FIN684

Asset Management

Spring 2008

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Section 1
Executive Summary

Amazon Inc is a retail website that offers programs that enable third parties to sell products on its websites. We believe that the addition of Amazon would bring diversity, profitability and security to Finance 684's portfolio. The team believes Amazon Inc will be a great purchase for the portfolio based on several factors:

- controlling market share
- constant growth
- increasing profitability year-to-year
- continue emergence of E-commerce
- growth and value correlation with market

Amazon has had solid revenue growth throughout the past three years. Company revenues have grown 75% from 2005-2007. Amazon posted impressive 2007Q4 revenue growth of 42%, driven by 40% North America growth, and 46% International growth despite tough year to year competition. Media sales grew 33%, while Electronics & General Merchandise accelerated to 58%. Amazon is expecting a 26-33% revenue growth in 2008 and a 37% revenue growth in 2009. According to Thomson Financial, Amazon is currently up 26% on estimated earnings for the current 2008Q1. Given the uncertain outlook in U.S. consumer spending and conservative guidance we have seen from the management teams of other Internet companies thus far, the revenue growth of Amazon is rather impressive.

Third party sales have continued to help the growth of Amazon. With a steady increase of third party presence on Amazon, the company will limit overhead, continue consumer attraction, maintain superior customer service, and expand product selections.

With the company's stock in now valued at $62.00. We feel that this is an optimal price to purchase between 200 and 400 shares. We strongly believe in the growth and potential of this company and we advise that we hold onto this security for five years.

Section 2
History

Amazon was founded by current CEO/President/Chairman, Jeff Bezos in 1994, and launched in 1995. The company began operating as an online bookstore under the name Cadabra.com. While the largest brick-and-mortar bookstores and mail-order catalogs for books might offer 200,000 titles, an online bookstore could offer many times more. Bezos renamed his company "Amazon" after the world's most voluminous river. Since 2000 Amazon's logo shows an arrow leading from A to Z, indicating the company's desire to sell in many different product lines.

The company was incorporated in 1994, in the state of Washington, began service in July 1995, and was reincorporated in 1996 in Delaware. The first book ever sold by Amazon.com was Douglas Hofstadter's Fluid Concepts and Creative Analogies: Computer Models of the Fundamental Mechanisms of Thought. Amazon.com had its initial public offering on May 15, 1997, trading on the NASDAQ stock exchange under the symbol AMZN at an IPO price of US$18.00 per share (equivalent to US$1.50 after three stock splits during the late 1990s).

Amazon's initial business plan was unusual: the company did not expect to turn a profit for four to five years. In retrospect, the strategy was effective. Amazon grew at a steady pace in the late 1990s while many other Internet companies grew at a blindingly fast pace.

Amazon's "slow" growth caused a number of its stockholders to complain, saying that the company was not reaching profitability fast enough. When the Dot-com bubble burst and many e-companies went out of business, Amazon persevered and finally turned its first profit in the fourth quarter of 2002: a meager US$5 million, just 1¢ per share, on revenues of over US$1 billion, but it was important symbolically.

The firm has since remained profitable: net income was US$35.3 million in 2003, US$588.5 million in 2004, US$359 million in 2005, and US$190 million in 2006 (including a US$662 million charge on R&D in 2006). Nevertheless, the firm's cumulative profits remain negative. As of September 2007, the accumulated deficit stood at US$1.58 billion.

Revenue continued to grow thanks to product diversification and international presence: US$3.9 billion in 2002, US$5.3 billion in 2003, US$6.9 billion in 2004, US$8.5 billion in 2005, and US$10.7 billion in 2006. On November 21, 2005, Amazon entered the S&P 500 index, replacing AT&T after it merged with SBC Communications.

Executive Officers

Jeffrey P. Bezos
President, Chief Executive Officer and Chairman of the Board

Jeffrey Blackburn
Senior Vice President, Business Development

Sebastian J. Gunningham
Senior Vice President, Seller Services

Andrew Jassy
Senior Vice President, Web Services

Steven Kessel
Senior Vice President, Worldwide Digital Media

Marc Onetto
Senior Vice President, Worldwide Operations

Diego Piacentini
Senior Vice President, International Retail

Shelley Reynolds
Vice President, Finance and Controller (Principal Accounting Officer)

Tom Szkutak
Senior Vice President and Chief Financial Officer

Brian Valentine
Senior Vice President, Ecommerce Platform

Jeff Wilke
Senior Vice President, North America Retail

Michelle Wilson
Senior Vice President, General Counsel, Secretary

Section 3
Overview of Company

Amazon.com, Inc., (NASDAQ:AMZN), a Fortune 500 company based in Seattle, opened on the World Wide Web in July 1995 and today offers Earth's Biggest Selection. Amazon.com, Inc. seeks to be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer its customers the lowest possible prices. Amazon.com and other sellers offer millions of unique new, refurbished and used items in categories such as books, movies, music & games, digital downloads, electronics & computers, home & garden, toys, kids & baby, grocery, apparel, shoes & jewelry, health & beauty, sports & outdoors, tools, and auto & industrial.

