purchase and sale agreements in the form of this agreement to acquire 11 buildings comprising 1.8 million square feet of corporate office space in Seattle, Washington, for approximately \$1.16 billion.

² This term varied to reflect the specifics for the buildings covered by each respective agreement.

(i) mechanical systems, fixtures, machinery and equipment comprising a part of or attached to or located upon or within the Improvements; (ii) maintenance equipment, tools and furniture if any, owned by Seller and used exclusively in connection with, and located in or at, the Improvements (“**Hard Personal Property**”); (iii) site plans, surveys, plans and specifications, manuals and instruction materials, and floor plans in Seller’s possession or control which relate to the Land or Improvements; (iv) the books and records which relate to ownership and operation of the Property; (v) pylons and other signs situated on or at the Land or Improvements; and (vi) other tangible personal property owned by Seller and used exclusively in connection with, and located in or on, the Land or Improvements as of the date of Closing (as defined in Section 8.1 below) (collectively, the “**Personal Property**”), a current list of Hard Personal Property is attached hereto as Schedule 1.3.

1.4 Leases and Licenses. Seller’s right, title, and interest in (i) all leases with tenants leasing all or any portion of the Improvements (“**Leases**”), and (ii) to the extent assignable, Seller’s right, title, and interest in all license agreements, occupancy agreements, and other similar agreements with licensees using any portion of the Improvements in effect as of the date of Closing (collectively, the “**Licenses**”), in each case to the extent the same are in effect as of the Closing Date, a current list of which is attached hereto as Schedule 1.4. A current Rent Roll is attached as Exhibit B.

1.5 Security Deposits. Seller’s right, title, and interest in all security deposits held by Seller in connection with the Leases and Licenses and not applied pursuant to the terms thereof, a current list of which is attached hereto as Schedule 1.5.

1.6 Contracts. Subject to Section 6.1.3 hereof and to the extent assignable, Seller’s right, title, and interest in all contracts and other agreements (other than the Leases and Licenses and the other Permitted Exceptions) related to the Land, Improvements, Personal Property, Leases, or Licenses that will remain in existence after Closing, including, without limitation, contracts or agreements relating to construction, architectural services, warranties, parking, maintenance or other supplies or services, management, utility services, or any equipment leases (collectively, the “**Contracts**”), a current list of which is attached hereto as Schedule 1.6.

1.7 Permits. Seller’s right, title, and interest in all permits, licenses, certificates of occupancy, entitlements and governmental approvals that relate exclusively to the Land or Improvements, to the extent assignable (collectively, the “**Permits**”). At Closing, Seller will provide Purchaser with copies of all Permits that require renewals or ongoing inspections.

1.8 Intangibles. Seller’s right, title, and interest, if any, in all names, trade names, street numbers, marks, other symbols and general intangibles, which relate exclusively to the Land or the Improvements, to the extent assignable, other than any of the same that reference “Vulcan”, “Vulcan Real Estate”, “City Investors” or similar names (collectively, the “**Intangibles**”).

1.9 Assumed Liabilities. Except for liabilities for which Seller has expressly agreed to indemnify Purchaser under any other provision in this Agreement, at Closing, Purchaser shall assume liabilities (a) with respect to the Property and property taxes only to the extent (i) first arising on or after the Closing Date and related to Purchaser’s period of ownership, or (ii) first

arising prior to the Closing, but which are to be prorated between Seller and Purchaser under Section 8.5 as of the Closing Date, and (b) only as otherwise expressly assumed by Purchaser or against which Purchaser has expressly agreed to indemnify Seller under any other provision in this Agreement (collectively, the “**Assumed Liabilities**”). This Section 1.9 shall survive the Closing.

1.10 Retained Liabilities. At Closing, Seller shall retain all liabilities with respect to the Property and property taxes, other than the Assumed Liabilities, including without limitation, the liabilities set forth in Schedule 1.10 (the “**Retained Liabilities**”). This Section 1.10 shall survive the Closing.

ARTICLE 2 PURCHASE PRICE AND DEPOSIT.

2.1 Purchase Price.

2.1.1 The aggregate purchase price for the Property (“**Purchase Price**”) shall be [One Billion One Hundred Fifty Four Million Five Hundred Thirty Two Thousand Three Hundred Eighty Nine AND NO/100 DOLLARS (\$1,154,532,389.00)]³. The cash due at Closing from Purchaser on account of the Purchase Price shall be subject to adjustment as set forth in this Agreement. The Purchase Price shall be payable as follows:

2.1.2 Deposit. Within one (1) Business Day following the Effective Date, Purchaser shall deliver to First American Title Insurance Company, Seattle Office (Attention: Vicki Coats) (“**Escrow Agent**”), by federal funds wire transfer, a cash deposit in immediately available funds in the amount of [Twenty Three Million Ninety Thousand Six Hundred Forty Eight AND NO/100 DOLLARS (\$23,090,648.00)]³ (together with any interest accrued thereon, the “**Deposit**”). The Deposit upon delivery by Purchaser shall be invested by Escrow Agent as reasonably directed by Purchaser among the investment options available at the Title Company for escrow accounts. All interest and other amounts earned on the Deposit, if any, shall be added to, and become part of, the Earnest Money. Until such time as it is disbursed to Seller pursuant to the terms and conditions of this Agreement, all right, title, and interest in the Deposit shall remain in Purchaser. On or before October 22, 2012, Purchaser shall deliver to Escrow Agent, by federal funds wire transfer, an additional cash deposit in immediately available funds in the amount of [Twenty Seven Million Four Hundred Nine Thousand Three Hundred Fifty Three AND NO/100 DOLLARS (\$27,409,353.00)]³ (the “**Extension Payment**”). If Purchaser shall fail to deliver the Extension Payment with Escrow Agent within the time period provided for above, Seller may at any time prior to Escrow Agent’s receipt of the Extension Payment, terminate this Agreement by written notice to Purchaser and Escrow Agent, and retain the Deposit as Seller’s sole and exclusive remedy, and thereafter neither party shall have any further rights or obligations to the other hereunder, except for those which expressly survive the termination of this Agreement. If the Extension Payment is timely made, it shall be added to and become part of the Deposit. Escrow Agent shall hold the Deposit in accordance with this Agreement and shall disburse the Deposit to Seller at Closing.

³ This term varied to reflect the specifics for the property covered by each respective agreement. The dollar amount shown here reflects the aggregate amount across all agreements.

2.1.3 The balance of the Purchase Price due from Purchaser at Closing (after crediting the Deposit and after application of prorations and adjustments provided for in this Agreement) shall be paid by Purchaser to Escrow Agent by federal funds wire transfer in immediately available funds no later than 12:00 noon, Eastern/9:00 a.m. Pacific time on the Closing Date and disbursed to Seller at Closing in accordance with Section 8.3.2.

2.1.4 Seller and Purchaser agree that the amount of [Six Hundred Dollars (\$600)]³ (“**Independent Contract Consideration Payment**”), has been bargained for as consideration for Seller’s execution and delivery of this Agreement and for Purchaser’s right of review, inspection, and termination, and is independent of any other consideration or payment provided for in this Agreement. Notwithstanding anything to the contrary contained herein, the Independent Contract Consideration Payment is non-refundable in all events. Simultaneously with the Deposit made under Section 2.1.2, Purchaser shall pay the Independent Contract Consideration Payment to Seller by means of a check or wired funds (in accordance with wiring instructions provided by Seller). In no event shall the Independent Contract Consideration Payment be credited towards the Purchase Price at Closing.

2.1.5 [\$263,308.49]³ of the Purchase Price shall be allocated to tangible Personal Property for State of Washington sales/use tax purposes, as reflected on Schedule 1.3 attached hereto, and Purchaser shall be responsible for the payment of the sales/use tax due on such tangible Personal Property as provided in Section 8.5.1.2 below.

ARTICLE 3 TITLE AND SURVEY.

3.1 State of Title to be Conveyed. Title to the Property shall be conveyed to Purchaser free from all liens, encumbrances, encroachments, and other exceptions to title except (i) those shown on the Commitment or the Survey (as such terms are defined in Section 3.2 below) and not required to be cured by Seller in accordance with this Article 3, (ii) the Leases and Licenses, (iii) matters caused by Purchaser or the activities of Purchaser or its agents, employees, consultants, contractors, and representatives on the Property, (iv) real estate taxes, sewer rents and taxes, water rates and charges, vault charges and taxes, local improvement district taxes and assessments, business improvement district taxes and assessments, and any other governmental taxes, charges, or assessments levied or assessed against the Property, including any so-called payments in lieu of taxes, in each case that are a lien but not yet delinquent, subject to proration in accordance with Section 8.5.4 below, and (v) applicable zoning and building ordinances and land use regulations and any and all other present and future laws, rules, regulations, statutes, ordinances, orders or other legal requirements affecting the Property (collectively, the “**Permitted Exceptions**”). However, the Permitted Exceptions shall not include and Seller will cause to be deleted from the Title Policy to be issued to Purchaser at Closing special exceptions [VARIES]⁴ of the Commitment.

3.2 Title Commitment and Survey. Seller has provided to Purchaser a title insurance commitment with an effective date of [VARIES]⁵ (“**Commitment**”) for an Owner’s Policy of Title Insurance (Commitment No. [VARIES]⁵) from First American Title Insurance Company (“**Title Company**”), covering the Land, together with copies of all instruments reflected as exceptions set forth therein, as well as a copy of Seller’s existing ALTA survey of the Land prepared by Bush, Roed & Hitchings Inc. (“**Surveyor**”), Job No. [VARIES]⁵, and dated [VARIES]⁵ (“**Survey**”). With respect to any title or survey matters first arising after the Effective Date and on or prior to the Closing (a “**Title Objection**”), other than any of the Permitted Exceptions (to which Purchaser shall have no right to object), Purchaser shall have until the earlier of (i) five (5) Business Days after Purchaser’s discovery of such Title Objection or (ii) the Closing Date to notify Seller in writing of Purchaser’s objection thereto. In any case, any monetary exceptions arising after the Effective Date (other than taxes and LID assessments) shall be paid by Seller on or before Closing. If Purchaser shall timely notify Seller of any Title Objections, Seller shall have the right, but not the obligation, to cure such Title Objection(s) in its sole and absolute discretion other than monetary exceptions and title encumbrances created by or through Seller following the Effective Date, not otherwise approved by Purchaser, which shall be removed at Closing. Within three (3) Business Days after receipt of Purchaser’s notice of Title Objection(s), with the Closing automatically extended, if necessary, to allow for such response period, but in no event beyond the Designated Closing Date without Seller’s approval, Seller shall notify Purchaser in writing whether Seller elects to attempt to cure such Title Objection(s). Failure of Seller to give such notice within said three (3) Business Day period shall be deemed an election by Seller not to cure such Title Objection(s). If Seller elects or is deemed to have elected not to cure any Title Objection(s) specified in Purchaser’s notice, Purchaser shall have the following options, to be given by written notice to the Seller within five (5) Business Days after Purchaser’s receipt of Seller’s notice electing not to cure such objection(s) (or, if Seller fails to deliver such notice, within five (5) Business Days after the day on which Seller was required to deliver such notice): (a) to accept a conveyance of the Property subject to the Permitted Exceptions, specifically including any matters objected to by Purchaser that Seller has elected, or is deemed to have elected, not to cure (which such matter(s) shall thereafter be deemed to be a Permitted Exception), without reduction of the Purchase Price, or (b) to terminate this Agreement by sending written notice thereof to Seller and Escrow Agent, and upon delivery of such notice of termination, this Agreement shall terminate and the Deposit shall be returned to Purchaser, and thereafter neither party hereto shall have any further rights, obligations, or liabilities hereunder except for those matters that expressly survive termination of this Agreement. If there is any exception, other than a Permitted Exception, which can be remedied by the payment of money, then such exception shall be remedied by paying the same at Closing out of the proceeds otherwise due to Seller.

⁴ This term varied to reflect the specifics for the property covered by each respective agreement.

⁵ This term varied to reflect the specifics for the property covered by each respective agreement.

ARTICLE 4
PURCHASER'S DUE DILIGENCE AND ACKNOWLEDGEMENT.

4.1 Purchaser's Due Diligence. Seller has made available (at reasonable times and places or by providing Purchaser access to an online database) for Purchaser's review Seller's files relating to the Property, including, without limitation, maintenance records, environmental reports, records of income, taxes and expenses, Leases, Licenses, tenant files, Contracts, records of repairs and capital improvements, in all cases as available, but expressly excluding all documents and materials of a privileged or proprietary nature, such as internal valuation analysis, projections, software, marketing materials, and materials constituting the work product of Seller or its agents and attorneys (collectively, the "**Property Information**").

4.1.1 Due Diligence Completed. Purchaser completed its due diligence prior to the Effective Date and acknowledges that it has had the opportunity to perform a feasibility study of the Property, including, but not limited to, review and approval of the physical and environmental characteristics and condition of the Property and performance of marketing and feasibility studies, structural and engineering investigations, auditing of books and records of the Property, and financial analyses. Purchaser's affiliate is the sole office Tenant of the Property pursuant to that certain Lease Agreement between Seller and Amazon Corporate LLC dated December 21, 2007 (as amended, the "**Amazon Lease**") and has had full access to the Property. Purchaser shall continue to have access to the Property for purposes of conducting inspections through Closing and Seller shall cooperate in facilitating such access to any portions of the Property not open and available to Purchaser. Purchaser acknowledges that the Deposit is nonrefundable except as provided under this Agreement and that Purchaser shall be obligated to complete Closing under this Agreement, subject to the terms and conditions of this Agreement.

4.2 As Is, Where Is.

4.2.1 Express Representations. Except as provided in the express representations and warranties of Seller set forth in Sections 5.1 and 11.1 of this Agreement and except as may be expressly set forth in the documents executed and delivered by Seller at Closing, and subject to the limitations of time and money set forth in Sections 5.4 and 10.2 herein (collectively, the "**Express Representations**"), Seller does not, by the execution and delivery of this Agreement, and Seller shall not, by the execution and delivery of any document or instrument executed and delivered in connection with Closing, make any covenant, representation, or warranty, express or implied, of any kind or nature whatsoever, with respect to the Property, and all such covenants, representations, and warranties are hereby disclaimed.

4.2.2 Disclaimed Matters. Without limiting the generality of the foregoing, other than the Express Representations, Seller makes, and shall make, no express or implied warranty as to matters of zoning, acreage, building square footage, tax consequences or revenue or expense projections related to the Property, physical or environmental condition (including, without limitation, laws, rules, regulations, orders, and requirements pertaining to the use, handling, generation, treatment, release, storage, or disposal of any toxic or hazardous waste or toxic or hazardous or regulated substance), valuation or investment potential, governmental approvals, governmental regulations, or any other matter or attribute relating to or affecting the Property (collectively, the "**Disclaimed Matters**").

4.2.3 Authority to Make Representations and Warranties . No person acting on behalf of Seller is authorized to make, and by execution hereof, Purchaser acknowledges that no person has made, any representation, agreement, statement, warranty, guarantee, covenant, or promise regarding the Property, any of the Disclaimed Matters, or the transaction contemplated herein or the zoning, construction, physical condition, or other status of the Property except for the Express Representations. No representation, warranty, agreement, statement, guarantee, covenant, or promise, if any, made by any person acting on behalf of Seller other than the Express Representations will be valid or binding on Seller.

PURCHASER ACKNOWLEDGES AND AGREES THAT, EXCEPT FOR THE EXPRESS REPRESENTATIONS, SELLER HAS NOT MADE, DOES NOT MAKE, AND SPECIFICALLY NEGATES AND DISCLAIMS ANY REPRESENTATIONS, WARRANTIES, PROMISES, COVENANTS, AGREEMENTS, OR GUARANTIES OF ANY KIND OR CHARACTER WHATSOEVER, WHETHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, PAST, PRESENT, OR FUTURE, OF, AS TO, CONCERNING OR WITH RESPECT TO (I) VALUE; (II) THE INCOME TO BE DERIVED FROM THE PROPERTY; (III) THE SUITABILITY OF THE PROPERTY FOR ANY AND ALL ACTIVITIES AND USES WHICH MAY BE CONDUCTED THEREON, INCLUDING, WITHOUT LIMITATION, THE POSSIBILITIES, IF ANY, FOR FUTURE DEVELOPMENT OF THE PROPERTY; (IV) THE HABITABILITY, MERCHANTABILITY, MARKETABILITY, PROFITABILITY, OR FITNESS FOR A PARTICULAR PURPOSE OF THE PROPERTY; (V) THE MANNER, QUALITY, STATE OF REPAIR OR LACK OF REPAIR OF THE PROPERTY; (VI) THE NATURE, QUALITY, OR CONDITION OF THE PROPERTY, INCLUDING, WITHOUT LIMITATION, THE INDOOR AND OUTDOOR ENVIRONMENT AIR QUALITY, WATER, SOIL, AND GEOLOGY; (VII) THE COMPLIANCE OF OR BY THE PROPERTY OR ITS OPERATION WITH ANY LAWS, RULES, ORDERS, ORDINANCES, OR REGULATIONS OF ANY APPLICABLE GOVERNMENTAL AUTHORITY OR BODY; (VIII) THE MANNER OR QUALITY OF THE CONSTRUCTION OR MATERIALS, IF ANY, INCORPORATED INTO THE PROPERTY; (IX) COMPLIANCE WITH ANY FEDERAL, STATE, AND LOCAL ENVIRONMENTAL PROTECTION, POLLUTION, HEALTH AND SAFETY OR LAND USE LAWS, RULES, REGULATIONS, ORDINANCES, ORDERS, REQUIREMENTS OR COMMON LAW, INCLUDING, WITHOUT LIMITATION, TITLE III OF THE AMERICANS WITH DISABILITIES ACT OF 1990, AS AMENDED, THE FEDERAL WATER POLLUTION CONTROL ACT, AS AMENDED, THE RESOURCE CONSERVATION AND RECOVERY ACT, AS AMENDED, THE COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION AND LIABILITY ACT OF 1980, AS AMENDED, THE SAFE DRINKING WATER ACT, AS AMENDED, THE HAZARDOUS MATERIALS TRANSPORTATION ACT, AS AMENDED, THE OCCUPATIONAL SAFETY AND HEALTH ACT OF 1970, AS AMENDED, THE TOXIC SUBSTANCE CONTROL ACT, AS AMENDED, AND REGULATIONS PROMULGATED UNDER ANY OF THE FOREGOING AND ANALOGOUS STATE STATUTES AND REGULATIONS; (X) THE PRESENCE OR ABSENCE OF HAZARDOUS

OR TOXIC MATERIALS, SUBSTANCES OR WASTE AT, ON, UNDER, OR ADJACENT TO THE PROPERTY (SUBSECTIONS (IX) AND (X) HEREIN COLLECTIVELY REFERRED TO AS, “**ENVIRONMENTAL MATTERS**”); (XI) THE CONTENT, COMPLETENESS, OR ACCURACY OF THE PROPERTY INFORMATION, THE SURVEY, OR THE COMMITMENT; (XII) THE CONFORMITY OF THE IMPROVEMENTS TO ANY PLANS OR SPECIFICATIONS FOR THE PROPERTY, INCLUDING ANY PLANS AND SPECIFICATIONS THAT MAY HAVE BEEN OR MAY BE PROVIDED TO PURCHASER; (XIII) THE CONFORMITY OF THE PROPERTY TO PAST, CURRENT, OR FUTURE APPLICABLE ZONING OR BUILDING REQUIREMENTS; (XIV) DEFICIENCY OF ANY UNDERSHORING, (XV) DEFICIENCY OF ANY DRAINAGE; (XVI) THE FACT THAT ALL OR A PORTION OF THE PROPERTY MAY BE LOCATED ON OR NEAR AN EARTHQUAKE FAULT LINE; (XVII) THE EXISTENCE OF VESTED LAND USE, ZONING OR BUILDING ENTITLEMENTS AFFECTING THE PROPERTY; OR (XVIII) ANY OTHER MATTER RELATING TO THE CONDITION OF THE PROPERTY. PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT, HAVING BEEN GIVEN THE OPPORTUNITY TO INSPECT THE PROPERTY WITH QUALIFIED PERSONNEL AND REVIEW INFORMATION AND DOCUMENTATION AFFECTING THE PROPERTY, PURCHASER IS RELYING SOLELY ON THE EXPRESS REPRESENTATIONS, ITS OWN INVESTIGATION OF THE PROPERTY AND REVIEW OF SUCH INFORMATION AND DOCUMENTATION, AND NOT ON ANY INFORMATION PROVIDED OR TO BE PROVIDED BY SELLER, EXCEPT AS EXPRESSLY SET FORTH IN THE EXPRESS REPRESENTATIONS. PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT ANY INFORMATION MADE AVAILABLE TO PURCHASER OR PROVIDED OR TO BE PROVIDED BY OR ON BEHALF OF SELLER WITH RESPECT TO THE PROPERTY WAS OBTAINED FROM A VARIETY OF SOURCES AND THAT SELLER HAS NOT MADE ANY INDEPENDENT INVESTIGATION OR VERIFICATION OF SUCH INFORMATION AND MAKES NO REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION, EXCEPT AS EXPRESSLY SET FORTH IN THE EXPRESS REPRESENTATIONS. PURCHASER HEREBY ACKNOWLEDGES AND AGREES THAT PURCHASER SHALL NOT BE ENTITLED TO RELY ON ANY REPORTS OR OTHER PROPERTY INFORMATION SUPPLIED BY SELLER TO PURCHASER, EXCEPT AS SET FORTH IN THE EXPRESS REPRESENTATIONS. PURCHASER AGREES TO FULLY AND IRREVOCABLY RELEASE SELLER FROM ANY AND ALL CLAIMS THAT PURCHASER MAY NOW HAVE OR HEREAFTER ACQUIRE AGAINST SELLER FOR ANY COSTS, LOSS, LIABILITY, DAMAGE, EXPENSE, DEMAND, ACTION, OR CAUSE OF ACTION ARISING FROM SUCH INFORMATION OR DOCUMENTATION, EXCEPT TO THE EXTENT ARISING OUT OF A BREACH BY SELLER OF A REPRESENTATION OR WARRANTY (SUBJECT TO THE LIMITATIONS OF TIME AND MONEY SET FORTH IN SECTIONS 5.4 AND 10.2 HEREIN) MADE IN THE EXPRESS REPRESENTATIONS. SELLER IS NOT LIABLE OR BOUND IN ANY MANNER BY ANY ORAL OR WRITTEN STATEMENTS, REPRESENTATIONS, OR INFORMATION PERTAINING TO THE PROPERTY, OR THE OPERATION THEREOF, FURNISHED BY ANY REAL ESTATE BROKER, AGENT, EMPLOYEE, SERVANT, OR OTHER PERSON TO THE EXTENT NOT EXPRESSLY SET FORTH IN THE EXPRESS REPRESENTATIONS. PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT TO THE MAXIMUM EXTENT

PERMITTED BY LAW, THE SALE OF THE PROPERTY AS PROVIDED FOR HEREIN IS MADE ON AN "AS IS" CONDITION AND BASIS WITH ALL FAULTS AND DEFECTS, AND THAT SELLER HAS NO OBLIGATIONS TO MAKE REPAIRS, REPLACEMENTS, OR IMPROVEMENTS EXCEPT AS MAY OTHERWISE BE EXPRESSLY STATED HEREIN. PURCHASER REPRESENTS, WARRANTS, AND COVENANTS TO SELLER, WHICH REPRESENTATION, WARRANTY, AND COVENANT TO SELLER SHALL SURVIVE THE CLOSING AND NOT BE MERGED WITH THE DEED, THAT, EXCEPT FOR SELLER'S EXPRESS REPRESENTATIONS, PURCHASER IS RELYING SOLELY UPON PURCHASER'S OWN INVESTIGATION OF THE PROPERTY.

BY INITIALING BELOW, PURCHASER ACKNOWLEDGES THAT (i) THIS SECTION 4.2 HAS BEEN READ AND FULLY UNDERSTOOD, (ii) PURCHASER HAS HAD THE OPPORTUNITY TO ASK QUESTIONS OF ITS COUNSEL ABOUT ITS MEANING AND SIGNIFICANCE, AND (iii) PURCHASER HAS ACCEPTED AND AGREED TO THE TERMS SET FORTH IN THIS SECTION 4.2.

PURCHASER'S INITIALS

4.2.4 Waiver. WITHOUT IN ANY WAY LIMITING ANY PROVISION OF THIS SECTION 4.2, PURCHASER SPECIFICALLY ACKNOWLEDGES AND AGREES THAT, EXCEPT WITH RESPECT TO THE EXPRESS REPRESENTATIONS AND THE OBLIGATIONS OF SELLER SET FORTH IN THIS AGREEMENT, ANY CLOSING DOCUMENTS AND ALL RETAINED LIABILITIES, PURCHASER HEREBY WAIVES, RELEASES, AND DISCHARGES ANY CLAIM IT HAS, MIGHT HAVE HAD, OR MAY HAVE AGAINST SELLER WITH RESPECT TO (A) THE DISCLAIMED MATTERS, (B) SUBJECT TO ARTICLE 9 OF THIS AGREEMENT, THE CONDITION OF THE PROPERTY AS OF THE CLOSING DATE, (C) THE PAST, PRESENT, OR FUTURE PHYSICAL, ENVIRONMENTAL, ECONOMIC, OR LEGAL CONDITION OR COMPLIANCE OF THE PROPERTY WITH REGARD TO ANY FEDERAL, STATE, OR LOCAL LAW, STATUTE, ORDINANCE, RULE, REGULATION, ORDER, OR DETERMINATION OF ANY GOVERNMENTAL AUTHORITY OR AGENCY AFFECTING THE PROPERTY, INCLUDING WITHOUT LIMITATION THOSE PERTAINING TO ENVIRONMENTAL MATTERS, OR (D) ANY OTHER STATE OF FACTS THAT EXISTS WITH RESPECT TO THE PROPERTY OR ANY OF THE PROPERTY INFORMATION. THIS RELEASE SHALL BE GIVEN FULL FORCE AND EFFECT ACCORDING TO EACH OF ITS EXPRESSED TERMS AND PROVISIONS, INCLUDING THOSE RELATING TO UNKNOWN AND UNSUSPECTED CLAIMS, DAMAGES, AND CAUSES OF ACTION. PURCHASER ACKNOWLEDGES THAT THE FOREGOING WAIVER INCLUDES CLAIMS BY PURCHASER AGAINST SELLER UNDER THE COMPREHENSIVE ENVIRONMENTAL RESPONSE COMPENSATION LIABILITY ACT ("CERCLA"), AND ANY OTHER FEDERAL, STATE AND LOCAL ENVIRONMENTAL LAW, AND CLAIMS UNDER THE AMERICANS WITH DISABILITIES ACT OF 1990, AS AMENDED. IN THIS CONNECTION AND TO THE EXTENT PERMITTED BY LAW, PURCHASER HEREBY AGREES, REPRESENTS, AND WARRANTS THAT PURCHASER REALIZES AND ACKNOWLEDGES THAT FACTUAL MATTERS NOW UNKNOWN TO IT MAY HAVE GIVEN OR MAY HEREAFTER GIVE RISE

TO CAUSES OF ACTION, CLAIMS, DEMANDS, DEBTS, CONTROVERSIES, DAMAGES, COSTS, LOSSES AND EXPENSES THAT ARE PRESENTLY UNKNOWN, UNANTICIPATED AND UNSUSPECTED, AND PURCHASER FURTHER AGREES, REPRESENTS, AND WARRANTS THAT THE WAIVERS AND RELEASES HEREIN HAVE BEEN NEGOTIATED AND AGREED UPON IN LIGHT OF THAT REALIZATION AND THAT PURCHASER NEVERTHELESS HEREBY INTENDS TO RELEASE, DISCHARGE, AND ACQUIT SELLER FROM ANY SUCH UNKNOWN CAUSES OF ACTION, CLAIMS, DEMANDS, DEBTS, CONTROVERSIES, DAMAGES, COSTS, LOSSES AND EXPENSES THAT MIGHT IN ANY WAY BE INCLUDED IN THE WAIVERS AND MATTERS RELEASED AS SET FORTH IN THIS SECTION. PURCHASER ACKNOWLEDGES THAT IT HAS BEEN REPRESENTED BY INDEPENDENT LEGAL COUNSEL OF ITS SELECTION AND PURCHASER IS GRANTING THIS RELEASE OF ITS OWN VOLITION AND AFTER CONSULTATION WITH ITS COUNSEL. THIS SECTION SHALL SURVIVE THE TERMINATION OF THIS AGREEMENT OR THE CLOSING DATE AND SHALL NOT BE DEEMED TO HAVE MERGED INTO ANY OF THE DOCUMENTS EXECUTED OR DELIVERED AT CLOSING. TO THE EXTENT REQUIRED TO BE OPERATIVE, THE DISCLAIMERS OR WARRANTIES CONTAINED HEREIN ARE "CONSPICUOUS" DISCLAIMERS FOR PURPOSES OF ANY LEGAL REQUIREMENT.

NOTHING IN THE FOREGOING RELEASE SHALL INCLUDE CLAIMS ARISING OUT OF RIGHTS GRANTED IN THIS AGREEMENT, THE CLOSING DOCUMENTS, THE AMAZON LEASE, OR CLAIMS THAT PURCHASER HAS AGAINST THIRD PARTIES. THE WAIVERS, RELEASES AND DISCHARGES CONTAINED IN THIS SECTION 4.2.4 SHALL NOT IMPOSE UPON PURCHASER AN OBLIGATION TO INDEMNIFY SELLER.

PURCHASER'S INITIALS

ARTICLE 5 REPRESENTATIONS AND WARRANTIES.

5.1 Seller's Representations and Warranties. As a material inducement for Purchaser to enter into this Agreement, Seller represents to Purchaser, as of the Effective Date and the Closing Date, as follows:

5.1.1 Organization. Seller is duly formed and validly existing under the laws of the jurisdiction of its organization and is qualified to transact business in the jurisdiction where the Property is located.

5.1.2 Authority/Consent. Seller possesses all requisite power and authority, and has taken all actions required by its organizational documents and applicable law, to execute and deliver this Agreement and will, by Closing, have taken all actions required by its organizational documents and applicable law to consummate the transactions contemplated by this Agreement.

5.1.3 Litigation. Except as may be disclosed on Schedule 5.1.3 attached hereto, no action, suit, or other proceeding (including, but not limited to, any condemnation action) is pending or, to Seller's knowledge, has been threatened in writing that concerns or involves the Property that would, if determined adversely to Seller, materially and adversely affect the use or value of the Property or affect Seller's ability to fulfill its obligations under this Agreement.

5.1.4 Bankruptcy. No bankruptcy, insolvency, reorganization, or similar action or proceeding, whether voluntary or involuntary, is pending, or, to Seller's knowledge, has been threatened in writing, against Seller.

5.1.5 Contracts. Except for the Contracts referenced on Schedule 1.6 and subject to Section 6.1.3 below, there are no contracts or agreements to which Seller is a party or by which it is bound relating to construction, architectural services, parking, maintenance, or other supplies or services, management, leasing, or brokerage services, or any equipment leases that are currently in effect and will be in effect after Closing.

5.1.6 Employees. Seller has no employees.

5.1.7 Leases.

(i) Except for the Leases and Licenses referenced on Schedule 1.4 and leases, licenses, or other occupancy agreements that may be entered into by Seller pursuant to Section 6.1.1 hereof, there are no leases, rental agreements, license agreements or other occupancy agreements currently in effect that will affect the Property after Closing.

(ii) The Leases and Licenses have not been amended except as set forth on Schedule 1.4.

(iii) Each Lease and each License is in full force and effect.

(iv) Seller has provided Purchaser with true, accurate and complete copies of all Leases, Licenses, including all amendments, SNDAs, estoppel certificates and commencement date or delivery date memoranda or similar documents. Seller has provided complete copies of all notices, consents, approvals and correspondence under Licenses and Leases that are in Seller's possession or control.

(v) Except as may be described in Schedule 8.5.8 (i) attached hereto, all tenant improvement allowances currently due and payable by Seller as landlord or licensee under or in connection with the current terms of the Leases and Licenses have been paid in full and except as may be described in Schedule 8.5.8(i) there are no other tenant improvement allowances, leasing commissions, or construction obligations under the Leases and Licenses that have not been fully paid or fulfilled.

(vi) Attached hereto as Schedule 1.5 is a true and complete list of security deposits currently held by Seller, as landlord or licensor, under the Leases and Licenses.

(vii) To Seller's knowledge, except as may be described in Schedule 5.1.7 attached hereto, there exists no default by any tenant or licensee under any of the Leases or the Licenses after giving effect to any applicable grace or cure periods.

5.1.8 Violations of Law. Except as set forth on Schedule 5.1.8, Seller has not received written notice from any governmental authority of any violation of any federal, state, or local laws, ordinances, orders, regulations, and requirements affecting the Property or any portion thereof (including the conduct of business operations thereon) which violation remains unresolved and which violation would adversely affect the Property or the operation thereof, Seller has no knowledge of any pending investigation by any governmental authority, and has no knowledge of any violation of applicable laws with respect to the Property.

5.1.9 Environmental Reports. To Seller's knowledge, true and complete copies of all environmental/hazardous waste studies and reports relating to the Property that have been prepared within the last ten (10) years and are in Seller's possession or control (collectively, the "**Environmental Reports**") have been furnished or will be furnished to Purchaser other than non-material documents for matters that have been remediated or otherwise closed out. Seller has no knowledge of any material inaccuracies in the Environmental Reports or the release of any hazardous substances at the Property except as disclosed in the Environmental Reports.

5.1.10 Foreign Person. Seller is not a "foreign person," "foreign trust" or "foreign corporation" (as those terms are defined in the Internal Revenue Code of 1986, as amended, and related Income Tax Regulations).

5.1.11 No Conflicts. The execution and delivery of this Agreement by Seller and the consummation by Seller of the transactions contemplated hereby will not: (i) violate any judgment, order, injunction, or decree to which Seller or the Property is subject, or (ii) conflict with, result in a breach of, or constitute a default under the organizational documents of Seller or any lease, mortgage, loan agreement, covenant, or other agreement or instrument to which Seller is a party or by which Seller or the Property is bound.

5.1.12 OFAC. Seller is not a person or entity with whom U.S. persons or entities are restricted from doing business under regulations of the Office of Foreign Assets Control of the Department of the Treasury ("**OFAC**") (including those named on OFAC's Specially Designated Nationals and Blocked Persons List) or under any similar statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other similar governmental action.

5.1.13 Property Information. To Seller's knowledge, Seller has provided to Purchaser all material factual information concerning the Property that is in Seller's possession or control and Seller has no knowledge of any material inaccuracies in the information provided.

5.1.14 Unrecorded Agreements. Except as disclosed to Purchaser, to Seller's knowledge there are no outstanding unrecorded public works or other off-site improvement agreements, recapture or latecomer agreements imposing on the Property or the owner of the Property costs of prior utility or other infrastructure installations. To Seller's Knowledge, there are no outstanding bonds or letters of credit posted with any governmental authority, utility or other entity or person relating to the Property that Purchaser will be obligated to assume or replace at Closing. To Seller's Knowledge, there are no tax reassessments or tax recapture obligations that would be imposed due solely to a change in the ownership, use or zoning of the Property.

5.1.15 Licenses, Permits and Approvals. To Seller's knowledge, Seller has delivered true, accurate and complete copies of all licenses and permits concerning the construction and operation of the Property. To Seller's knowledge, there are no violations of the permits and approvals concerning the construction and operation of the Property.

5.1.16 Satisfaction of Obligations. Except as set forth on Schedule 5.1.16, Seller has complied with all material obligations arising prior to Closing under all contracts, easements, leases, recorded documents and other agreements by which Seller is bound with respect to the Property or the Property is bound including all amounts to be paid by Seller under such agreements.

5.1.17 Compliance with Warranties. To Seller's knowledge, Seller has maintained the Property consistent with the requirements of all applicable manufacturers' and contractors' warranties for the Property and improvements and equipment installed at the Property.

5.1.18 Accuracy of Schedules and Exhibits. All the schedules and Exhibit B attached to this Agreement are materially true, accurate and complete lists of the matters set forth therein; other than Schedule 1.10 which to Seller's knowledge is materially true, accurate and complete list of the matters set forth therein.

5.1.19 New Matters. Seller shall disclose to the Purchaser in writing any material changes or events Seller learns of after the Effective Date that would materially contradict or modify any of the foregoing representations and warranties.

5.2 Purchaser's Representations and Warranties. As a material inducement for Seller to enter into this Agreement, Purchaser represents to Seller, as of the Effective Date, as follows:

5.2.1 Organization. Purchaser is duly formed, validly existing, and in good standing under the laws of the jurisdiction of its organization and, as of the Closing Date, will be qualified to transact business in the jurisdiction where the Property is located.

5.2.2 Authority/Consent. Purchaser possesses all requisite power and authority, has taken all actions required by its organizational documents and applicable law, and has obtained all necessary consents, to execute and deliver this Agreement and will, by Closing, have taken all actions required by its organizational documents and applicable law to consummate the transactions contemplated in this Agreement.

5.2.3 OFAC. Purchaser is not a person or entity with whom U.S. persons or entities are restricted from doing business under regulations of OFAC (including those named on OFAC's Specially Designated Nationals and Blocked Persons List) or under any similar statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other similar governmental action.

5.2.4 No Conflicts. The execution and delivery of this Agreement by Purchaser and the consummation by Purchaser of the transactions contemplated hereby will not: (i) violate any judgment, order, injunction, or decree to which Purchaser is subject, or (ii) conflict with, result in a breach of, or constitute a default under the organizational documents of Purchaser or any lease, mortgage, loan agreement, covenant, or other agreement or instrument to which Purchaser is a party or by which Purchaser is bound.

5.2.5 Bankruptcy. No bankruptcy, insolvency, reorganization, or similar action or proceeding, whether voluntary or involuntary, is pending, or, to Purchaser's knowledge, has been threatened in writing, against Purchaser.

5.3 Knowledge. For purposes of this Agreement, the phrase "**to Seller's knowledge**" means the present, actual knowledge, without independent investigation or inquiry, of Ada Healey and Steve Hissong, the representatives of Seller who Seller represents and warrants are the representatives of the Seller that are in the best position to opine on such matters. There shall be no personal liability on the part of Ada Healey and Steve Hissong arising out of any representations or warranties made herein or otherwise. To the extent a Tenant Estoppel (defined in Section 6.5 below) is provided to Purchaser that sets forth information with respect to any item as to which Seller has made a representation or warranty, then Seller's representations and warranties with respect to such information will thereafter be null and void and of no further force and effect and Purchaser shall rely on the information in such Tenant Estoppel.

5.4 Survival. All of the representations and warranties set forth in this Article 5 shall survive the Closing for a period of one (1) year ("**Survival Period**"), subject to the provisions of Article 10 of this Agreement. Purchaser shall provide Seller with written notice (a "**Notice of Breach**") of any alleged breach or failure of any representation or warranty made by Seller and specifying the nature thereof within the Survival Period. Purchaser shall commence any action, suit, or proceeding with respect to any breach or failure that is the subject of the Notice of Breach, if at all, on or before the date that is one hundred twenty (120) days after the expiration of the Survival Period ("**Suit Deadline**"). Seller acknowledges and agrees that the resolution of such action, suit, or proceeding may not occur until after the expiration of the Survival Period and the Survival Period shall be deemed to be tolled with respect to (and only with respect to) any alleged breach or failure of a representation or warranty of which Seller receives a Notice of Breach before the expiration of the Survival Period, provided Purchaser files an action, suit, or proceeding with respect thereto prior to the Suit Deadline. Notwithstanding the foregoing to the contrary, Seller shall have no liability in connection with this Agreement by reason of any inaccuracy of a representation or warranty if, and to the extent that, Purchaser should reasonably have had knowledge of such inaccuracy at the time of the Closing given the circumstances, including without limitation the timing of the receipt of such information as disclosed to Purchaser or otherwise included in the Property Information, and Purchaser elects, nevertheless, to consummate the transaction contemplated hereby.