Amazon Web Services provides Amazon's developer customers with access to in-the-cloud infrastructure services based on Amazon's own back-end technology platform, which developers can use to enable virtually any type of business. Examples of the services offered by Amazon Web Services are Amazon Elastic Compute Cloud (Amazon EC2), Amazon Simple Storage Service (Amazon S3), Amazon SimpleDB, Amazon Simple Queue Service (Amazon SQS), Amazon Flexible Payments Service (Amazon FPS) and Amazon Mechanical Turk.

Amazon and its affiliates operate websites all across the world. Below is a breakdown of Amazon's international exposure and revenue contribution by geographical area:

- North America
  - www.amazon.com, www.amazon.ca
- International
  - www.amazon.de, www.amazon.fr, www.amazon.co.jp, www.amazon.co.uk, www.joyo.com
- Websites own by Amazon
  - www.imdb.com, www.shopbop.com, www.endless.com www.a9.com, www.alexa.com, www.dpreview.com
- Websites hosted by Amazon
  - borders.com, borders.co.uk, waldenbooks.com, virginmega.com, cdnow.com, and hmv.com

AMAZON.COM 2/27/08
(AMZN) 70.87

Geographic or Segment Info

Revenue contributed by geographical area for the fiscal year end December:

	2007	2006
North America	55%	55%
International	45%	45%

Section 4
Amazon Services

Selling on Amazon

Amazon’s merchant program gives third party companies an opportunity to sell their products on the leading internet retailer’s web site. With more than 66 million active customer accounts worldwide (customers who have purchased from Amazon in the last 12 months), Selling on Amazon will expand a company’s products to more buyers. With Selling on Amazon, third party company’s get the benefit of Amazon’s traffic and eCommerce technology in an incremental, new sales channel. Depending on the product, Amazon collects 7-20% commission on each sale from a third party company.

Product Ads on Amazon

Product Ads is an advertising program that allows sellers to promote their products on www.amazon.com. As a seller, you simply upload your catalog and set your cost-per-click bids. Amazon will then display highly targeted ads for your items on select product and search pages. Customers can click over to your web site and purchase the product directly from you. Companies will be charged on a cost per click basis.

According to Nielsen//NetRatings, more than 85% of Amazon's 44 million monthly active U.S. visitors are likely to have made a purchase online in the last 30 days — this is nearly 45% more than on the leading search engines. With Product Ads, company’s items will be viewed by active Amazon shoppers, resulting in incremental sales to that company’s e-commerce web site.

Webstore by Amazon

The webstore by Amazon gives businesses the opportunity to use Amazon's world-class eCommerce and merchandising technology to create their own online store. The WebStore gives companies an opportunity to design their own branded, custom online store powered by Amazon technology, support, and transaction processing all for only $59.99 per month and a referral fee of 7% on items that sell.

Fulfillment by Amazon

Fulfillment by Amazon gives third party companies the opportunity to focus on customers and sales, rather than fulfilling the orders. When a customer places an order from a specific third party company on Amazon, Amazon will pick, pack and ship it from their location. This will eliminate any complications with inventory or warehouse operations within a company.

Amazon Products

Along with selling everyday merchandise to consumers, below is a list of Amazon products that are offered to their customers:

- Amazon Prime
  - offers customers free 2-day and discounted priority shipping for a yearly fee of $79 USD

- Amapedia
  - a collaborative wiki for user-generated content to replace ProductWiki.

- Amazon MP3
  - sells downloadable tracks

- Amazon Vine
  - Allows top product reviewers free access to pre-release products from vendors participating in the program.

- Amazon MP3 (2008)
  - Amazon announced they would be rolling out their Amazon MP3 service to their subsidiary websites worldwide throughout the year

Section 5
Industry

Ecommerce is defines as the buying and selling of product or services over electronic systems such as the Internet and other computer networks.

The chart and graph below illustrates how rapidly ecommerce is growing in the world. Each year, more people are purchasing products from the internet. In the below graph conducted by the United States Department of Commerce, statistics demonstrate how the percentage of ecommerce sales are continuing to increase on total retail sales each year. The second graph projects how much ecommerce is expected to grow in 2008. These statistics illustrate tremendous opportunity for the continuous growth and prosperity for Amazon.com Inc.