5.5 WAIVER OF RIGHT TO RECEIVE SELLER DISCLOSURE STATEMENT AND WAIVER OF RIGHT TO RESCIND. THE LAND AND IMPROVEMENTS CONSTITUTE “COMMERCIAL REAL ESTATE” AS DEFINED IN RCW 64.06. PURCHASER WAIVES THE RIGHT TO RECEIVE A SELLER DISCLOSURE STATEMENT (A “SELLER DISCLOSURE STATEMENT”) IF REQUIRED BY RCW 64.06. RCW 64.06 PROVIDES THAT PURCHASER MAY WAIVE ITS RIGHT TO RECEIVE THE SELLER DISCLOSURE STATEMENT; PROVIDED, HOWEVER, IF THE ANSWER TO ANY OF THE QUESTIONS IN THE SECTION OF THE SELLER DISCLOSURE STATEMENT ENTITLED “ENVIRONMENTAL” WOULD BE “YES,” PURCHASER MAY NOT WAIVE THE RECEIPT OF THE “ENVIRONMENTAL” SECTION OF THE SELLER DISCLOSURE STATEMENT. BY EXECUTING THIS AGREEMENT, PURCHASER ACKNOWLEDGES THAT IT HAS RECEIVED THE “ENVIRONMENTAL” SECTION OF THE SELLER DISCLOSURE STATEMENT AND PURCHASER WAIVES ITS RIGHT TO RECEIVE THE BALANCE OF THE COMPLETED SELLER DISCLOSURE STATEMENT.

Purchaser further agrees that any information discovered by Purchaser concerning the Land and Improvements shall not obligate Seller to prepare and deliver to Purchaser a revised or updated Seller Disclosure Statement. Purchaser hereby waives any right to receive an updated or revised Seller Disclosure Statement, regardless of the source of any new information.

PURCHASER HEREBY WAIVES, TO THE FULLEST EXTENT PERMISSIBLE BY LAW, THE RIGHT TO RESCIND THIS AGREEMENT PURSUANT TO ANY PROVISION OF RCW 64.06. IT IS THE INTENT OF PURCHASER THAT ANY SELLER DISCLOSURE STATEMENT PROVIDED BY SELLER WILL NOT BE RELIED UPON BY PURCHASER, AND SHALL GIVE PURCHASER NO RIGHTS WITH RESPECT TO SELLER OR UNDER THIS AGREEMENT. THIS WAIVER OF THE RIGHT TO RESCIND APPLIES TO SELLER DISCLOSURE STATEMENTS PROVIDED BEFORE, ON OR AFTER THE DATE OF THIS AGREEMENT AND APPLIES PROSPECTIVELY TO ANY UPDATED OR REVISED SELLER DISCLOSURE STATEMENTS THAT MAY BE PROVIDED BY SELLER TO PURCHASER.

Purchaser’s Initials: _____

**ARTICLE 6
COVENANTS OF SELLER PRIOR TO CLOSING.**

6.1 Operation of Property. From the Effective Date until the Closing, Seller shall operate the Property in accordance with the terms of this Section 6.1.

6.1.1 From the Effective Date until the Closing, Seller shall continue to operate, maintain, and repair the Property in the ordinary course of business and to the standard that Seller has operated the Property to date, and shall perform obligations of Seller under any and all easements burdening or benefitting the Property to the extent such obligations are required to be performed prior to Closing, but shall not take any of the following actions after the expiration of the Due Diligence Period without the prior written consent of Purchaser, which consent may be granted or withheld in Purchaser's reasonable discretion, and which consent shall be deemed granted if Purchaser fails to respond to a written request for its consent within ten (10) Business days: (a) make or permit to be made any material alterations to or upon the Property (provided, however, Purchaser's consent shall not be required for repairs or other work of an emergency nature, as required by law, or under any Lease or License, provided that Seller shall notify Purchaser of such work as soon as practicable), (b) enter into any contracts for the provision of services and/or supplies to the Property that are not terminable without premium or penalty by Purchaser upon no more than thirty (30) days' prior written notice, or amend or modify any of the Contracts in any material respect, unless such Contract, as amended, may be terminated without premium or penalty by Purchaser upon no more than thirty (30) days' prior written notice, (c) enter into any leases, licenses, or other occupancy agreements for the Property or any part thereof, or extend (except pursuant to a provision of the existing Lease or License), terminate or cancel (except in the event of a tenant default), or otherwise amend (except pursuant to a provision of the existing Lease or License) any of the Leases or Licenses, (d) remove or permit the removal from the Property of any fixtures, mechanical equipment, or any other item included in the Property except when replaced with items of equal or greater quality and value by Seller prior to Closing, and except for the use and consumption at the Property of inventory, office, and other supplies and spare parts, and the replacement of worn out, obsolete, and defective tools, equipment, and appliances, in each case in the ordinary course of business, (e) settle, compromise, withdraw, or terminate any real estate tax appeal or proceeding affecting the Property other than any relating solely to periods prior to tax year 2012, or (f) grant any easements or title encumbrances that will affect the Property after the Closing Date. Provided, however that there shall be no deemed consent granted by Purchaser's failure to timely respond with regard to any new leases, licenses, or other occupancy agreements or to an amendment of any Lease or License. If Seller grants, permits or creates any title encumbrance prior to the Closing Date, and does not agree to remove such encumbrance pursuant to Section 3.2, Purchaser may treat such failure as a Seller default.

[Notwithstanding the provisions of Section 6.1.1 above, from the Effective Date until the Closing Date prospective new Leases or Licenses will be handled in the following manner. Seller shall keep Purchaser reasonably informed of discussions with any prospective tenant including, without limitation, the identity of potential tenants, offered lease terms and the like. Any proposed Letters of Intent for leases shall be subject to Purchaser's prior written approval, which approval may be granted or withheld in Purchaser's reasonable discretion and which consent shall be deemed granted if Purchaser fails to respond to a written request for its consent within ten (10) Business days. All new leases shall utilize the form retail lease which is attached hereto as Exhibit N (the "Form Retail Lease"). It shall be considered reasonable for Purchaser withhold its consent and, notwithstanding the language above, consent shall not be deemed granted due to Purchaser's failure to timely respond to any of the following terms:

a. Any proposed restaurant tenant which is not an “Acceptable Restaurant.” “Acceptable Restaurant” shall mean a high-quality restaurant consistent with the following characteristics: (i) will be operated by a local company (i.e., not a national chain or franchise of a national chain) known for operating restaurants comparable to the Tom Douglas restaurants in Seattle; (ii) offers primarily table service and is not a cafeteria-style restaurant; (iii) is a “unique” restaurant concept not already found in the Seattle metropolitan area or is comparable with the concepts of the Tom Douglas restaurants in Seattle as of the date of this Agreement); and (iv) is not a “national chain” restaurant in the same category as Applebee’s, TGI Fridays, Red Robin or similar restaurants;

b. Any proposed material deviation from the terms of a letter of intent for the subject lease which has been previously approved by Purchaser;

c. Any proposed deviation from the provisions in Form Retail Lease with respect to the following issues:

(i) Landlord environmental or hazardous substances representations, warranties or indemnities;

(ii) Limitation of Landlord’s liability to its interest in the Property;

(iii) Consequential damages waiver;

(iv) Any modifications to tenant’s default remedies, including without limitation any termination, self-help, off-set remedies or additional rent abatement rights;

(v) Any tenant improvement allowances which do not expire within one (1) year of the commencement date of the term of the lease if not utilized by tenant;

(vi) Any exclusive use right that extends beyond the Property and does not exempt the office space in the Property, Amazon.com Inc. and its affiliates;

(vii) Any modification to the confidentiality provisions; or

(viii) Landlord indemnity obligations;

(ix) Any other changes materially increasing Landlord’s obligations or materially reducing the economic benefits of the lease to the Landlord from the provisions contained in Seller’s Form Retail Lease.]⁶

[Seller and Purchaser intend to enter into a Side Letter Agreement regarding proposed leases with Wells Fargo and Bartell Drugs on or about the Effective Date.]⁶

⁶ These provisions were not included in every agreement but only as applicable to property covered by a particular agreement.

6.1.2 Notwithstanding the foregoing, Seller shall have no obligation to Purchaser to make or perform any capital repairs or replacements unless required to do so to meet its obligations as landlord under the Leases or by applicable law.

6.1.3 Not later than ten (10) Business Days prior to the Designated Closing Date, Purchaser may deliver a written notice to Seller setting forth which, if any, of the Contracts Purchaser has elected to have Seller terminate. Seller will deliver notices of termination at Closing terminating those Contracts that Seller is timely notified hereunder to terminate by Purchaser, provided that (i) such Contracts are terminable in accordance with their terms and (ii) Purchaser shall be responsible for, and shall indemnify Seller for, any termination penalties or fees. At Closing, Seller shall assign to Purchaser, to the extent assignable, and Purchaser shall assume, the other Contracts pursuant to the Assignment and Assumption Agreement (as defined in Section 8.2.1.4).

6.1.4 Notices. Promptly after receipt, Seller shall provide Purchaser with true and complete copies of any written notices that Seller receives from any governmental authority with respect to (i) any special assessments or proposed increases in the valuation of the Property; (ii) any condemnation or eminent domain proceedings affecting the Property or any portion thereof; or (iii) any violation of any environmental law or any zoning, health, fire, safety or other law, regulation or code applicable to the Property. In addition, Seller shall deliver or cause to be delivered to Purchaser, promptly upon the giving or receipt thereof by Seller, true and complete copies of any written notices of default given or received by Seller under any of the Leases or Licenses.

6.2 Litigation. Seller will advise Purchaser promptly of any litigation, arbitration proceeding or administrative hearing that is instituted after the Effective Date and that concerns or affects Seller or the Property, other than any such matters (such as slip and fall and similar claims) that are covered by Seller's insurance which shall be Retained Liabilities.

6.3 Insurance. Prior to Closing, Seller will maintain Seller's existing insurance coverage or substantially similar replacement coverage for the Property.

6.4 Tenant Estoppels. Seller shall not be obligated to obtain an estoppel from Amazon Corporate LLC, as Purchaser is an affiliate of Amazon Corporate LLC. Seller shall request from each of the other tenants under a Lease an estoppel certificate in substantially the form of Exhibit C attached hereto or on the standard form of a tenant that customarily issues its own form; provided, however, that if such tenant's Lease attaches or prescribes a form of, or content of, an estoppel certificate, such tenant may deliver an estoppel certificate conforming to such tenant's Lease (collectively, the "**Tenant Estoppels**"). Seller shall promptly deliver to Purchaser the Tenant Estoppels received by Seller. Seller shall deliver Landlord Estoppels in the form attached hereto as Exhibit C-1 for any Lease (except the Amazon Lease) for which Landlord does not deliver a Tenant Estoppel.

6.5 [Easement Obligations. Seller shall use good faith efforts, prior to the Closing, Date, to make all payments due or to become due, and fully perform all of the “**Construction Easement Obligations**” of Seller as shown on the Retained Liabilities Schedule, and provide Purchaser with reasonable evidence that the Construction Easement Obligations have been fully satisfied. To the extent the Construction Easement Obligations have not been completed prior to Closing, Seller shall fully perform all of the Construction Easement Obligations at the earliest possible date, and such obligations shall be guaranteed by City Investors LLC pursuant to the “**Post Closing Obligations Guaranty**” in the form attached hereto as Exhibit M. Notwithstanding the foregoing, Purchaser and Seller acknowledge and understand that there are obligations in the Construction Easement Obligations identified on Schedule 1.10 which require that Seller or an affiliate of Seller provide certain off-site parking rights (“**Offsite Parking**” and the “**Offsite Parking Obligations**”) for periods of time that will extend beyond Closing. Seller shall continue after Closing to be responsible for providing all Offsite Parking to the persons or entities entitled thereto under those identified Easements. Purchaser and Seller acknowledge and understand that there is an obligation referenced in the Lease of [VARIES] (“tenant”) as identified on Schedule 1.10, which requires that Seller or an affiliate of Seller provide certain off-site parking rights to tenant (“**Offsite Parking**” and the “**Offsite Parking Obligations**”). Seller shall continue after Closing to be responsible for providing all Offsite Parking to tenant. Collectively, the Construction Easement Obligations and the Offsite Parking Obligations and all other obligations under this section 6.5 are the “**Easement Obligations**”. Seller shall indemnify and hold Purchaser harmless from and against all Construction Easement Obligations and Offsite Parking Obligations, any default by Seller under this Section 6.5, and against any and all claims, damages, costs, liabilities, expenses and causes of action (including reasonable attorneys’ fees and costs) arising in connection with the Construction Easement Obligations and Offsite Parking Obligations. The Easement Obligations shall be guaranteed by City Investors LLC pursuant to the “Post-Closing Obligations Guaranty” in the form attached hereto as Exhibit M. The obligations contained in this Section are not subject to the Survival Period limitation in Section 5.4 of this Agreement nor shall the damages limitation amount contained in Section 10.2 be applicable with regard to Seller’s breach or default of the covenants contained in this Section. The obligations under this Section 6.5 shall survive Closing.]⁶

6.6 [NFA Letter. Seller shall make commercially reasonable good faith efforts to obtain a “No Further Action” letter from the Washington State Department of Ecology prior to Closing with regard to the environmental contamination identified in Phase I Environmental Site Assessment for the Property, dated September 13, 2012. Seller shall keep Purchaser reasonably informed of its actions and activities in pursuit of the No Further Action determination and shall not agree to any conditions or covenants that would bind the Property without Purchaser’s prior consent.] ⁶

6.7 [Tenant Improvement Obligations. Seller shall complete the “Tenant Improvements” obligations pursuant to the Lease between Seller and [tenant varies] (as amended, the “Tenant Lease”), and pay all costs associated with the Tenant Improvements thereunder (the “**TI Obligations**”) even if tenant does not timely make required deposits or other reimbursement due from tenant for the Tenant Improvements. The TI Obligations include payment of all contractors and other parties entitled to compensation for such work, release of any liens asserted against the Property in connection with the TI Work, and all other obligations under this Section 6.7. If the TI Obligations are not completed prior to Closing, Seller will assign to Purchaser the contracts associated with completing the Tenant Improvements promptly and only after Purchaser’s request. Seller will continue to manage such contracts to complete the work under the Tenant Lease to provide a “Turnover Date” as defined in the Tenant Lease of

no later than November 15, 2012 as well as complete any punchlist or other related work thereafter. Without limiting Seller's obligation to perform all TI Obligations, Seller will pay all payment applications for the Tenant Improvements and be responsible to pay the Turnkey Allowance in accordance with the Tenant Lease. Seller will collect the construction management fee for the Tenant Improvements allowed per the Tenant Lease. Seller will also be entitled to all reimbursement due from tenant for the Tenant Improvements, and shall be entitled to pursue collection of such obligations after the Closing Date, even if such obligations do not arise until after the Closing Date, provided, however, that Seller shall not be entitled to dispossess tenant, disturb their possession of their leased premises or seek any involuntary bankruptcy of tenant Seller shall use good faith efforts to complete the TI Obligations prior to Closing. To the extent the TI Obligations are not completed prior to Closing, Seller shall continue to be obligated to complete the TI Obligations and shall enter into a commercially reasonable construction management agreement with Purchaser addressing issues such as insurance and indemnity obligations and access to the Property, and the TI Obligations shall be guaranteed by City Investors LLC pursuant to the Post-Closing Obligations Guaranty in the form attached hereto as Exhibit M. Seller shall indemnify and hold Purchaser harmless from and against all TI Obligations, any default by Seller under this Section 6.7, and against any and all claims, damages, costs, liabilities, expenses and causes of action (including reasonable attorneys' fees and costs) arising in connection with the TI Obligations. The TI Obligations and Seller's related obligations under this Section 6.7 shall survive Closing. The obligations contained in this Section are not subject to the Survival Period limitation in Section 5.4 of this Agreement nor shall the damages limitation amount contained in Section 10.2 be applicable with regard to Seller's breach or default of the covenants contained in this Section.]⁶

6.8 [Phase V Completion of Construction Obligations. Seller agrees that it shall use good faith efforts to complete Landlord's Work as required by the Amazon Lease prior to Closing, including, but not limited to, the punch list attached to the Certificate of Substantial Completion dated September 21, 2012, and the work attached hereto as Exhibit M-1 (collectively with all other obligations under this Section 6.8, the "**Completion Obligations**"). Fulfillment of owner's obligations under the contracts listed on the attached Schedule 1.6 as Construction Contracts/POs are part of the Completion Obligations. Seller shall complete Landlord's Work consistent with the Building Plans as defined in the Amazon Lease and otherwise in accordance with the Amazon Lease, and, without limiting the foregoing, shall cause all contractors and other parties entitled to compensation for such work to be fully paid, and any liens asserted against the Property to be released. To the extent Seller has not completed the Completion Obligations prior to the Closing Date, Seller shall continue to be obligated to complete the Completion Obligations and shall enter into a commercially reasonable construction management agreement with Purchaser addressing issues such as insurance and indemnity obligations and access to the Property, and City Investors LLC shall guarantee the Completion Obligations pursuant to the Post-Closing Obligations Guaranty in the form attached hereto as Exhibit M. If the Completion Obligations are not completed prior to Closing, Seller will assign to Purchaser the contracts associated with completing Landlord's Work promptly and only after Purchaser's request. Seller will continue to manage such contracts to complete the work in accordance with the Amazon Lease. Any costs incurred, either pre- or post-closing to complete the Completion Obligations shall, to the extent allowed under the Amazon Lease, be Allowable Development Costs. Seller shall indemnify and hold Purchaser harmless from and against all Completion Obligations, any

default by Seller under this Section 6.8, and against any and all claims, damages, costs, liabilities, expenses and causes of action (including reasonable attorneys' fees and costs) arising in connection with the Completion Obligations. The Completion Obligations and Seller's related obligations under this Section 6.8 shall survive Closing. The obligations contained in this Section are not subject to the Survival Period limitation in Section 5.4 of this Agreement nor shall the damages limitation amount contained in Section 10.2 be applicable with regard to Seller's breach or default of the covenants contained in this Section.]⁶

ARTICLE 7
CONDITIONS PRECEDENT TO CLOSING.

7.1 Conditions Precedent to Purchaser's Obligation to Close. Purchaser's obligation to purchase the Property is subject to satisfaction on or before the Closing Date of the following conditions, any of which may be waived in writing by Purchaser in Purchaser's sole and absolute subjective discretion:

7.1.1 Title. A final examination of the title to the Land by the Title Company shall disclose no title exceptions except for the Permitted Exceptions and other matters approved or deemed approved by Purchaser in accordance with this Agreement, and Title Company shall be irrevocably committed to issue to Purchaser a 2006 ALTA title insurance policy insuring title to the Property in the amount of the Purchase Price including endorsements reasonably required by Purchaser or otherwise approved by Title Company prior to the Effective Date, subject only to the Permitted Exceptions and such other matters so approved or deemed approved by Purchaser (the "**Title Policy**").

7.1.2 Delivery of Closing Documents. Seller shall have delivered Tenant Estoppels or Landlord Estoppels under each Lease (except the Amazon Lease) dated within thirty (30) days of the Closing Date. Seller shall have delivered to Purchaser an updated Rent Roll. Seller shall have delivered each of the Closing Documents required to be delivered under Section 8.2.1 of this Agreement.

7.1.3 Covenants, Representations and Warranties. Seller shall not be in material breach of any of covenants, representations, and warranties it has made in this Agreement. In addition, there shall not exist any facts or circumstances that would make any of the Seller's Express Representations untrue in any material respect as of the Closing Date. Notwithstanding the foregoing, if a change in circumstances occurs after the Effective Date that is not otherwise a breach or default by Seller under the terms of this Agreement and such change of circumstances requires a representation and warranty made by the Seller to be modified in order for such representation and warranty to be accurate as of Closing, then the representation and warranty shall be deemed remade as so modified, and Seller shall not be in breach of or in default under this Agreement by virtue of such change in circumstances or modification.

7.1.4 Simultaneous Closing of Other Phases. Purchaser or Purchaser's affiliate has separate contracts to purchase Amazon Phase Ia, Amazon Phase Ib, Amazon Phase II, Amazon Phase III, Amazon Phase IV and Amazon Phase V as identified on the map on Exhibit O (the "**Other Phases**") with Seller's affiliates. A material consideration of Purchaser in entering into this Agreement is Purchaser's ability to purchase the Other Phases. If Seller's

affiliates are unable to complete the sale of the Other Phases (or Seller is unable to complete the sale of this Phase), Purchaser shall have the right to terminate this Agreement and receive a return of the Deposit. Therefore a condition to Purchaser's obligation to Close shall be Seller's affiliates meeting the conditions to close and otherwise fully performing Seller's obligations under the contracts for the purchase and sale of the Other Phases.

7.2 Conditions Precedent to Seller's Obligation to Close. Seller's obligation to sell the Property is subject to satisfaction, on or before the Closing Date of the following conditions, any of which may be waived in writing by Seller, in Seller's sole and absolute subjective discretion:

7.2.1 Covenants. Purchaser shall have performed and observed, in all material respects, all covenants of Purchaser under this Agreement.

7.2.2 Representations and Warranties. All representations and warranties of Purchaser set forth in this Agreement shall be true and correct in all material respects as if made on the Closing Date

7.2.3 Delivery of Closing Documents and Payment of Purchase Price . Purchaser shall have delivered each of the Closing Documents required to be delivered under Section 8.3.1 of this Agreement and shall have paid into escrow the balance due of the Purchase Price.

7.3 Failure of a Condition.

7.3.1 If any condition precedent to Purchaser's obligation to close the transactions contemplated by this Agreement, as set forth in Section 7.1 of this Agreement, has not been satisfied on or before the Closing Date, then Purchaser shall give notice to Seller of the condition or conditions that Purchaser asserts are not satisfied. Purchaser shall have the right to waive the unsatisfied condition or conditions by written notice to Seller and Escrow Agent given on or before the Closing Date, in which case Purchaser shall have the right to extend the Closing Date by one (1) Business Day. Seller shall have the right to extend the Closing Date for a period of up to six (6) months by delivering written notice to Seller and Escrow Agent within five (5) Business Days' after Seller's receipt of such notice if Seller is unable to meet the conditions to close under this Agreement or the Other Phases agreements, and is diligently working to be able to close such phase(s); provided, that if the Closing Date is extended beyond December 31, 2012, Purchaser is given notice not less than sixty (60) days' advanced notice of the extended Closing Date (further provided that Purchaser and Seller shall use good faith efforts to close prior to the end of any such sixty (60) day period). The failure of any condition set forth in Section 7.1 hereof that is not reasonably susceptible of being cured within the time allotted shall not constitute a default, breach of a covenant, or other failure to perform by Seller hereunder if caused by a third party (other than Seller's lender) unless such failed condition was caused by Seller's negligence, or willful and intentional actions or omissions in violation of its covenants set forth in this Agreement, in which case such shall be a Seller default entitling Purchaser to exercise its rights under Article 10. In the event Seller exercises its right to extend the Closing Date in order to meet a condition precedent to Purchaser's obligation to close under this preceding paragraph and Closing does not occur on or before December 31, 2012, Escrow Agent shall promptly refund the Extension Payment (together with any interest accrued thereon) to Purchaser. If Seller has exercised its right to extend the Closing Date and Closing does not occur on or before June 21, 2013, Escrow Agent shall promptly refund the Deposit (together with any interest accrued thereon) to Purchaser.

If any condition precedent to Seller's obligation to close the transactions contemplated by this Agreement, as set forth in Section 7.2 of this Agreement, has not been satisfied on or before the Closing Date, then Seller shall give notice to Purchaser of the condition or conditions that Seller asserts are not satisfied. Purchaser shall have the right to extend the Closing Date to satisfy the unsatisfied condition for a period of up to seven (7) additional days, by giving written notice thereof to Seller and Escrow Agent within one (1) Business Day after the Designated Closing Date, but in no event beyond December 31, 2012. Seller shall have the right to waive the unsatisfied condition or conditions by written notice to Purchaser and Escrow Agent given within five (5) Business Days after expiration of the applicable satisfaction period without satisfaction having occurred, in which event the Closing Date shall be the date that is five (5) Business Days after Purchaser's receipt of Seller's waiver notice. Notwithstanding the foregoing or anything set forth herein to the contrary, in no event shall the Closing Date be extended for Purchaser's failure to fund into escrow the balance of the Purchase Price due at Closing as required under this Agreement, unless expressly agreed by Seller in writing in Seller's sole and absolute discretion.

7.3.2 Waiver. If the transaction contemplated by this Agreement closes, the parties shall be deemed to have waived any and all unmet or unsatisfied conditions (other than a false Express Representation) subject to the provisions of Sections 5.4 and 10.2 hereof.

ARTICLE 8 CLOSING

8.1 Closing Date. The consummation of the transactions contemplated hereby (the "**Closing**") shall be conducted by delivery of documents and funds in escrow to Escrow Agent and shall be on December 21, 2012 ("**Designated Closing Date**"); TIME BEING STRICTLY OF THE ESSENCE. The date that the Closing occurs hereunder, as such date may be extended in accordance with this Agreement, is referred to herein as the "**Closing Date**". Purchaser and Seller agree to finalize and execute all documents necessary for the consummation of the transaction contemplated herein, including, but not limited to, the Settlement Statement (as defined in Section 8.2.1.7), and to deliver all such documents to the Escrow Agent in escrow not later than 5:00 p.m. Pacific time on the Business Day immediately preceding the Closing Date to ensure the orderly and timely close of escrow and disbursement of all funds necessary for Closing by not later than 11:00 a.m. Pacific time on the Closing Date. To reduce the risk of any delays, the parties agree to make good faith efforts to deliver as many closing documents as possible into escrow five (5) Business Days in advance of the Closing Date. Notwithstanding the foregoing or anything herein to the contrary, in no event may the Closing Date be extended beyond the Designated Closing Date for any reason, unless pursuant to the exercise of a right of Seller or Purchaser hereunder, TIME BEING STRICTLY OF THE ESSENCE.

8.2 Seller's Obligations at the Closing. At the Closing, Seller will do, or cause to be done, the following:

8.2.1 Closing Documents. Seller shall execute, acknowledge (if necessary) and deliver (or caused to be executed and/or delivered) originals of the following documents:

8.2.1.1 Statutory Warranty Deed substantially in the form of Exhibit D hereto (“**Deed**”);

8.2.1.2 Bill of Sale, substantially in the form of Exhibit E hereto;

8.2.1.3 Assignment and Assumption Agreement with respect to the Leases and Licenses, substantially in the form of Exhibit F-1 hereto;

8.2.1.4 Assignment and Assumption Agreement with respect to the Contracts, substantially in the form of Exhibit F-2 hereto (“**Assignment and Assumption Agreement**”);

8.2.1.5 Certificate of Non-Foreign Status, substantially in the form of Exhibit G hereto;

8.2.1.6 Tenant Estoppels from each tenant under the Leases and each licensee under the Licenses as required by Section 6.4 above, and in the event the tenant refuses to provide one, then the Seller shall provide a Landlord Estoppel for such tenant;

8.2.1.7 Letters to each tenant under the Leases and each licensee under the Licenses, substantially in the form of Exhibit H hereto, notifying tenants and licensees of the conveyance of the Property to Purchaser and advising them that, after the Closing Date, all future payments of rent are to be made to Purchaser or at Purchaser’s direction;

8.2.1.8 Settlement statement prepared by Escrow Agent showing all of the payments, adjustments and prorations provided for in Section 8.5 of this Agreement or otherwise agreed upon by Seller and Purchaser (the “**Settlement Statement**”);

8.2.1.9 Such transfer tax forms as may be required as a condition to the recordation of the Deed or as may be required in connection with the transfer of the Property, including a Real Estate Excise Tax Affidavit with respect to the real estate excise taxes applicable to the purchase and sale transaction and a Sales/Use Tax Return with respect to the sales/use tax due on the tangible Personal Property;

8.2.1.10 Subject to Section 7.1.3 of this Agreement, a certificate signed by Seller stating that each of Seller’s representations and warranties contained in Section 5.1 of this Agreement is true and correct in all material respects, provided, however, that if any of the representations and warranties have changed since the Effective Date, then Seller shall revise the representations and warranties to conform to the changed circumstances and shall set forth such changed representations and warranties in such certificate;

8.2.1.11 An Owner's Affidavit in a commercially reasonable form ("**Owner's Affidavit**") including required indemnification related to construction. Seller shall also deliver to the Title Company and Purchaser such evidence as may be reasonably required by the Title Company for the authority of the person(s) executing the Deed and the other documents required to be executed by Seller on behalf of Seller;

8.2.1.12 Delivery of any notices, third party consents or other documents that may be required to transfer any Contracts to be assigned in accordance with Section 6.1.3.

8.2.1.13 Copies of notices of termination of such Contracts as are to be terminated in accordance with Section 6.1.3;

8.2.1.14 Such transfer documentation as may be necessary to transfer all tenant security deposits held by Seller under the Leases or Licenses in the form of a letter of credit ("**Letters of Credit**") or any other non-cash form;

8.2.1.15 A Limited Guaranty executed by City Investors LLC in the form of Exhibit L hereto;

8.2.1.16 A Post-Closing Obligations Guaranty executed by City Investors LLC in the form attached hereto as Exhibit M; and

8.2.1.17 Such other documents as may be reasonably required for the transaction or as requested by Title Company.

8.2.2 Original Property Information Documents. Seller will deliver to Purchaser, or make available to Purchaser at the Property, originals within Seller's possession or control of all Leases, Licenses, Contracts and Permits.

8.2.3 Keys. Seller will deliver to Purchaser all keys to the Improvements in the possession or subject to the control of Seller, including, without limitation, master keys as well as combinations, card keys and cards for the security systems, if any.

8.2.4 Costs. Seller will pay all costs allocated to Seller pursuant to Section 8.5.1 of this Agreement.

8.3 Purchaser's Obligations at the Closing. At the Closing, Purchaser will do, or cause to be done, the following:

8.3.1 Closing Documents. At Closing, Purchaser shall execute, acknowledge (if necessary) and deliver originals of the following documents:

8.3.1.1 Assignment and Assumption Agreement with respect to the Leases and Licenses in the form of Exhibit F-1 hereto;

8.3.1.2 Assignment and Assumption Agreement;

8.3.1.3 Settlement Statement;

8.3.1.4 Such transfer tax forms as may be required as a condition to the recordation of the Deed or as may be required in connection with the transfer of the Property (including the Real Estate Excise Tax Affidavit and Sales/Use Tax Return referenced in Section 8.2.1.8 above);

8.3.1.5 Such evidence as may be reasonably required by the Title Company with respect to the authority of the person(s) executing the documents required to be executed by Purchaser on behalf of Purchaser;

8.3.1.6 A certificate signed by Purchaser stating that each of Purchaser's representations and warranties contained in Section 5.2 of this Agreement is true and correct in all material respects, provided, however, that if any of the representations and warranties have changed since the Effective Date, then Purchaser shall revise the representations and warranties to conform to the changed circumstances and shall set forth such changed representations and warranties in such certificate; and

8.3.1.7 Such other documents as may be reasonably required for the transaction or as requested by the Title Company.

8.3.2 Payment of Consideration. Purchaser shall pay to Escrow Agent a sum equal to the remaining portion of the Purchase Price owed by Purchaser in accordance with Section 2.1.3 of this Agreement. As part of the Closing under this Agreement, in accordance with this Agreement, Escrow Agent shall disburse, via federal funds wire transfer of immediately available funds, to an account designated by Seller in a written notice to Escrow Agent delivered prior to the Closing Date, with such notice to contain all information necessary for Escrow Agent to effectuate such transfer, the amount due to Seller as shown on the Settlement Statement.

8.3.3 Costs. Purchaser will pay all costs allocated to Purchaser pursuant to Section 8.5.1 of this Agreement.

8.4 Escrow. The delivery of the documents and the payment of the sums to be delivered and paid at the Closing shall be accomplished through an escrow with Escrow Agent and in accordance with this Agreement.

8.5 Costs and Adjustments at Closing. Seller shall prepare and submit to Purchaser for Purchaser's review, at least five (5) Business Days prior to the Closing Date, a proration statement setting forth the estimated prorations and adjustments contemplated by this Agreement. Once Seller and Purchaser have agreed on such proration statement and the estimates included therein, and at least three (3) Business Days prior to the Closing Date, Seller and Purchaser shall submit the same to the Escrow Agent and the Escrow Agent shall prepare the Settlement Statement and submit the same to Seller and Purchaser for their approval at least two (2) Business Days prior to the Closing Date.

8.5.1 Transaction Expenses.

8.5.1.1 Seller. Seller shall pay (i) all costs and fees for Seller's representatives and consultants, (ii) all fees and costs associated with delivering title to the Property in the condition required by Article 3 of this Agreement, (iii) recordation fees for the Deed, (iv) real estate excise taxes on the sale of the Property, (v) the premiums and applicable sales tax for a standard coverage Title Policy in the amount of the Purchase Price, and (vi) one-half of any closing or escrow fees of the Escrow Agent.

8.5.1.2 Purchaser. Purchaser shall pay (or reimburse Seller for) (i) all costs and fees for title examination, the premiums and sales tax for extended coverage under the Title Policy, as well as any premiums and sales tax for any title endorsements required by Purchaser and any reinsurance required by Purchaser (and any mortgagee's title insurance policy and any updates or endorsements thereto required by such mortgagee), (ii) all costs associated with any updates of the Survey ordered by Purchaser or required by Purchaser's mortgagee, (iii) all costs associated with Purchaser's due diligence studies and investigations of the Property, (iv) all costs associated with Purchaser's financing of its purchase of the Property, including, without limitation, all recording fees and taxes, (v) all costs associated with any state and local recordation tax, documentary and other taxes and stamps, and any recording fees or mortgage taxes associated with any new mortgage or deed of trust related to Purchaser's financing of its purchase of the Property, (vi) sales/use tax on the tangible Personal Property, and (vii) one-half of any closing or escrow fees of Escrow Agent. Subject to Section 14.13 below, Seller and Purchaser shall each pay its respective attorneys' fees.

8.5.2 Security Deposits. Seller shall pay to Purchaser, as a credit against the Purchase Price, the amount of any cash security deposits actually received by Seller pursuant to the Leases and Licenses and not yet refunded to tenants or applied pursuant to the Leases and Licenses all in the amounts set forth on Schedule 1.5. For any security deposits that are held in the form of Letters of Credit or any form other than cash, Seller shall deliver or have delivered through escrow or other mutually agreeable means to Purchaser at the Closing the original Letters of Credit or other applicable documents together with such original transfer and assignment documentation as may be necessary to effect the transfer of each Letter of Credit or other non-cash security deposit, provided any transfer fees or other costs payable to the issuer of any Letter of Credit shall be borne by and paid directly by the Purchaser to the issuer.

8.5.3 Rents. All rents, base rents, percentage rents, additional rent for common area charges, operating expenses, and real estate taxes, and parking charges and other costs or charges paid by tenants under the Leases and licensees under the Licenses and all other parking charges for monthly, transient, billable and evening uses not necessarily paid by tenants or others under any Leases or Licenses (collectively, "**Rents**") shall be prorated as of the Apportionment Time (as defined below), to the extent actually collected by Seller prior to the Closing Date. Seller shall pay to Purchaser, as a credit against the Purchase Price rents already received by Seller, if any, applicable to periods after Closing. All Rents received from tenants or licensees after the Closing Date by Seller or Purchaser will first be applied to such charges as are then due for the month in which the Closing Date occurs and prorated appropriately and in a consistent manner between the parties based on the Apportionment Time, and then applied to any delinquencies in their reverse order of accrual until such delinquencies have been satisfied in full. From and after Closing, Purchaser shall use good faith and commercially reasonable efforts

to collect from the tenants and licensees all Rents that are delinquent for the period prior to the Closing Date. Purchaser shall remit to Seller any Rents received by Purchaser subsequent to the Closing Date which are attributable to periods prior to the Closing Date within thirty (30) days from Purchaser's receipt of such Rents, together with appropriate supporting documentation; such costs shall be net of costs of collection. Seller shall remit to Purchaser any Rents received by Seller after Closing that are attributable to periods from and after Closing within thirty (30) days from Seller's receipt of such Rents, together with appropriate supporting documentation. Except for rent under the Amazon Lease, which, if not paid current at Closing shall be added to the Purchase Price, for any Rents that are delinquent for the period prior to Closing, Seller shall have the right to pursue all rights and remedies against the applicable tenants or licensees to recover such delinquencies; provided, however, that Seller shall not be entitled to dispossess such tenants or licensees, disturb their possession of their leased premises or seek any involuntary bankruptcy of any tenant or licensee. As used herein, the term "**Apportionment Time**" shall mean 11:59 p.m. Pacific time on the date immediately prior to the Closing Date.

8.5.4 Real Estate, Local Improvement District and Personal Property Taxes. Real estate, personal property, payments due under any Local Improvement District and ad valorem taxes for the year in which the Closing occurs will be prorated between Seller and Purchaser as of the Apportionment Time on the basis of actual bills therefor, if available, with such proration to be based on the applicable tax year (i.e. not the year of assessment) rather than on the calendar year. If such bills are not available, then such taxes and other charges shall be prorated on the basis of the most currently available tax bills and, thereafter, promptly re-prorated upon the availability of actual bills for the applicable period. Any and all rebates or reductions in taxes received after Closing for the tax year in which Closing occurs, net of costs of obtaining the same (including without limitation reasonable attorneys' fees) and net of any amounts due to tenants, shall be prorated as of the Apportionment Time, when received by Seller or Purchaser. The current installment of all special assessments and business improvement district taxes and assessments, if any, that are a lien against the Property at the time of Closing and that are being or may be paid in installments shall be prorated as of the Apportionment Time.

8.5.5 Utilities. Water, sewer, electric, fuel (if any) and other utility charges, other than those for which tenants under Leases or licensees under Licenses are responsible directly to the provider, shall be prorated as of the Apportionment Time. If consumption of any of the foregoing is measured by meter, Seller shall, prior to the Closing Date, endeavor to obtain a reading of each such meter and a final bill as of the Closing Date. If there is no such meter or if the bill for any of the foregoing will not have been issued as of the Closing Date, the charges therefor shall be adjusted as of the Apportionment Time on the basis of the charges of the prior period for which such bills were issued and shall be further adjusted between the parties when the bills for the correct period are issued. Seller and Purchaser shall cooperate to cause the transfer of utility accounts from Seller to Purchaser.

8.5.6 Insurance Policies. Premiums on insurance policies will not be subject to proration; instead, as of the Closing Date, Seller will terminate its insurance coverage for the Property and Purchaser will effect its own insurance coverage.

8.5.7 Other Operating Expenses. All other operating expenses for or pertaining to the Property, including, but not limited to, administrative charges, on-site management and fees, maintenance, and any service charges, will be prorated as of the Apportionment Time and be subject to reasonable adjustment, payment or offset between Seller and Purchaser during the period from the Closing Date until the final true up of Operating Expenses, Taxes and Escalations as provided in Section 8.5.9.

8.5.8 Tenant Improvement Allowances, Leasing Commissions and Free Rent. Purchaser shall receive credits against the Purchase Price at Closing equal to (i) the amount of outstanding tenant improvement allowances currently due and payable by Seller to tenants or licensees and shown as "Seller's Obligation" on Schedule 8.5.8(i) attached hereto, as such Schedule may be updated by Seller at Closing in accordance with Section 8.2.1.10 of this Agreement; (ii) the amount of outstanding brokerage and leasing commissions currently due and payable by Seller to third parties and shown as "Seller's Obligation" on Schedule 8.5.8(ii) attached hereto, as such Schedule 8.5.8 (ii) may be updated by Seller at Closing in accordance with Section 8.2.1.9 of this Agreement. If, prior to Closing, Seller pays any tenant improvement allowances or leasing commissions that are designated as "Purchaser's Obligation" on either Schedule 8.5.8(i) or Schedule 8.5.8(ii) referenced in clauses (i) and (ii) above, then Seller shall receive a credit at Closing equal to such amounts paid by Seller on Purchaser's behalf. From and after Closing, Purchaser shall be solely responsible for all tenant improvement allowances, all leasing commissions, and all free rent associated with the Property, the Leases and/or the Licenses and all costs and expenses associated therewith except in the case of a breach of an Express Representation.