	Retail Sales			E-commerce as percent of total sales	Quarter-to-Quarter/Year-to-Year Percent Change in Sales	
Period	**E-commerce**	**% Increase**	**Total**		**E-commerce**	**Total**
Year 2002	44,706		3,141,468	1.42	30.9	2.3
Year 2003	55,731	24.7%	3,275,407	1.7	24.7	4.3
Year 2004	69,238	24.2%	3,521,709	1.97	24.2	7.5
Year 2005	93,280	34.7%	3,693,430	2.53		
2006, 1Q	25,846		899,329	2,87	-9.1	-8.9
2006, 2Q	26,363	2.0%	993,153	2.65	2	10.4
2006, 3Q	27,092	2.8%	984,776	2.75	2.8	-0.8
2006, 4Q	35,322	30.4%	1,027,047	3.44	30.3	4.3
Year 2006	114,623	22.9%	3,904,305	2.94	22.9	5.7
2007, 1Q	30,624		934,619	3.28	-13.4	-8.9
2007, 2Q	31,823		1,030,492	3.09	3.9	10.3

Quarter	Retail Sales Total (in millions)	E-Commerce (in millions)	E-Commerce as % of Total Retail Sales	Amazon revenue (in millions)	Amazon's Revenue as % of E-Commerce
4th quarter 2007	$1,078,565	$41,758			
3rd quarter 2007	$1,016,550	$32,234			
2nd quarter 2007	$1,030,508	$31,828			
1st quarter 2007	$934,619	$30,624			
2007	**$4,060,242**	**$136,444**	**3.36%**	**$14,835**	**10.87%**
4th quarter 2006	$1,027,047	$35,322			
3rd quarter 2006	$984,776	$27,092			
2nd quarter 2006	$993,153	$26,363			
1st quarter 2006	$899,329	$25,846			
2006	**$3,904,305**	**$114,623**	**2.94%**	**$10,711**	**9.34%**
4th quarter 2005	$986,849	$28,418			
3rd quarter 2005	$939,788	$22,556			
2nd quarter 2005	$931,513	$21,467			
1st quarter 2005	$835,280	$20,839			
2005	**$3,693,430**	**$93,280**	**2.53%**	**$8,490**	**9.10%**
4th quarter 2004	$936,446	$23,571			
3rd quarter 2004	$872,340	$18,321			
2nd quarter 2004	$870,834	$17,378			
1st quarter 2004	$794,720	$17,074			
2004	**$3,474,340**	**$76,344**	**2.20%**	**$6,921**	**9.07%**
4th quarter 2003	$874,493	$18,795			
3rd quarter 2003	$830,692	$14,607			
2nd quarter 2003	$819,232	$13,629			
1st quarter 2003	$741,060	$12,984			
2003	**$3,265,477**	**$60,015**	**1.84%**	**$5,264**	**8.77%**

Amazon.com alone accounted for close to 11% of all Internet sales in 2007. Amazon's revenue as a percentage of E-Commerce retail sales continues to go up. While E-commerce retail sale is relatively small compared to total retail sales, the trend has been increasing. As more and more people continue to shop on the internet, we will see the E-Commerce sales number to continue its upward trend.

While most people naturally think of Amazon as the internet superstore that sells products in over forty categories, from books to electronics to groceries to jewelry to auto parts, the company has gradually expanded beyond that simple business platform; today Amazon is simultaneously an ecommerce and internet technology platform, a fulfillment and logistics platform, a search technology, an internet advertising platform, and even an internet startup incubator of sorts. Below is a chart showing Amazon's historical category expansion around the world. The continuing shift towards online purchasing is a major trend which should provide Amazon with sustained long-term growth potential. Amazon's continued focus on increasing selection and availability, lowering prices, and providing a great product and service are keystones of its long-term growth strategy.

As Amazon continues to expand into new categories and markets and to experiment with building new kinds of businesses, substantial investments will be made today in the hopes of planting the seeds that will become substantial revenues opportunities in the future. Many of these bets will fail, but even if a few of them succeed, they could translate into incredible businesses for the company. Amazon constantly strives to make the online shopping an easy experience for plenty of consumer and along with their courteous and professional staff, the company is poised to attract more and more customers. Consumer will find Amazon a great place to shop at since they have decent prices and wide range of selection for them to choose from. Sure there will always be competitors but Amazon will try to stand out amongst all of its competitors.