8.5.9 True-Up of Operating Expenses, Taxes and Escalations. No later than ninety (90) days after the Closing Date, Seller shall provide to Purchaser details of operating expenses and real estate taxes for the Property for the period January 1, 2012 to the Closing Date. No later than March 1, 2013, Purchaser shall provide to Seller its general ledger (potentially subject to final audit adjustments) of operating expenses and real estate taxes for the Property from and after the Closing Date to December 31, 2012. No later than March 15, 2013, Purchaser shall provide to Seller the annual tenant reconciliation schedule for operating expenses, real estate taxes and escalations for the Property for calendar year 2012, together with appropriate supporting documentation related to the net escalation billing or refund due from or to tenants thereunder including the Amazon Lease and including a draft schedule prorating all such amounts between Seller and Purchaser based on the prorated total dollar amounts of operating expenses, real estate taxes and escalations either paid or collected by Seller and Purchaser for their respective periods of ownership for the 2012 calendar year. Seller and Purchaser shall endeavor to reasonably agree to the proration schedule, including its methodology, by March 31, 2013. Purchaser shall, as appropriate, invoice or refund the tenants under the Leases and the licensees under the Licenses for amounts owed or due in respect of such reconciliation promptly after Seller's approval of such schedule, but not before then. Seller shall remit to Purchaser any amount owed by Seller on account of such reconciliation within ten (10) Business Days of Seller's approval of such schedule. Purchaser shall use good faith and commercially reasonable efforts to collect from the tenants and licensees all amounts owed by such tenants and licensees on account of such reconciliation, and shall remit to Seller any such amounts received by Purchaser that are attributable to periods prior to Closing within thirty (30) days from Purchaser's receipt thereof.

8.5.10 Survival. The provisions of this Section 8.5 shall survive Closing for a period of twelve (12) months from the Closing Date.

8.5.11 Security for Post Closing Obligations. Seller's Post Closing Obligations under this Section 8.5 shall be secured by that certain Limited Guaranty by City Investors LLC in the form attached hereto as Exhibit L.

**ARTICLE 9
DAMAGE AND CONDEMNATION**

9.1 Damage. If, prior to the Closing, all or any portion of the Property is damaged by fire or any other cause whatsoever or there is a material adverse change to the physical condition of the Property, Seller shall promptly give Purchaser written notice of such damage or adverse physical change. Risk of loss for damage to all or any part of the Property by fire or other casualty or adverse physical change from the Effective Date through the Closing Date will be on Seller.

9.1.1 Minor Damage. If the cost for repairing such damage or addressing such adverse physical change is equal to or less than Five Million Dollars (\$5,000,000) (as determined by Seller's independent insurer, in the case of insured damage), then Purchaser shall have the right at Closing to receive a credit for the amount of the deductible plus all insurance proceeds received by Seller as a result of such loss, or an assignment of Seller's rights to such insurance proceeds, and this Agreement shall continue in full force and effect with no reduction in the Purchase Price, and Seller shall have no further liability or obligation to repair such damage, material adverse change, or to replace the Property. If the loss is uninsured, Purchaser shall have the right at Closing to receive a credit for the reasonably estimated amount of the loss.

9.1.2 Major Damage. If the cost for repairing such damage or adverse physical change is greater than Five Million Dollars (\$5,000,000) (as determined by Seller's independent insurer, in the case of insured damage), then Purchaser shall have the option, exercisable by written notice delivered to Seller and Escrow Agent within ten (10) Business Days after Seller's notice of damage to Purchaser, either (i) to receive a credit for the amount of the deductible plus all insurance proceeds received by Seller as a result of such loss, or an assignment of Seller's rights to such insurance proceeds (or, in the case of an uninsured loss, a credit for the reasonably estimated amount of the loss), and this Agreement shall continue in full force and effect with no reduction in the Purchase Price, and Seller shall have no further liability or obligation to repair such damage, material adverse change, or to replace the Property; or (ii) to terminate this Agreement. If Purchaser elects to terminate this Agreement, the Deposit shall be promptly returned to Purchaser, and thereafter neither party will have any further rights or obligations hereunder, except for any obligations that expressly survive termination. If Purchaser fails to notify Seller within such ten (10) Business Day period of Purchaser's intention to terminate this Agreement, then Purchaser shall be deemed to have elected option (i), and Purchaser and Seller shall proceed to Closing in accordance with the terms and conditions of this Agreement.

9.2 Condemnation and Eminent Domain. If any condemnation proceedings are instituted, or notice of intent to condemn is given, for all or any portion of the Property, Seller shall promptly upon obtaining knowledge thereof notify Purchaser thereof (“**Taking Notice**”). If the condemnation will not result in a material and adverse effect (as hereinafter defined) on the Property, the parties shall proceed to Closing, in which event Seller shall assign or pay to Purchaser at Closing all of Seller’s right, title, and interest in any award payable on account of the condemnation and/or pay to Purchaser all such awards previously paid. If such condemnation will result in a material and adverse effect on the Property, Purchaser shall have the option, which shall be exercised by written notice to Seller and Escrow Agent within ten (10) Business Days after its receipt of the Taking Notice, either (i) to terminate this Agreement and receive the prompt return of the Deposit, in which case the parties shall have no further rights or obligations under this Agreement (except for any obligations that expressly survive termination), or (ii) to consummate the purchase of the Property without a reduction of the Purchase Price, in which event Seller shall assign or pay to Purchaser at Closing all of Seller’s right, title, and interest in any award payable on account of the condemnation proceeding and/or pay to Purchaser all such awards previously paid. For the purposes of this Section 9.2, “**material and adverse effect**” shall include, but not be limited to, any reduction in the amount of any of the rentable square footage of the Improvements, the reduction in the number of parking spaces at the Property, or the material disruption of access to the Property. Failure to give notice of Purchaser’s election within such ten (10) Business Day period shall be deemed an election by Purchaser to proceed to Closing.

ARTICLE 10
REMEDIES AND ADDITIONAL COVENANT

10.1 Seller Default At or Before Closing. If Seller refuses or fails, in any material respect, to perform any of its obligations or agreements hereunder when performance is required on or prior to the Closing Date, or if any of the Express Representations should be false in any material respect when made and Purchaser shall become aware of same on or prior to the Closing Date and Purchaser shall not have waived its claims with regard to same pursuant to this Agreement, then Purchaser shall give Seller written notice of such breach or default on or prior to the Closing Date and Seller shall have ten (10) Business Days from the date of receipt of such notice to cure such breach or default and the Closing Date shall be extended accordingly (subject to the parties’ mutual approval). If Seller fails to cure such breach or default within such ten (10) Business Day period, then Purchaser, as its sole and exclusive remedy, (i) may terminate this Agreement by notifying Seller and the Escrow Agent thereof, in which event neither party shall have any rights, duties, or obligations hereunder other than the obligations and rights set forth herein that expressly survive the termination of this Agreement, and the Escrow Agent shall return the Deposit to Purchaser, and Purchaser may sue Seller for damages to recover Purchaser’s actual out-of-pocket, third party costs incurred in connection with this Agreement, (ii) may sue for specific performance of the obligations of Seller hereunder; provided, however, that if Purchaser fails to file suit for specific performance within ninety (90) days after the scheduled Closing Date and to diligently pursue such suit, this Agreement shall terminate, in which event neither party shall have any rights, duties, or obligations hereunder other than the obligations and rights set forth herein that expressly survive the termination of this Agreement, and the Escrow Agent shall return the Deposit to Purchaser, or (iii) may waive the alleged default and proceed to Closing under this Agreement without adjustment of the Purchase Price. In no event shall Seller be liable for any consequential or punitive damages.

10.2 Seller Breach After Closing. If any of the Express Representations should be false in any material respect when made or Seller is in breach or default of any covenant, representation, or warranty under this Agreement or any document executed and delivered by Seller at Closing, and Purchaser shall first become aware of same after the Closing Date, then Purchaser shall give Seller written notice of such false Express Representation or breach or default prior to the expiration of the Survival Period and Seller shall have fifteen (15) Business Days from the date of receipt of such notice to cure such breach. If Seller fails to cure such breach within such fifteen (15) Business Day period, and the actual losses or damages sustained as a result of Seller's false Express Representations or breach or default exceeds Fifty Thousand Dollars (\$50,000), then Purchaser shall have the right to bring an action against Seller for the actual damages suffered by Purchaser due to such false Express Representation or breach or default, provided that, in no event shall Seller be liable to Purchaser for damages under this Section 10.2 in an aggregate amount in excess of [Twenty Three Million Ninety Thousand Six Hundred Forty Eight Dollars (\$23,090,648.00)].⁷ Notwithstanding anything to the contrary in this contained in Sections 10.1 or 10.2, Seller and Purchaser agree that the provisions of Sections 10.1 and 10.2 is not intended and should not be deemed or construed to limit in any way Seller's indemnity obligations under Section 11.2 of this Agreement nor limit Purchaser's recovery against Seller for attorneys' fees and costs incurred by Purchaser pursuant to Section 14.13.

10.3 Purchaser Default. THE PARTIES ACKNOWLEDGE AND AGREE THAT SELLER SHOULD BE ENTITLED TO COMPENSATION FOR ANY DETRIMENT SUFFERED IF PURCHASER FAILS TO CONSUMMATE THE PURCHASE OF THE PROPERTY IF AND WHEN REQUIRED TO DO SO UNDER THE TERMS OF THIS AGREEMENT, BUT AGREE THAT IT WOULD BE EXTREMELY DIFFICULT TO ASCERTAIN THE EXTENT OF THE ACTUAL DETRIMENT SELLER WOULD SUFFER AS A RESULT OF SUCH FAILURE. CONSEQUENTLY, IF PURCHASER FAILS TO CONSUMMATE THE PURCHASE OF THE PROPERTY ON THE CLOSING DATE OR FAILS TO PERFORM ANY OF ITS OTHER COVENANTS HEREUNDER IN ANY MATERIAL RESPECT, OR OTHERWISE FAILS TO PERFORM ITS OBLIGATIONS HEREUNDER WITHOUT LEGAL EXCUSE, THEN SELLER SHALL BE ENTITLED TO TERMINATE THIS AGREEMENT BY GIVING WRITTEN NOTICE THEREOF TO PURCHASER AND ESCROW AGENT PRIOR TO OR ON THE CLOSING DATE (SUBJECT TO PURCHASER'S RIGHTS IN SECTION 7.3.1), IN WHICH EVENT THE DEPOSIT SHALL BE PAID TO SELLER AS FIXED, AGREED, AND LIQUIDATED DAMAGES (AND NOT AS A PENALTY), AND, AFTER THE PAYMENT OF THE DEPOSIT TO SELLER, NEITHER SELLER NOR PURCHASER WILL HAVE ANY FURTHER RIGHTS OR OBLIGATIONS UNDER THIS AGREEMENT, EXCEPT FOR ANY OBLIGATIONS THAT EXPRESSLY SURVIVE TERMINATION. NOTWITHSTANDING ANYTHING TO THE CONTRARY

⁷ This term varied to reflect the specifics for the property covered by each respective agreement. The dollar amount shown here reflects the aggregate amount across all agreements.

CONTAINED IN THIS SECTION 10.3, SELLER AND PURCHASER AGREE THAT THIS LIQUIDATED DAMAGES PROVISION IS NOT INTENDED AND SHOULD NOT BE DEEMED OR CONSTRUED TO LIMIT IN ANY WAY PURCHASER'S INDEMNITY OBLIGATIONS UNDER SECTION 11.2 OF THIS AGREEMENT NOR LIMIT SELLER'S RECOVERY AGAINST PURCHASER FOR ATTORNEYS' FEES AND COSTS INCURRED BY SELLER PURSUANT TO SECTION 14.13. IN NO EVENT SHALL PURCHASER BE LIABLE FOR ANY CONSEQUENTIAL OR PUNITIVE DAMAGES.

Seller's Initials: _____

Purchaser's Initials: _____

10.4 Delivery of Materials. Notwithstanding anything contained in this Agreement to the contrary, if this Agreement is terminated for any reason whatsoever, then Purchaser shall promptly deliver to Seller any and all test results and studies of the Property performed by or on behalf of Purchaser pursuant to Article 4 of this Agreement, excluding any confidential or proprietary information or financial modeling or attorney work product. The obligations of Purchaser under this Section 10.4 shall survive any termination of this Agreement.

All the provisions of this Article 10 shall survive Closing or other termination of this Agreement.

ARTICLE 11 BROKERAGE COMMISSION.

11.1 Brokers. Seller represents and warrants to Purchaser that Seller has not contacted or entered into any agreement with any real estate broker, agent, finder, or similar party in connection with this transaction, except for CBRE, Inc. ("**Seller's Broker**") and that Seller has not taken any action which would result in any real estate broker's or finder's fees or commissions being due and payable to any party other than Seller's Broker with respect to the transactions contemplated hereby. Seller will be solely responsible for the payment of Seller's Broker's commission in accordance with the provisions of a separate agreement between Seller and Seller's Broker. Purchaser hereby represents and warrants to Seller that Purchaser has not contracted or entered into any agreement with any real estate broker, agent, finder, or similar party in connection with this transaction and that Purchaser has not taken any action that would result in any real estate brokerage or finder's fees or commissions being due or payable to any party for the transaction contemplated hereby.

11.2 Indemnity. Each party hereby indemnifies and agrees to hold the other party harmless from any loss, liability, damage, cost, or expense (including, without limitation, reasonable attorneys' fees) paid or incurred by the other party by reason of a breach of the representation and warranty made by such party under this Article 11. Notwithstanding anything to the contrary contained in this Agreement, the indemnities set forth in this Section 11.2 shall survive the Closing or earlier termination of this Agreement.

ARTICLE 12
NOTICES

12.1 Written Notice. All notices, demands and requests that may be given or that are required to be given by either party to the other party under this Agreement must be in writing.

12.2 Method of Transmittal. All notices, demands, requests or other communications required or permitted to be given hereunder must be sent (i) by United States certified mail, postage fully prepaid, return receipt requested, (ii) by hand delivery, or (iii) by FedEx or a similar internationally recognized overnight courier service. All such notices, demands, requests, or other communications shall be deemed to have been given for all purposes of this Agreement upon the date of receipt or refusal, except that whenever under this Agreement a notice is either received on a day that is not a Business Day or is required to be delivered on or before a specific day that is not a Business Day, the day of receipt or required delivery shall automatically be extended to the next Business Day.

12.3 Addresses. The addresses for proper notice under this Agreement are as follows:

As to Seller:

[VARIES] LLC
c/o Vulcan Inc.
505 Fifth Avenue South, Suite 900
Seattle, WA 98104-3821
Attention: _____
Facsimile: _____
Email: _____

With concurrent copies to:

Foster Pepper PLLC
1111 Third Avenue, Suite 3400
Seattle, Washington 98101
Attention: _____
Facsimile: _____
Email: _____

As to Purchaser:

Acorn Development LLC
c/o Amazon.com, Inc.
410 Terry Avenue North
Seattle, Washington 98109-5210
Attention: _____
Facsimile: _____
Email: _____

With concurrent copies to:

Acorn Development LLC
c/o Amazon.com, Inc.
410 Terry Avenue North
Seattle, Washington 98109-5210
Attention: _____
Facsimile: _____
Email: _____

And to
Van Ness Feldman GordonDerr
Millennium Tower
719 Second Avenue, Suite 1150
Seattle, Washington 98104
Attention: _____
Facsimile: _____
Email: _____

As to Escrow Agent:

First American Title Insurance Company
818 Stewart Street, Suite 800
Seattle, Washington 98101
Attention: _____
Facsimile: _____
Email: _____

Either party may from time to time by written notice to the other party designate a different address or addresses for notices. Notices sent to or from an address outside of the continental United States shall be sent only by one of the methods specified in clauses (ii), or (iii) of this Section 12.3. Notices given on behalf of a party by its attorneys in the manner provided for in this Article 12 shall be considered validly given.

ARTICLE 13 ASSIGNMENT

13.1 Assignment. Except for an assignment by Purchaser as permitted pursuant to this Article, neither party shall have the right to assign this Agreement without the prior written consent of the other, which consent may be granted or withheld in the sole and absolute subjective discretion of the party whose consent has been requested; provided, however, that Purchaser shall have the right to assign its interest in this Agreement and delegate its duties to an affiliate, so long as such affiliate controls, is controlled by, or is under common control with Purchaser, and provided that (a) such affiliate shall assume, in writing (by execution of an assignment and assumption of this Agreement in the form attached hereto as Exhibit P, all of Purchaser's obligations under this Agreement, and (b) Purchaser shall be released of all obligations under this Agreement. If Purchaser so assigns this Agreement to an affiliate, Purchaser shall, at least five (5) Business Days prior to the Closing Date, give the Seller written notice of such assignment, together with a copy of the assignment and assumption agreement executed by Purchaser and the assignee.

ARTICLE 14
MISCELLANEOUS

14.1 Entire Agreement. This Agreement embodies the entire agreement between the parties and cannot be varied except by the written agreement of the parties and supersedes all prior agreements and undertakings. The provisions of this Section 14.1 shall survive Closing.

14.2 Modifications. This Agreement may not be modified except by the written agreement of the parties.

14.3 Gender and Number. Words of any gender used in this Agreement will be construed to include any other gender and words in the singular number will be construed to include the plural, and vice versa, unless the context requires otherwise.

14.4 Captions. The captions used in connection with the Articles, Sections and Subsections of this Agreement are for convenience only and will not be deemed to expand or limit the meaning of the language of this Agreement.

14.5 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The provisions of this Section 14.5 shall survive Closing.

14.6 Controlling Law; Submission to Jurisdiction. This Agreement will be construed under, governed by and enforced in accordance with the laws of the State of Washington (without reference to conflicts of laws principles). Any claim, action, suit, or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby shall be brought only in Seattle, Washington, and each of the parties hereto hereby consents to the jurisdiction of such court (and of the appropriate appellate courts therefrom in any such claim, action, suit, or proceeding) and irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any such claim, action, suit, or proceeding in any such court or that any such claim, action, suit, or proceeding that is brought in any such court has been brought in an inconvenient forum. Subject to applicable law, process in any such claim, action, suit, or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any such court, and such service shall be made by personal service made on such party or by mail sent to such party at the address set forth in this Agreement. Personal service may be made on such party's resident agent. The provisions of this Section 14.6 shall survive Closing or other termination of this Agreement.

14.7 Exhibits. All exhibits, attachments, schedules annexed instruments and addenda referred to herein will be considered a part hereof for all purposes with the same force and effect as if set forth verbatim herein.

14.8 No Rule of Construction. Seller and Purchaser have each been represented by counsel in the negotiations and preparation of this Agreement; therefore, this Agreement will be deemed to be drafted by both Seller and Purchaser, and no rule of construction will be invoked respecting the authorship of this Agreement. The provisions of this Section 14.8 shall survive Closing or other termination of this Agreement.

14.9 Severability. If any one or more of the provisions contained in this Agreement (except the provisions relating to Seller's obligations to convey the Property and Purchaser's obligation to pay the Purchase Price, the invalidity of either of which shall cause this Agreement to be null and void) are held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability will not affect any other provisions hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had not been contained herein; provided, however, that the parties hereto shall endeavor in good faith to rewrite the affected provision to make it (i) valid, and (ii) consistent with the intent of the original provision. The provisions of this Section 14.9 shall survive Closing or other termination of this Agreement.

14.10 Time of Essence. Time is important to both Seller and Purchaser in the performance of this Agreement, and both parties have agreed that TIME IS OF THE ESSENCE with respect to any date set out in this Agreement. The provisions of this Section 14.10 shall survive Closing or other termination of this Agreement.

14.11 Business Days. "Business Day" means any day on which business is generally transacted by banks in Washington. If the final date of any period that is set out in any paragraph of this Agreement falls upon a day that is not a Business Day, then, and in such event, the time of such period will be extended to the next Business Day.

14.12 No Memorandum. Purchaser and Seller agree not to record this Agreement or any memorandum hereof.

14.13 Attorneys' Fees and Costs. If either party is required to resort to litigation to enforce its rights under this Agreement, the prevailing party in such litigation will be entitled to collect from the other party all costs, expenses and reasonable attorneys' fees incurred in connection with such action. The provisions of this Section 14.13 shall survive Closing or other termination of this Agreement.

14.14 Counterparts and Acceptance of Offer. This Agreement may be executed in multiple counterparts (which counterparts may be executed by facsimile or PDF) that shall together constitute a single document. However, this Agreement shall not be effective unless and until all counterpart signatures have been obtained. An unsigned draft of this Agreement shall not be considered an offer by either party. Acceptance, for purposes hereof, shall mean that each party is in physical possession of a fully-signed counterpart copy or original of this Agreement.

14.15 Waiver of Jury Trial. TO THE EXTENT ENFORCEABLE UNDER WASHINGTON LAW, EACH PARTY HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM BROUGHT BY EITHER PARTY IN CONNECTION WITH ANY MATTER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, THE RELATIONSHIP OF SELLER AND PURCHASER HEREUNDER, SELLER'S OR PURCHASER'S OWNERSHIP OR USE OF THE PROPERTY, AND/OR ANY CLAIMS OF INJURY OR DAMAGE RELATED TO THE PROPERTY. The provisions of this Section 14.15 shall survive Closing or other termination of this Agreement.

14.16 Confidentiality. Except as provided in this Section 14.16 or as may be otherwise agreed by Seller and Purchaser in writing, neither Seller nor Purchaser will issue any press release, or make any other announcement or statement to any news media, of any Confidential Information (defined below) regarding the other, and each party shall instruct their brokers and consultants not to issue or make any such press release, announcement or statement. The parties agree to keep confidential and not disclose Confidential Information to third parties (other than affiliates and third parties that need to know such information for purposes directly related to this Agreement and that agree to the confidentiality obligations described in this Section 14.16 with respect to this information). As used herein, “**Confidential Information**” means (a) with respect to Purchaser, any non-public information about the existence, parties and terms and conditions of this Agreement, together with any non-public information about Purchaser, any Purchaser affiliate, or the business of any of them, that is acquired by Seller as a result of the negotiation, execution, administration or existence of this Agreement; and (b) with respect to Seller, any non-public information about the existence, parties and terms and conditions of this Agreement, together with any non-public information about Seller’s business that is acquired by Purchaser from Seller or Seller’s agents, employees or contractors as a result of the negotiation, execution or existence of this Agreement. Notwithstanding anything herein to the contrary, (y) each of Seller and Purchaser shall have the right to make such disclosures as may be required by securities or other laws, provided that prior to disclosing any Confidential Information as required by law, the party required to so disclose shall provide the other party with reasonable advance written notice of the required disclosure, including the Confidential Information that is to be disclosed and a description of a law that requires such disclosure to be made, and (z) except for the Effective Date Disclosure and the Closing Date Statement (each as defined below), or as may be otherwise agreed by Seller and Purchaser in writing, neither Seller nor Purchaser will issue any press release regarding the other party or its affiliates, whether or not such reference is public information or Confidential Information, and each party shall instruct their brokers and consultants not to issue any such press release.

Upon the Effective Date, Seller shall have the right to make limited disclosures regarding the sale of the Property in accordance with the provisions of Exhibit I attached hereto (the “**Effective Date Disclosure**”). Information contained in such Effective Date Statement shall thereafter be public information. Upon the Closing Date, Purchaser and Seller shall release a public statement announcing that the sale has closed in accordance with the provisions of Exhibit K attached hereto (the “**Closing Date Statement**”). Information contained in such Closing Date Statement shall thereafter be public information. The provisions of this Section 14.16 shall survive Closing or other termination of this Agreement.

14.17 No Merger. The obligations, representations, warranties that expressly survive Closing, and the remedies for breach thereof herein contained in this Agreement, shall not merge with transfer of title but shall remain in effect until fulfilled.

14.18 Alley Vacation. [Applicable to Phase IA, III and IV only]⁸

14.18.1 Seller represents and warrants that:

(a) The project developed on the Phase [VARIES] site was granted Conditional City Council approval for vacation of the mid-block alley on that site on [DATE VARIES], under Council File No. [VARIES] (the “**Conditional Approval**”).

14.18.1.2 The Property Use and Development Agreement (PUDA), committing the property owner to maintain certain public benefits as described in that PUDA for the life of the project, was approved by the City of Seattle and recorded [VARIES], under King County Recording Number [VARIES].

14.18.1.3 All conditions of the Conditional Approval have been met to the satisfaction of the City, and all costs and fees associated with the alley vacation have been paid.

14.18.2 Pre Closing Obligations:

14.18.2.1 Seller shall use commercially reasonable efforts to obtain an ordinance from the City of Seattle confirming that the conditions to the Conditional Approval have been met and that the alley has been vacated (the “**Final Ordinance**”). Seller shall use commercially reasonable efforts to obtain the Final Ordinance at the soonest possible date. Seller shall pay all costs associated with obtaining the Final Ordinance. If the Final Ordinance requires any additional fees, payments, capital expenditures, costs or expenses of any kind, Seller shall pay all such costs and expenses other than any additional ongoing maintenance or operational expenditures required with respect to the Project, which Purchaser shall pay.

14.18.2.2 Seller shall use commercially reasonable efforts to obtain from the City of Seattle a letter confirming that Seller has met the conditions of the Conditional Approval and that Seller has paid all fees and costs associated with the alley vacation.

14.18.3 Post-Closing Alley Obligations (“Alley Obligations”):

14.18.3.1 If Seller has not obtained the Final Ordinance prior to Closing, Seller shall obtain the Final Ordinance at the soonest possible date. Seller shall pay all costs associated with obtaining the Final Ordinance. If the Final Ordinance requires any additional fees, payments, capital expenditures, costs or expenses of any kind, Seller shall pay all such costs and expenses other than any additional ongoing maintenance or operational expenditures required with respect to the Project, which Purchaser shall pay.

⁸ These provisions were not included in every agreement but only as applicable to property covered by a particular agreement.

14.18.3.2 If Seller does not obtain the Final Ordinance on or before the date that is one year after Closing, Seller shall pay to Purchaser within thirty (30) days of such date \$100,000, and Purchaser shall thereafter have the right to obtain the Final Ordinance. If Purchaser seeks to obtain the Final Ordinance, Seller shall pay all third party costs incurred by Purchaser associated with obtaining the Final Ordinance. If the Final Ordinance requires any additional fees, payments, capital expenditures, costs or expenses of any kind, Seller shall pay all such costs and expenses other than any additional ongoing maintenance or operational expenditures required with respect to the Project, which Purchaser shall pay.

14.18.4 Enforcement:

14.18.4.1 The representations and warranties contained in this Section are not subject to the Survival Period limitation in Section 5.4 of this Agreement nor shall the damages limitation amount contained in Section 10.2 be applicable with regard to Seller's breach or default of the covenants contained in this Section. The provisions of this Section 14.18 shall survive Closing.

14.18.4.2 Seller's Alley Obligations under this Section shall be secured by that certain Post Closing Obligations Guaranty by City Investors LLC in the form attached hereto as Exhibit M.

14.19 Further Assurances and Access to Books and Records. Purchaser and Seller each agree, upon the request of the other party from time to time before and after the Closing Date, to do, execute, acknowledge and deliver such other acts, consents, instruments, documents and other assurances as may be reasonably necessary to carry out and perform the transactions contemplated by this Agreement. Notwithstanding anything to the contrary contained in this Agreement, on and after the Closing, Seller shall provide Purchaser and its representatives with reasonable access to books and records not previously delivered to Purchaser as may be reasonably requested by Purchaser from time to time. The provisions of this Section 14.19 shall survive Closing.

14.20 Non-Transferable Warranties. Seller agrees to use good faith commercially reasonable efforts to request and obtain the assignment or other transfer of all construction and equipment warranties for the Property to Purchaser—even those that may be non-transferable by their terms. Purchaser shall fully cooperate with Seller's efforts to do so. In the event any such warranties cannot be assigned or otherwise transferred to Purchaser, Seller agrees it shall continue to be the owner of such non-transferrable warranties and Seller will exercise such enforcement rights as it may retain on Purchaser's behalf at Purchaser's request, direction and cost and expense.

IN WITNESS WHEREOF, the parties have executed this Purchase and Sale Agreement as of the dates set forth below.

SELLER:

[VARIES] LLC,
a Washington limited liability company

By: _____

By: City Investors LLC, a Washington limited liability
company, its Manager

By: _____

Name: _____

Title: _____

Date: _____

PURCHASER:

ACORN DEVELOPMENT LLC,
a Delaware limited liability company

By: _____

Name: _____

Title: _____

Date: _____

SCHEDULES AND EXHIBITS*

Schedules

Schedule 1.3	–	Hard Personal Property
Schedule 1.4	–	Leases and Licenses
Schedule 1.5	–	Security Deposits
Schedule 1.6	–	Contracts
Schedule 1.10	–	Retained Liabilities
Schedule 5.1.3	–	Litigation
Schedule 5.1.7	–	Default under Leases or Licenses
Schedule 5.1.8	–	Violations of Law
Schedule 8.5.8(i)	–	Schedule of Seller's and Purchaser's Obligations
Schedule 8.5.8(ii)	–	Schedule of Seller's and Purchaser's Obligations

Exhibits

Exhibit A	–	Legal Description ⁹
Exhibit A-1	–	Purchase Price Calculation Provisions and Sample Calculations ¹⁰
Exhibit B	–	Rent Roll ⁹
Exhibit C	–	Form of Tenant Estoppel ⁹
Exhibit C-1	–	Form of Landlord Estoppel ⁹
Exhibit D	–	Form of Statutory Warranty Deed
Exhibit E	–	Form of Bill of Sale
Exhibit F-1	–	Form of Assignment and Assumption with respect to the Leases and Licenses
Exhibit F-2	–	Form of Assignment and Assumption with respect to Contracts
Exhibit G	–	Form of Certificate of Non-Foreign Status
Exhibit H	–	Form of Tenant Notification Letter
Exhibit I	–	Form of Effective Date Disclosure
Exhibit J	–	Intentionally Omitted
Exhibit K	–	Form of Closing Date Statement
Exhibit L	–	Form of Limited Guaranty
Exhibit M	–	Form of Post-Closing Obligations Guaranty ¹⁰
Exhibit M-1	–	Work to be Completed ¹⁰
Exhibit N	–	Form of Retail Lease ¹⁰
Exhibit O	–	Map of Other Phases ⁹
Exhibit P	–	Form of Assignment and Assumption of Purchase Agreement

* The schedules and certain exhibits to the Form of Purchase and Sale Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K because such schedules and exhibits do not contain information which is material to an investment decision or which is not otherwise disclosed in the relevant document. The Company hereby agrees to furnish supplementally a copy of any such omitted schedule or exhibit to the Securities and Exchange Commission upon request.

⁹ This term varied to reflect the specifics for the property covered by each respective agreement.

¹⁰ These provisions were not included in every agreement but only as applicable to property covered by a particular agreement.

SCHEDULES
TO PURCHASE AND SALE AGREEMENT
All Phases

[INTENTIONALLY OMITTED]

SCHEDULES OMITTED

EXHIBIT C-1

EXHIBIT D
TO PURCHASE AND SALE AGREEMENT
All Phases

Form of Statutory Warranty Deed
STATUTORY WARRANTY DEED
(_____)

Grantor: [VARIES] LLC, a Washington limited liability company

Grantee:

Abbreviated Legal Description: Complete legal description on Exhibit A

Assessor's Tax Parcel No.:

The Grantor, [VARIES] LLC, a Washington limited liability company, for good and valuable consideration in hand paid, the receipt and sufficiency of which are hereby acknowledged, conveys and warrants to _____, _____, the following described real estate, situated in the County of King, State of Washington:

The real property described on Exhibit A attached hereto, subject to the permitted exceptions described on Exhibit B attached hereto, together with all and singular the tenements, hereditaments and appurtenances thereunto belonging or in anywise appertaining.

DATED as of _____, 2012.

GRANTOR: [VARIES] LLC, a Washington limited liability company

By: City Investors LLC, a Washington limited liability company, its Manager

By: _____
Name: _____
Title: _____

EXHIBIT D

STATE OF WASHINGTON

COUNTY OF KING

ss.

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it as the _____ of City Investors LLC, the Manager of [VARIES] LLC, a Washington limited liability company, to be the free and voluntary act of such entity for the uses and purposes mentioned in the instrument.

Dated this _____ day of _____, 2012.

(Signature of Notary)

(Legibly Print or Stamp Name of Notary)

Notary public in and for the state of Washington, residing at

My appointment expires _____

EXHIBIT D

EXHIBIT D

EXHIBIT D

EXHIBIT E
TO PURCHASE AND SALE AGREEMENT
All Phases

Form of Bill of Sale

BILL OF SALE

(_____)

THIS BILL OF SALE is executed as of the _____ day of _____, 20__, by [VARIES] LLC, a Washington limited liability company ("Seller"), and _____, a _____ ("Purchaser").

FOR VALUE RECEIVED, receipt of which is hereby acknowledged, Seller does hereby assign, transfer, convey and set over unto Purchaser the right, title and interest in and to all fixtures, furniture, equipment, furnishings, and other personal property owned by Seller (the "Personal Property") located on that certain real property commonly known as the _____ located in Seattle, Washington, as more particularly described on Exhibit A attached hereto, including, without limitation, the Personal Property described on Exhibit B. The Seller represents and warrants that its title to the Personal Property is free and clear of liens, security interests mortgages, pledges, prior assignments, encumbrances and claims of any nature.

Seller does hereby covenant that it will forever warrant and defend the Personal Property against all persons whomsoever claiming by, through or under Seller and not otherwise. Seller shall execute such commercially reasonable confirmation instruments (including registration certificates) as reasonably requested by Purchaser to confirm or perfect the transfer of the Property. In all other respects, the Personal Property is being transferred in its "as is, where is" condition, and without representation or warranty, except as set forth in the Purchase and Sale Agreement between Seller and Purchaser dated _____, 2012.

This Bill of Sale shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Bill of Sale and the legal relations of the parties hereto shall be governed by and construed and enforced in accordance with the laws of the State of Washington, without regard to its principles of conflicts of law.

EXHIBIT E

IN WITNESS WHEREOF, Seller has executed and delivered this Bill of Sale as of the day and year first above written.

SELLER:

[VARIES] LLC, a Washington limited liability company

By: City Investors LLC, a Washington limited liability company, its Manager

By: _____

Name: _____

Title: _____

BUYER:

EXHIBIT E

EXHIBIT E

EXHIBIT E

EXHIBIT F-1
TO PURCHASE AND SALE AGREEMENT
All Phases

Form of Assignment and Assumption of Leases

**ASSIGNMENT AND ASSUMPTION WITH RESPECT TO THE
LEASES AND LICENSES**

(_____)

THIS ASSIGNMENT AND ASSUMPTION WITH RESPECT TO THE LEASES AND LICENSES (the "Assignment"), effective as of the day of _____, 2012, is made by and between [VARIES] LLC, a Washington limited liability company ("Assignor"), and _____, a ("Assignee"):

In consideration of the covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Property. The "Property" means the real property located in King County, Washington, commonly known as the _____, which is legally described in Exhibit A attached to this Assignment, together with the building, structures and other improvements located thereon.

2. Leases and Licenses. The "Leases and Licenses" means the leases and licenses affecting the Property, more particularly described in the certified rent roll attached to this Assignment as Exhibit B.

3. Security Deposits. "Security Deposits" means the refundable security deposits held by or for Assignor on account of certain tenants under the Leases and Licenses. The Security Deposits are also set forth in the certified rent roll attached to this Assignment as Exhibit B.

4. Letters of Credit. "Letters of Credit" means the letters of credit held by or for Assignor on account of certain tenants under the Leases and Licenses. The Letters of Credit are set forth in Exhibit C attached to this Assignment.

5. Assignment. Assignor hereby grants, transfers and assigns to Assignee the entire right, title and interest of Assignor in and to the Leases and Licenses, the Security Deposits and the Letters of Credit.

6. Assumption. Assignee hereby assumes the covenants, agreements and obligations of Assignor as landlord or lessor under the Leases and Licenses from and after the date hereof. Assignee further assumes all liability of Assignor for the proper refund or return of the Security Deposits and Letters of Credit if, when and as required by the Leases and Licenses. No person or entity, other than Assignor shall be deemed a beneficiary of the provisions of this Section 6.

EXHIBIT F-1

7. Indemnification. Assignee shall indemnify and hold Assignor harmless from and against all obligations of the “lessor” or the “landlord” and against any and all claims, damages, costs, liabilities, expenses and causes of action (including reasonable attorneys’ fees and costs) arising in connection with the Leases and Licenses arising from and after the date of this Assignment to the extent such claims and obligations were applicable to the period and required to be performed after the date of this Assignment. Assignor shall indemnify and hold Assignee harmless from and against all obligations of the “lessor” or the “landlord” and against any and all claims, damages, costs, liabilities, expenses and causes of action (including reasonable attorneys’ fees and costs) arising in connection with the Leases and Licenses prior to the date of this Assignment to the extent such claims and obligations were applicable to the period and required to be performed prior to the date of this Assignment.

8. Legal Expenses. If either party to this Assignment brings suit or otherwise becomes involved in any legal proceedings seeking to enforce the terms of this Assignment, or to recover damages for their breach, the prevailing party shall be entitled to recover its costs and expenses (including reasonable fees of attorneys, expert witnesses, accountants, court reporters and others) incurred in connection therewith including all such reasonable costs and expenses incurred in: (a) in trial and appellate court proceedings, (b) in connection with any and all counterclaims asserted by one party to this Assignment against another whether or not such counterclaims arise out of or are otherwise related to this Assignment, (c) in bankruptcy or other insolvency proceedings, and (d) in post-judgment collection proceedings.

9. Successors and Assigns. This Assignment shall be binding upon and inure to the benefit of Assignor and Assignee and their respective successors and assigns.

10. Power and Authority. Each party represents and warrants to the other that it is fully empowered and authorized to execute and deliver this Assignment, and the individual signing this Assignment on behalf of such party represents and warrants to the other party that he or she is fully empowered and authorized to do so.

11. Counterparts. This Assignment may be executed in several counterparts, each of which shall be deemed an original, but all of, which shall constitute one agreement, binding on all parties.

(signatures follow)

EXHIBIT F-1

IN WITNESS WHEREOF, Assignor and Assignee have executed and delivered this Assignment as of the dates set forth below.

ASSIGNOR:

[VARIES] LLC, a Washington limited liability company

By: City Investors LLC, a Washington limited liability company, its Manager

By: _____

Name: _____

Title: _____

Date: _____

ASSIGNEE:

EXHIBIT F-1

EXHIBIT F-1

EXHIBIT F-1

EXHIBIT F-1

EXHIBIT F-2
TO PURCHASE AND SALE AGREEMENT
All Phases

Form of Assignment and Assumption of Contracts, Permits and Intangibles

ASSIGNMENT AND ASSUMPTION AGREEMENT

(_____)

THIS ASSIGNMENT AND ASSUMPTION WITH RESPECT TO CONTRACTS, PERMITS AND INTANGIBLES (this "Assignment") is entered into as of the _____ day of _____, 2012, by and between [VARIES] LLC, a Washington limited liability company ("Assignor"), and _____, a ("Assignee"), who agree as follows:

RECITALS

A. Assignor, as "Seller", and Assignee, as "Purchaser", are parties to a Purchase and Sale Agreement dated as of September _____, 2012 (**Purchase Agreement**) for the purchase and sale of certain real property in the City of Seattle, Washington (the "**Property**"), which Property is more particularly described in Exhibit A attached hereto and incorporated herein by this reference.

B. Assignor is a party to those certain contracts identified on Exhibit B attached here to and incorporated herein by this reference, which contracts are related to the Property, and which Assignee has agreed to assume from and after the date of closing under the Purchase Agreement (collectively, the "**Contracts**").

C. Assignor has rights under certain licenses, permits, consents, authorizations, approvals, entitlements, registrations and certificates issued or granted by Governmental Authorities with respect to current use, occupancy, and operation of the Property and its existing Improvements ("**Permits**").

D. Assignor has rights under certain plans and specifications, blueprints, architectural plans, engineering diagrams and similar items located at the Property or in Assignor's Possession or Control which relate to the Property or existing Improvements ("**Plans and Specifications**").

E. Assignor has rights under certain warranties and guaranties with respect to the Improvements and Personal Property ("**Warranties**") including the Warranties set forth on Exhibit C attached here to and incorporated herein by this reference.

F. The Contracts, Permits, Plans and Specifications, Warranties, together with all other intangible assets of Assignor ("**Intangible Assets**") are collectively referred to herein as the "**Assigned Documents and Assets**").

EXHIBIT F-2

G. Concurrently herewith, Assignor is transferring and conveying to Assignee all of Assignor's right, title and interest in and to the Property, Leases and Licenses and other Personal Property pursuant to the Purchase Agreement. In connection with such conveyance, Assignor desires to assign to Assignee, and Assignee desires to take assignment of and assume, all of the right, title and interest of Assignor in and to the Assigned Documents and Assets as more particularly set forth herein. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Purchase Agreement.

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are acknowledged, Assignor and Assignee agree as follows:

AGREEMENT

1. **Assignment.** Assignor hereby grants, transfers and assigns to Assignee the entire right, title and interest of Assignor in and to the Assigned Documents and Assets.

2. **Assumption.** Assignee hereby assumes the covenants, agreements and obligations of Assignor under the Assigned Documents and Assets from and after the date hereof. No person or entity other than Assignor shall be deemed a beneficiary of the provisions of this Section 2.

3. **Further Assurances.** Assignor will, at any time and from time to time upon written request therefor, and without incurring any additional costs, expenses or liabilities, execute and deliver to Assignee, Assignee's successors, nominees or assigns such documents as Assignee or they may reasonably request in order to fully assign and transfer to and vest in Assignee or Assignee's successors, nominees and assigns and protect Assignee or Assignee's successors', nominees' and assigns' rights under and interest in all of the Assigned Documents and Assets, or to enable Assignee or Assignee's successors, nominees and assigns to realize upon or otherwise enjoy such rights and property.

6. **Indemnification.** Assignee shall indemnify and hold harmless Assignor from and against all obligations assumed by the Assignee and against any and all claims, damages, costs, liabilities, expenses and causes of action (including reasonable attorneys' fees and costs) arising in connection with the Contracts to the extent such claims and obligations were applicable to the period and required to be performed from and after the date of this Assignment. Assignor shall indemnify and hold harmless Assignee from and against all obligations under the Contracts and against any and all claims, damages, costs, liabilities, expenses and causes of action (including reasonable attorneys' fees and costs) arising in connection with the Contracts to the extent such obligations were applicable to the period and required to be performed prior to the date of this Assignment.

7. **Legal Expenses.** If either party to this Assignment brings suit or otherwise becomes involved in any legal proceedings seeking to enforce the terms of this Assignment, or to recover damages for their breach, the prevailing party shall be entitled to recover its costs and expenses (including reasonable fees of attorneys, expert witnesses, accountants, court reporters and others) incurred in connection therewith including all such reasonable costs and expenses incurred: (a) in trial and appellate court proceedings, (b) in connection with any and all counterclaims asserted by one party to this Assignment against another whether or not such counterclaims arise out of or are otherwise related to this Assignment, (c) in bankruptcy or other insolvency proceedings, and (d) in post-judgment collection proceedings.

8. Successors and Assigns. This Assignment shall be binding upon and inure to the benefit of Assignor and Assignee and their respective successors and assigns.

9. Power and Authority. Each party represents and warrants to the other that it is fully empowered and authorized to execute and deliver this Assignment, and the individual signing this Assignment on behalf of such party represents and warrants to the other party that he or she is fully empowered and authorized to do so.

10. Counterparts. This Assignment may be executed in several counterparts, each of which shall be deemed an original, but all of, which shall constitute one agreement, binding on all parties.

(Signatures follow)

EXHIBIT F-2

IN WITNESS WHEREOF, Assignor and Assignee have executed and delivered this Assignment as of the dates set forth below.

ASSIGNOR:

[VARIES] LLC, a Washington limited liability company

By: City Investors LLC, a Washington limited liability company, its Manager

By: _____
Name: _____
Title: _____
Date: _____

ASSIGNEE:

EXHIBIT F-2

EXHIBIT F-2

EXHIBIT F-2

EXHIBIT F-2

EXHIBIT G
TO PURCHASE AND SALE AGREEMENT
All Phases

Form of Certificate of Non-Foreign Status

CERTIFICATE OF NON-FOREIGN STATUS

Section 1445 of the Internal Revenue Code provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. To inform the transferee that withholding of tax is not required upon the disposition of a U.S. real property interest by the undersigned Seller, the undersigned hereby certifies the following:

1. Seller is not a foreign person, foreign corporation, foreign partnership, foreign trust, or foreign estate (as those items are defined in the Internal Revenue Code and Income Tax Regulations);
2. Seller is not a disregarded entity as defined in Treasury Regulation §1.1445-2(b)(2)(iii);
3. Seller's Taxpayer Identification Number is: _____
4. Seller's office address is:
c/o Vulcan Inc.
505 Fifth Avenue South, Suite 900
Seattle, WA 98104-3821

The undersigned understands that this certification may be disclosed to the Internal Revenue Service by transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalties of perjury, the undersigned declares that it has examined this certification and to the best of its knowledge and belief it is true, correct and complete.

DATED as of _____, 2012.

SELLER:

[VARIES] LLC, a Washington limited liability company

By: City Investors LLC, a Washington limited liability company, its Manager

By: _____
Name: _____
Title: _____

EXHIBIT G

EXHIBIT H
TO PURCHASE AND SALE AGREEMENT
All Phases

Form of Tenant Notification Letter

TENANT NOTIFICATION LETTER

_____, 2012

VIA OVERNIGHT COURIER AND HAND DELIVERED

TO: _____ (“**Tenant**”)

RE: _____
Notification Regarding Change of Ownership

This letter is to notify you as a Tenant at _____, Seattle, Washington 98101 (the “**Property**”), that the Property has been sold by [VARIES] LLC (“**Seller**”), (“**Purchaser**”). As of the date hereof, your Lease has been assigned by Seller to Purchaser. From the date of this letter until further notice, any and all unpaid rent as well as all future rent, or any other amounts due under the terms of your Lease, shall be paid and directed to Purchaser, as follows:

TO: _____
ATTN: _____
AT: _____

Please note that you will receive additional correspondence from Purchaser containing contact information with respect to the management and operation of the Property within the next few days.

As part of the sale, all refundable tenant deposits, if any, actually held by Seller with respect to the Property have been transferred to, and Seller’s obligations with respect to such deposits have been assumed by, Purchaser as of the date of this letter. Any and all payments of rent (or other sums due under your Lease) hereafter paid to any party other than Purchaser shall not relieve you of the obligation of making said payment to Purchaser.

[The balance of this page is intentionally left blank]

EXHIBIT H

[SIGNATURE PAGE TO TENANT NOTIFICATION LETTER]

SELLER:

[VARIES] LLC, a Washington limited liability company

By: City Investors LLC, a Washington limited liability company, its Manager

By: _____

Name: _____

Title: _____

PURCHASER:

EXHIBIT H

EXHIBIT I

EXHIBIT K

EXHIBIT L
TO PURCHASE AND SALE AGREEMENT
All Phases

Form of Limited Guaranty

LIMITED GUARANTY

(Phase __)

This Limited Guaranty (this “**Guaranty**”), dated for reference purposes the _____ day of December, 2012, is by and between City Investors LLC, a Washington limited liability company (“**Guarantor**”), whose address is 505 Union Station, 505 Fifth Avenue South, Suite 900, Seattle, Washington 98104, and Acorn Development LLC, a Delaware limited liability company (“**Purchaser**”), whose address is 410 Terry Avenue North, Seattle, WA 98109-5210 (Attention: General Counsel and Real Estate Manager).

RECITALS

A. [VARIES] LLC, a Washington limited liability company (“**Seller**”), as Seller, and Purchaser, as Purchaser, are simultaneously herewith entering into that certain Purchase and Sale Agreement (Amazon Phase [_____]) of even date herewith (the “**Purchase Agreement**”), pursuant to which Seller has agreed to sell to Purchaser and Purchaser has agreed to buy from Seller, the Property, as defined in the Purchase Agreement, located in Seattle, Washington, all on the terms and conditions set forth in the Purchase Agreement. Capitalized terms used but not defined in this Guaranty have the meanings given in the Purchase Agreement.

B. Guarantor is an indirect owner of Seller and will benefit from the closing of the transaction contemplated by the Purchase Agreement.

C. As a condition to Purchaser’s execution of the Purchase Agreement, Purchaser is requiring that Guarantor execute this Guaranty pursuant to which Guarantor guarantees certain obligations of Seller under the Purchase Agreement and under any document executed and delivered by Seller at Closing.

NOW, THEREFORE, for and in consideration of Purchaser’s execution and delivery of the Purchase Agreement, and other good and valuable consideration, the receipt and sufficiency of which are acknowledged by Guarantor, Guarantor hereby agrees as follows:

1. Guarantor irrevocably guarantees, without deduction by reason of set-off, defense (except as otherwise expressly provided herein) or counterclaim, the full, punctual, and complete payment and performance of (a) all post closing obligations of Seller to Purchaser under the Purchase Agreement and under any document executed and delivered by Seller at Closing (including, without limitation, the performance of all Retained Liabilities except as provided below, Seller’s obligations under Section 8.5 of the Purchase Agreement (including all subsections of Section 8.5), liability for breach of Express Representations, and indemnification obligations under any document executed and delivered by Seller at Closing) subject to the

EXHIBIT L

limitations set forth in Section 10.2 of the Purchase Agreement, plus (b) one hundred percent (100%) of reasonable costs and expenses of collection incurred by Purchaser in enforcing its rights and remedies under this Guaranty as described in Section 8 below. The parties acknowledge that this Guaranty does not apply to the [Alley Obligations—Ia, III, and IV, the TI Obligations – III, the Easement Obligations – II, III, and the Completion Obligations – V], which are subject to a separate Post Closing Obligations Guaranty of even date herewith given by Guarantor for the benefit of Purchaser.

Notwithstanding any provision of this Guaranty, Guarantor's liability hereunder shall be limited to the payments and performance required to be made by Seller to Purchaser under the Purchase Agreement and under any document executed and delivered by Seller at Closing, subject to the limitations in Section 10.2 of the Purchase Agreement (which shall not exceed \$ _____), plus the amounts described in Section 8 below.

2. Except as expressly provided by this Guaranty, Guarantor hereby waives presentment, protest, notice of default, demand for payment and all other suretyship defenses whatsoever with respect to any obligation guaranteed under this Guaranty.

3. If Seller fails to make any payment to Purchaser or perform any obligation required under the Purchase Agreement (subject to the limitations set forth in Section 10.2 of the Purchase Agreement), Purchaser shall be entitled to make demand upon Guarantor for such payment or performance (hereinafter referred to as a "**Demand**"). Any Demand shall be in writing and shall state the amount Seller has failed to pay or the obligation Seller has failed to perform, shall contain a brief explanation of why such payment or performance is due, and a specific statement that Purchaser is calling upon Guarantor to pay such amount or perform such obligation under this Guaranty. Guarantor agrees to pay Purchaser amounts owing by Seller pursuant to the Purchase Agreement or perform obligations of Seller within ten (10) days of receipt of a Demand therefor, and to pay to Purchaser any other amounts owing hereunder within ten (10) days of demand therefor. In no event shall Guarantor's liability under this Guaranty exceed Seller's liability under the Purchase Agreement, as limited by Section 10.2, plus all other amounts described in Section 8 of this Guaranty.

4. Guarantor represents and warrants to Purchaser that:

(a) it is a limited liability company duly organized and validly existing under the laws of the State of Washington and has the corporate power and authority to execute, deliver and carry out the terms and provisions of this Guaranty; and

(b) no authorization, approval, consent or order of, or registration or filing with, any court or other governmental body having jurisdiction over Guarantor is required on the part of Guarantor for the execution and delivery of this Guaranty.

5. In the event Guarantor fails to make any payment to Purchaser or perform any obligation when required under this Guaranty, Purchaser may commence suit against Guarantor and/or exercise any available remedy at law or equity to enforce the provisions of this Guaranty without first commencing any suit or otherwise proceeding against Seller or exhausting its remedies against Seller. This is a guaranty of payment and performance and not a guaranty of collection.

EXHIBIT L

6. This Guaranty is of a continuing nature and shall remain in full force and effect until all the terms, covenants, conditions, and agreements in this Guaranty are performed and until the later of the end of the Survival Period under the Purchase Agreement or the date upon which any alleged breach or default by Seller for which Purchaser gives notice prior to the expiration of the Survival Period pursuant to Sections 5.4 and 10.2 of the Purchase Agreement is resolved and any liability of Seller to Purchaser is satisfied (the later of which date shall be the “ **Guaranty Termination Date**”). Notwithstanding any other provision of this Guaranty to the contrary, if any payment made by Seller in satisfaction of any obligation of Seller under the Purchase Agreement is returned by Purchaser as a result of court order or directive or requirement of law, in connection with any bankruptcy, insolvency, reorganization, or receivership proceeding, or other similar proceeding, that obligation shall, for purposes of this Guaranty, be deemed to continue in existence to the extent of the payment returned as if the payment had never been made. Upon the Guaranty Termination Date, Purchaser shall execute a Termination and Release of Guarantee in a commercially reasonable form.

7. Intentionally Omitted.

8. If Purchaser takes any action (including, but not limited to, actions that are not the initiation of or participation in a proceeding) or participates in any proceeding to enforce this Guaranty, or to protect Purchaser's rights hereunder (including, but not limited to, bankruptcy, appellate, and post-judgment proceedings), or shall be made a party to any action or proceeding arising out of this Guaranty, whether or not such action or proceeding is commenced prior to or after expiration or termination this Guaranty, the substantially prevailing party in such proceeding shall be entitled to recover from the other party all reasonable costs and expenses, including reasonable attorneys' fees, incurred or expended in connection therewith (whether or not incurred or expended prior to such action or proceeding). Further, a party shall be entitled to recover such reasonable costs, expenses and fees even if no formal action or proceeding is commenced.

9. Any act of Purchaser, or its successors or assigns, consisting of a waiver of any of the terms or conditions of the Purchase Agreement, or the giving of any consent to any manner or thing relating thereto, or the granting of any indulgences, renewals, extensions of time, releases, and discharges to Seller or any other guarantor, or the taking or releasing of any security for payment and performance of the Seller's obligations under the Purchase Agreement, or the refraining from perfecting any interest in any security granted in connection with the Purchase Agreement or any other guarantee, may be done without notice to or consent from Guarantor and without releasing Guarantor from any of its obligations hereunder.

10. The obligations of Guarantor hereunder shall not be released by Purchaser's receipt, application, release or impairment of any security or other collateral given for the performance and observance of any covenant or condition in the Purchase Agreement contained on Seller's part to be performed or observed, nor by any modification thereof, nor any release or discharge of any other guarantor, regardless of whether Guarantor consents thereto or receives notice thereof.

EXHIBIT L

11. Guarantor shall be entitled to all defenses that Seller may have to its obligations under the Purchase Agreement that are guaranteed by this Guaranty, except that the liability of Guarantor hereunder shall in no way be affected by (a) the release or discharge of Seller in any receivership, bankruptcy or other similar proceeding; (b) the impairment, limitation or modification of any liability to Purchaser of Seller or the estate of Seller in bankruptcy, or the impairment, limitation or modification of any remedy for the enforcement of Seller's liability under the Purchase Agreement resulting from the operation of any present or future provision of federal or state bankruptcy or insolvency laws; (c) the rejection or disaffirmance of the Purchase Agreement in any bankruptcy, insolvency, or similar proceeding; (d) the assignment, transfer, or encumbrance of all or any portion of the Seller's interest in the Purchase Agreement; or (e) any extension, renewal, amendment, expansion, or termination of the Purchase Agreement. Guarantor hereby waives notice of the acceptance of this Guaranty, notice of any event of default under the Purchase Agreement, opportunity to cure any event of default under the Purchase Agreement, and proof of notice or demand to Seller relating to any event of default. For so long as this Guaranty remains in effect, Guarantor hereby further waives any and all defenses based upon rights of subrogation, reimbursement, indemnification or contribution with respect to Seller that are or may become available to it.

12. Guarantor further agrees that it may be joined in any action against Seller in connection with the obligations of Seller under the Purchase Agreement that are guaranteed under this Guaranty and recovery may be had against Guarantor in any such action. Purchaser may enforce the obligations of Guarantor hereunder, at its sole discretion and to the extent permitted by law, and exercise its rights under this Guaranty and pursue any other guaranty or security or apply any other collateral it may hold, either prior to, concurrently with, or after, the exercise of its remedies for such default against Seller and/or its successors, assigns, and/or other guarantors under the Purchase Agreement, and Guarantor hereby waives all right to assert or plead at any time any and all surety or other similar defenses including, without limitation, any provision of law requiring Purchaser to proceed first or exhaust its recourse against Seller or any other guarantor. Guarantor hereby waives any and all rights to require marshalling of assets by Purchaser or to assert that Purchaser is required to pursue or enforce any other guaranty or letter of credit in any particular amount or in any particular order. This Guaranty is in addition to and not in substitution for any other guarantees held or which may hereafter be held by Purchaser.

13. For so long as this Guaranty is in effect, Guarantor (a) shall have no right of subrogation against Seller by reason of any payments or acts of performance by Guarantor hereunder; and (b) subordinates any liability or indebtedness of Seller now or hereafter held by Guarantor to the obligations of Seller to Purchaser under the Purchase Agreement which are guaranteed under this Guaranty. Guarantor waives any defense to payment or performance under this Guaranty based on any argument that Purchaser's realization on any other security or collateral for the Purchase Agreement has impaired Guarantor's subrogation rights. Guarantor acknowledges that it may seek to obtain a separate reimbursement agreement from the Seller covering amounts paid by Guarantor under this Guaranty, and the presence or absence of such a reimbursement agreement shall have no effect on Guarantor's obligations under this Guaranty.

EXHIBIT L

14. This Guaranty shall apply to the Purchase Agreement and any modification, replacement, or amendment thereof.

15. If any provision (or portion or application of any provision) of this Guaranty is found to be invalid or inconsistent with applicable law then that provision (or the smallest portion or narrowest application of that provision that can be removed to render the provision valid) shall be severed from this Guaranty and the remainder of this Guaranty and the application of that provision to all circumstances where its application is valid shall not be affected thereby and shall continue in full force and effect.

16. Notice hereunder shall be in writing and shall be effective upon receipt or refusal to accept receipt, and shall be given by personal service, nationally recognized overnight courier service, or United States Mail, registered or certified delivery, return receipt requested, to the other party at its above address, except that under no circumstances shall Purchaser be obligated to give Guarantor any notice not specifically required to be given by Purchaser pursuant to this Guaranty. Either party may by notice given as aforesaid designate a different address for notice purposes.

17. This Guaranty shall in all respects be governed by, and construed in accordance with, the laws of the State of Washington without regard to principles of conflicts of laws. Any action hereunder shall be brought in the state or federal courts of competent jurisdiction in King County, Washington. Each of Purchaser and Guarantor hereby consents to the jurisdiction of such state or federal court for such purposes. This Guaranty shall be binding upon Guarantor, its successors and assigns and inure to the benefit of and be enforceable by Purchaser, its successors and assigns. For purposes of this Guaranty, the word "Seller" shall also include the successors and assigns of Seller. No assignment by Guarantor shall release Guarantor from its obligations hereunder. This Guaranty embodies the entire agreement and understanding between Guarantor and Purchaser with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter.

18. Subject to any applicable statute of limitations, no delay on the part of Purchaser in exercising any right hereunder shall operate as a waiver of such right or of any other right of Purchaser hereunder, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or a waiver of the same or any other right on any future occasion.

19. The first paragraph of Section 14.16 of the Purchase Agreement is incorporated into this Agreement by reference, with references therein to "Seller" deemed to be references to Guarantor. The provisions of Section 14.16, as incorporated herein, shall survive Closing or other termination of this Agreement.

EXHIBIT L

IN WITNESS WHEREOF, Guarantor and Purchaser have executed this Guaranty as of the dates below.

City Investors LLC, a Washington
limited liability company

By: _____
Print Name: _____
Title: _____
Date: _____

Acorn Development LLC, a Delaware limited liability
company

By: _____
Print Name: _____
Title: _____
Date: _____

EXHIBIT L

EXHIBIT M
TO PURCHASE AND SALE AGREEMENT
All Phases except Phase IB

Form of Post Closing Obligations Guaranty

POST CLOSING OBLIGATIONS GUARANTY

(Phase __)

This Post Closing Obligations Guaranty (this “**Guaranty**”), dated for reference purposes the _____ day of December, 2012, is by and between City Investors LLC, a Washington limited liability company (“**Guarantor**”), whose address is 505 Union Station, 505 Fifth Avenue South, Suite 900, Seattle, Washington 98104, and Acorn Development LLC, a Delaware limited liability company (“**Purchaser**”), whose address is 410 Terry Avenue North, Seattle, WA 98109-5210 (Attention: General Counsel and Real Estate Manager).

RECITALS

A. City Place _____ LLC, a Washington limited liability company (“**Seller**”), as Seller, and Purchaser, as Purchaser, are simultaneously herewith entering into that certain Purchase and Sale Agreement (Amazon Phase _____) of even date herewith (the “**Purchase Agreement**”), pursuant to which Seller has agreed to sell to Purchaser and Purchaser has agreed to buy from Seller, the Property, as defined in the Purchase Agreement, located in Seattle, Washington, all on the terms and conditions set forth in the Purchase Agreement. Capitalized terms used but not defined in this Guaranty have the meanings given in the Purchase Agreement.

B. Guarantor is an indirect owner of Seller and will benefit from the closing of the transaction contemplated by the Purchase Agreement.

C. As a condition to Purchaser’s execution of the Purchase Agreement, Purchaser is requiring that Guarantor execute this Guaranty pursuant to which Guarantor guarantees certain post closing obligations of Seller under the Purchase Agreement.

NOW, THEREFORE, for and in consideration of Purchaser’s execution and delivery of the Purchase Agreement, and other good and valuable consideration, the receipt and sufficiency of which are acknowledged by Guarantor, Guarantor hereby agrees as follows:

1. Guarantor irrevocably guarantees, without deduction by reason of set-off, defense (except as otherwise expressly provided herein) or counterclaim, the full, punctual, and complete payment and performance of the [Alley Obligations—Ia, III, and IV, the TI Obligations – III, the Easement Obligations – II, III, and the Completion Obligations – V] of Seller to Purchaser under the Purchase Agreement, all as defined in the Purchase Agreement (collectively, the “**Secured Obligations**”), plus reasonable costs and expenses of collection incurred by Purchaser in enforcing its rights and remedies under this Guaranty as described in Section 8 below.

EXHIBIT M

2. Except as expressly provided by this Guaranty, Guarantor hereby waives presentment, protest, notice of default, demand for payment and all other suretyship defenses whatsoever with respect to any obligation guaranteed under this Guaranty.

3. Without limiting any other remedy available to Purchaser under the Purchase Agreement or this Guaranty, if Seller fails to timely fulfill or complete any of the Secured Obligations, and Purchaser intends to incur costs to cure such Secured Obligations, Purchaser shall provide Seller and Guarantor with written notice that Seller and Guarantor are in default and that Purchaser intends to incur costs to cure such failure. Purchaser may cure such failure if Guarantor does not cure such failure within thirty (30) days after written notice thereof (the thirty-day period being a “ **Guarantor Default Notice Period**”); provided that if the nature of such cure is such that a longer cure period is necessary, Purchaser shall not cure if Guarantor shall have failed to commence such cure within said Guarantor Default Notice Period and thereafter to have diligently prosecuted such cure to completion; provided further, that Purchaser may act with less notice or no notice in connection with an emergency, in order to meet a contractual or other deadline, or in other exigent circumstances. If Guarantor fails to cure or commence to cure within the time periods just described, then Purchaser may, but shall not be obligated so to do, and without waiving or releasing Guarantor from any obligations of Guarantor or releasing Seller from any obligations of Seller, make such payment or perform any such other act on Guarantor’s and Seller’s part to be made or performed to meet the Secured Obligations and Guarantor shall reimburse Purchaser for any costs in connection therewith. In addition, if Seller fails to perform any of the Secured Obligations, Purchaser shall be entitled to make demand upon Guarantor for such payment or performance (hereinafter referred to as a “ **Demand**”). Any Demand shall be in writing and shall state the amount Seller has failed to pay or the obligation Seller has failed to perform, shall contain a brief explanation of why such payment or performance is due, and a specific statement that Purchaser is calling upon Guarantor to pay such amount or perform such obligation under this Guaranty. Guarantor agrees to pay Purchaser amounts owing by Seller pursuant to the Purchase Agreement or perform obligations of Seller within ten (10) days of receipt of a Demand therefor, and to pay to Purchaser any other amounts owing hereunder within ten (10) days of demand therefor.

4. Guarantor represents and warrants to Purchaser that:

(a) it is a limited liability company duly organized and validly existing under the laws of the State of Washington and has the corporate power and authority to execute, deliver and carry out the terms and provisions of the Guaranty; and

(b) no authorization, approval, consent or order of, or registration or filing with, any court or other governmental body having jurisdiction over Guarantor is required on the part of Guarantor for the execution and delivery of this Guaranty.

5. In the event Guarantor fails to make any payment to Purchaser or perform any obligation when required under this Guaranty, Purchaser may commence suit against Guarantor and/or exercise any available remedy at law or equity to enforce the provisions of this Guaranty without first commencing any suit or otherwise proceeding against Seller or exhausting its remedies against Seller. This is a guaranty of payment and performance and not a guaranty of collection.

EXHIBIT M

6. This Guaranty is of a continuing nature and shall remain in full force and effect until all the terms, covenants, conditions, and agreements in this Guaranty are performed and until Seller has provided Purchaser with reasonable evidence that the Secured Obligations have been fully satisfied. Notwithstanding any other provision of this Guaranty to the contrary, if any payment made by Seller in satisfaction of any obligation of Seller under the Purchase Agreement is returned by Purchaser as a result of court order or directive or requirement of law, in connection with any bankruptcy, insolvency, reorganization, or receivership proceeding, or other similar proceeding, that obligation shall, for purposes of this Guaranty, be deemed to continue in existence to the extent of the payment returned as if the payment had never been made. Upon Seller providing Purchaser with reasonable evidence that the Secured Obligations have been fully satisfied, Purchaser shall execute a Termination and Release of Guarantee in a commercially reasonable form.

7. Intentionally Omitted.

8. If Purchaser takes any action (including, but not limited to, actions that are not the initiation of or participation in a proceeding) or participates in any proceeding to enforce this Guaranty, or to protect Purchaser's rights hereunder (including, but not limited to, bankruptcy, appellate, and post-judgment proceedings), or shall be made a party to any action or proceeding arising out of this Guaranty, whether or not such action or proceeding is commenced prior to or after expiration or termination this Guaranty, the substantially prevailing party in such proceeding shall be entitled to recover from the other party all reasonable costs and expenses, including reasonable attorneys' fees, incurred or expended in connection therewith (whether or not incurred or expended prior to such action or proceeding). Further, a party shall be entitled to recover such reasonable costs, expenses and fees even if no formal action or proceeding is commenced.

9. Any act of Purchaser, or its successors or assigns, consisting of a waiver of any of the terms or conditions of the Purchase Agreement, or the giving of any consent to any manner or thing relating thereto, or the granting of any indulgences, renewals, extensions of time, releases, and discharges to Seller or any other guarantor, or the taking or releasing of any security for payment and performance of the Secured Obligations, or the refraining from perfecting any interest in any security granted in connection with the Purchase Agreement or any other guarantee, may be done without notice to or consent from Guarantor and without releasing Guarantor from any of its obligations hereunder.

10. The obligations of Guarantor hereunder shall not be released by Purchaser's receipt, application, release or impairment of any security or other collateral given for the performance and observance of any covenant or condition in the Purchase Agreement contained on Seller's part to be performed or observed, nor by any modification thereof, nor any release or discharge of any other guarantor, regardless of whether Guarantor consents thereto or receives notice thereof.

EXHIBIT M

11. Guarantor shall be entitled to all defenses that Seller may have to its obligations under the Purchase Agreement that are guaranteed by this Guaranty, except that the liability of Guarantor hereunder shall in no way be affected by (a) the release or discharge of Seller in any receivership, bankruptcy or other similar proceeding; (b) the impairment, limitation or modification of any liability to Purchaser of Seller or the estate of Seller in bankruptcy, or the impairment, limitation or modification of any remedy for the enforcement of Seller's liability under the Purchase Agreement resulting from the operation of any present or future provision of federal or state bankruptcy or insolvency laws; (c) the rejection or disaffirmance of the Purchase Agreement in any bankruptcy, insolvency, or similar proceeding; (d) the assignment, transfer, or encumbrance of all or any portion of the Seller's interest in the Purchase Agreement; or (e) any extension, renewal, amendment, expansion, or termination of the Purchase Agreement. Guarantor hereby waives notice of the acceptance of this Guaranty, notice of any event of default under the Purchase Agreement, opportunity to cure any event of default under the Purchase Agreement, and proof of notice or demand to Seller relating to any event of default. For so long as the Guaranty remains in effect, Guarantor hereby further waives any and all defenses based upon rights of subrogation, reimbursement, indemnification or contribution with respect to Seller that are or may become available to it.

12. Guarantor further agrees that it may be joined in any action against Seller in connection with the Secured Obligations and recovery may be had against Guarantor in any such action. Purchaser may enforce the obligations of Guarantor hereunder, at its sole discretion and to the extent permitted by law, and exercise its rights under this Guaranty and pursue any other guaranty or security or apply any other collateral it may hold, either prior to, concurrently with, or after, the exercise of its remedies for such default against Seller and/or its successors, assigns, and/or other guarantors under the Purchase Agreement, and Guarantor hereby waives all right to assert or plead at any time any and all surety or other similar defenses including, without limitation, any provision of law requiring Purchaser to proceed first or exhaust its recourse against Seller or any other guarantor. Guarantor hereby waives any and all rights to require marshalling of assets by Purchaser or to assert that Purchaser is required to pursue or enforce any other guaranty or letter of credit in any particular amount or in any particular order. This Guaranty is in addition to and not in substitution for any other guarantees held or which may hereafter be held by Purchaser.

13. For so long as this Guaranty is in effect, Guarantor (a) shall have no right of subrogation against Seller by reason of any payments or acts of performance by Guarantor hereunder; and (b) subordinates any liability or indebtedness of Seller now or hereafter held by Guarantor to the obligations of Seller to Purchaser under the Purchase Agreement which are guaranteed under this Guaranty. Guarantor waives any defense to payment or performance under this Guaranty based on any argument that Purchaser's realization on any other security or collateral for the Purchase Agreement has impaired Guarantor's subrogation rights. Guarantor acknowledges that it may seek to obtain a separate reimbursement agreement from the Seller covering amounts paid by Guarantor under this Guaranty, and the presence or absence of such a reimbursement agreement shall have no effect on Guarantor's obligations under this Guaranty.

14. This Guaranty shall apply to the Secured Obligations and any modification, replacement, or amendment thereof.

EXHIBIT M

15. If any provision (or portion or application of any provision) of this Guaranty is found to be invalid or inconsistent with applicable law then that provision (or the smallest portion or narrowest application of that provision that can be removed to render the provision valid) shall be severed from this Guaranty and the remainder of this Guaranty and the application of that provision to all circumstances where its application is valid shall not be affected thereby and shall continue in full force and effect.

16. Notice hereunder shall be in writing and shall be effective upon receipt or refusal to accept receipt, and shall be given by personal service, nationally recognized overnight courier service, or United States Mail, registered or certified delivery, return receipt requested, to the other party at its above address, except that under no circumstances shall Purchaser be obligated to give Guarantor any notice not specifically required to be given by Purchaser pursuant to this Guaranty. Either party may by notice given as aforesaid designate a different address for notice purposes.

17. This Guaranty shall in all respects be governed by, and construed in accordance with, the laws of the State of Washington without regard to principles of conflicts of laws. Any action hereunder shall be brought in the state or federal courts of competent jurisdiction in King County, Washington. Each of Purchaser and Guarantor hereby consents to the jurisdiction of such state or federal court for such purposes. This Guaranty shall be binding upon Guarantor, its successors and assigns and inure to the benefit of and be enforceable by Purchaser, its successors and assigns. For purposes of this Guaranty, the word "Seller" shall also include the successors and assigns of Seller. No assignment by Guarantor shall release Guarantor from its obligations hereunder. The Guaranty embodies the entire agreement and understanding between Guarantor and Purchaser with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter.

18. Subject to any applicable statute of limitations, no delay on the part of Purchaser in exercising any right hereunder shall operate as a waiver of such right or of any other right of Purchaser hereunder, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or a waiver of the same or any other right on any future occasion.

19. The first paragraph of Section 14.16 of the Purchase Agreement is incorporated into this Agreement by reference, with references therein to "Seller" deemed to be references to Guarantor. The provisions of Section 14.16, as incorporated herein, shall survive Closing or other termination of this Agreement.

EXHIBIT M

IN WITNESS WHEREOF, Guarantor and Purchaser have executed this Guaranty as of the dates below.

City Investors LLC, a Washington
limited liability company

By: _____
Print Name: _____
Title: _____
Date: _____

Acorn Development LLC, a Delaware limited liability
company

By: _____
Print Name: _____
Title: _____
Date: _____

EXHIBIT M

EXHIBIT N

EXHIBIT O

EXHIBIT P
TO PURCHASE AND SALE AGREEMENT
All Phases

Form of Assignment and Assumption of Purchase Agreement

**ASSIGNMENT OF
PURCHASE AND SALE AGREEMENT**
()

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, _____, a _____ (“**Assignor**”), hereby assigns, transfers and sets over to _____, a _____ (“**Assignee**”), all of Assignor’s right, title and interest under that certain Purchase and Sale Agreement dated as of _____, 20____, by and between _____, as Seller, and Assignor as Purchaser (the “**Purchase Agreement**”), in accordance with Section 13.1 of the Purchase Agreement. Assignee is an affiliate of Assignor as defined in Section 13.1 of the Purchase Agreement. Assignee hereby accepts said assignment and assumes all of Assignor’s rights and obligations under the Purchase Agreement.

DATED THIS ____ **DAY OF** _____, **20** ____.

ASSIGNOR:

a _____
By: _____
Name: _____
Title: _____

ASSIGNEE:

a _____
By: _____
Name: _____
Title: _____

EXHIBIT P

Ratio of Earnings to Fixed Charges

(in millions)

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Earnings available for fixed charges:					
Income before income taxes	\$ 544	\$ 934	\$ 1,497	\$ 1,161	\$ 901
Fixed charges, excluding capitalized interest	133	108	66	55	92
Total earnings available for fixed charges	<u>\$ 677</u>	<u>\$ 1,042</u>	<u>\$ 1,563</u>	<u>\$ 1,216</u>	<u>\$ 993</u>
Fixed charges:					
Interest and debt expense (1)	\$ 92	\$ 65	\$ 39	\$ 34	\$ 71
Assumed interest element included in rent expense	41	43	27	21	21
Total Fixed charges	<u>\$ 133</u>	<u>\$ 108</u>	<u>\$ 66</u>	<u>\$ 55</u>	<u>\$ 92</u>
Ratio of earnings to fixed charges	5.10	9.61	23.68	22.29	10.84

(1) Includes amortization of debt-related expenses plus capitalized interest.

AMAZON.COM, INC.
LIST OF SIGNIFICANT SUBSIDIARIES

<u>Legal Name</u>	<u>Jurisdiction</u>	<u>Percent Owned</u>
Amazon Services LLC	Nevada	100%
Amazon Digital Services, Inc.	Delaware	100%
Amazon Web Services, Inc.	Delaware	100%
Amazon EU Sàrl	Luxembourg	100%
Amazon Europe Holding Technologies SCS	Luxembourg	100%
Amazon Fulfillment Services, Inc.	Delaware	100%
Amazon Services International, Inc.	Delaware	100%
Amazon Corporate LLC	Delaware	100%
Amazon Technologies, Inc.	Nevada	100%
Amazon.com Int'l Sales, Inc.	Delaware	100%
Amazon.com LLC	Delaware	100%
Amazon.com NV Investment Holdings LLC	Nevada	100%
Amazon.com.dedc, LLC	Delaware	100%
Lovefilm UK Limited	United Kingdom	100%
NV Services, Inc.	Nevada	100%

**Consent of Ernst & Young LLP,
Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (a) Registration Statement (Form S-4 No. 333-55943), as amended, pertaining to the acquisition shelf-registration of up to 30 million shares of common stock,
- (b) Registration Statement (Form S-8 No. 333-28763), as amended, pertaining to the Amazon.com, Inc. 1997 Stock Incentive Plan (formerly the "1997 Stock Option Plan") and the Amended and Restated 1994 Stock Option Plan of Amazon.com, Inc.,
- (c) Registration Statement (Form S-8 No. 333-88825) pertaining to the Convergence Corporation Stock Option Plan,
- (d) Registration Statement (Form S-8 No. 333-80491) pertaining to the Alexa Internet Amended and Restated 1997 Stock Option Plan,
- (e) Registration Statement (Form S-8 No. 333-80495) pertaining to the Accept.com Financial Services Corporation 1998 Stock Plan,
- (f) Registration Statement (Form S-8 No. 333-78651) pertaining to the Innerlinx Technologies, Incorporated 1997 Stock Option Plan,
- (g) Registration Statement (Form S-8 No. 333-78653) pertaining to the e-Niche Incorporated Amended and Restated 1998 Stock Option and Grant Plan,
- (h) Registration Statement (Form S-8 No. 333-74419) pertaining to the Amazon.com, Inc. 1999 Nonofficer Employee Stock Option Plan,
- (i) Registration Statement (Form S-8 No. 333-63311), as amended, pertaining to the Jungle Corp. 1996 Stock Plan, the Jungle Corp. 1998 Equity Incentive Plan, the Sage Enterprises, Inc. 1997 Amended Stock Option Plan, and the Sage Enterprises, Inc. MVP Stock Option Plan,
- (j) Registration Statement (Form S-8 No. 333-118818) pertaining to the Joyo.com Limited 2004 Share Option Plan,
- (k) Registration Statement (Form S-8 No. 333-149845) pertaining to the Audible, Inc. 1999 Stock Incentive Plan,
- (l) Registration Statement (Form S-4 No. 333-160831), as amended, pertaining to the acquisition of the outstanding capital stock of Zappos.com, Inc.,
- (m) Registration Statement (Form S-8 POS No. 333-160831) pertaining to the Zappos.com, Inc. 2009 Stock Plan,
- (n) Registration Statement (Form S-8 No. 333-169470) pertaining to 25,000,000 shares of Common Stock, par value \$0.01 per share, to be issued pursuant to the Company's 1997 Stock Incentive Plan,
- (o) Registration Statement (Form S-8 No. 333-173054), pertaining to the Quidsi, Inc. (fka 1800Diapers, Inc.) 2006 Stock Option/Stock Issuance Plan,
- (p) Registration Statement (Form S-8 No. 333-181073) pertaining to the Kiva Systems, Inc. 2003 Stock Plan, as amended, and
- (q) Registration Statement (Form S-3 No. 333-185137) pertaining to the shelf-registration of Amazon.com, Inc. securities

of our reports dated January 29, 2013, with respect to the consolidated financial statements and schedule of Amazon.com, Inc. and the effectiveness of internal control over financial reporting of Amazon.com, Inc. included in this Annual Report (Form 10-K) of Amazon.com, Inc. for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Seattle, Washington
January 29, 2013

CERTIFICATIONS

I, Jeffrey P. Bezos, certify that:

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

/s/ Jeffrey P. Bezos

Jeffrey P. Bezos
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: January 29, 2013

CERTIFICATIONS

I, Thomas J. Szkutak, certify that:

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

/s/ Thomas J. Szkutak

Thomas J. Szkutak
*Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)*

Date: January 29, 2013

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the Annual Report of Amazon.com, Inc. (the "Company") on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Jeffrey P. Bezos, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ Jeffrey P. Bezos

Jeffrey P. Bezos
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: January 29, 2013

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the Annual Report of Amazon.com, Inc. (the "Company") on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Thomas J. Szkutak, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ Thomas J. Szkutak

Thomas J. Szkutak
*Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)*

Date: January 29, 2013