Global Selection

	US	UK	Germany	France	Japan	Canada	China
Books	‘95	‘98	‘98	‘00	‘00	‘02	‘04
Music/Video	‘98	‘99	‘99	‘00	‘01	‘02	‘04
DVD/Rental*	‘98	‘99/’04*	‘99/’05*	‘00	‘01	‘02	‘04
Video Games & Software	‘99	‘00	‘00	‘01	‘01	‘03	‘04
Electronics	‘99	‘01	‘01	‘05	‘03		‘04
Toys & Baby	‘99	‘01	‘04	‘07	‘04		‘04
Tools & Hardware	‘99	‘04	‘04				
Kitchen & Housewares	‘00	‘04	‘04		‘03		‘06
Magazines	‘01		‘02		‘04		
Office Products	‘02						
Apparel & Accessories	‘02						
Sports & Outdoors	‘03	‘07	‘06		‘05		
Gourmet Food	‘03						
Jewelry/Watches	‘03	‘07	‘07		‘07		‘06
Health & Personal Care	‘03				‘06		‘06
Beauty	‘04						‘06
Musical Instruments	‘04						
Grocery	‘06						
Automotive	‘06						
Third Party Sellers							
Marketplace	‘00	‘02	‘02	‘03	‘02	‘03	
Merchants@	‘02	‘06	‘06		‘07		

Expect More Category and Country Expansion Over Time

Early in its history, investors and analysts loved to compare Amazon to other ecommerce competitors like Buy.com, Overstock.com, Bn.com, and Walmart.com. But over the years, such comparisons have been made with decreasing frequency. One of the main reasons this has been the case is that Amazon's largest competitor isn't any one company, it's the fact that the vast majority of retail sales in the US and across the world still occurs in brick and mortar stores.

If you refer to question number 1, Amazon's revenue accounts for 11% of 2007's E-Commerce sale. Our team believes Ebay is the company that has operations similar to Amazon and would be the best for comparison. Ebay's revenue accounts for only 5.6% of 2007's E-Commerce sale. In addition, the table bellows give you a breakdown of the top ten retail businesses.

America's Top Ten Retail Businesses		
Rank	**Company**	**Web Sales Volume**
1	Amazon.com Inc.	$10.7 B
2	Staples Inc.	$4.9 B
3	Office Depot Inc.	$4.3 B
4	Dell Inc.	$3.9 B
5	HP Home & Home Office Store (Hewlett-Packard Co.)	$3.1 B
6	OfficeMax Inc.	$2.8 B
7	Sears Holding Corp.	$2.3 B
8	CDW Inc.	$2 B
9	SonyStyle.com	$1.7 B
10	Newegg.com	$1.5 B

Section 6
Competition

Amazon has several competitors within the industry. Being that Amazon offers a variety of products to their customers, the company has numerous competitors for each product. In order to evaluate Amazon's performance in the industry the Amazon team felt that Yahoo and EBay were the best competitors that could be used for comparison. Yahoo and EBay are companies that supply consumers with comparison shopping engines. These comparison shopping engines, attract third party businesses, and offered consumers the cheapest price for the searched product. With this is mind, our team felt that these two companies were the biggest threat to Amazons operation. Below is some brief information about the competitors.

eBay Inc.

eBay Inc**.**(NASDAQ: EBAY) is an American Internet that, through its subsidiaries, provides online marketplaces for the sale of goods and services, online payments services, and online communication offerings to a diverse community of individuals and businesses in the United States and internationally. Rent.com, Shopping.com, Kijiji, mobile.de, and Marktplaats.nl are all subsidiaries of EBay that help compete with Amazon. In addition to its original U.S. website, eBay has established localized websites in thirty other countries. Below is a breakdown of net revenue contribution by geographic area for EBay.

EBAY 3/03/08
(EBAY) 25.85

Geographic or Segment Info

Net revenue contribution by geographic area for fiscal year end December:

	2006	2005
United States	52%	54%
International	48%	46%

Yahoo Inc.

Yahoo! Inc**.** (NASDAQ: YHOO) is an American public corporation and global Internet services company that provides Internet services to users and businesses worldwide. It offers online properties and services to users; and various tools and marketing solutions to businesses. Yahoo offers comparison shopping services, Yahoo Shopping. This service is a competitor with Amazon. Below are comparison of the three companies and their important figures.

			Amazon.com Inc.	Yahoo! Inc.	eBay Inc.
			AMZN	**YHOO**	**EBAY**
			12/2007	09/2007	09/2007
	Avg	**Median**			
Current Price	**31.18**	**28.87**	77.73	29.88	27.85
52 Week High	**44.09**	**37.41**	101.09	34.08	40.73
52 Week Low	**20.45**	**2.11**	37.04	18.58	25.64
Beta	**1.11**	**1.14**	1.63	0.42	1.12
Market Value	**19,269.3**	**17,608.5**	32,399.2	39,933.0	37,695.8
Enterprise Value	**18,385.9**	**17,768.0**	30,569.2	38,693.4	33,707.1
Sales	**10,593.9**	**9,619.2**	14,836.0	6,839.7	7,211.6
Assets	**8,275.4**	**7,414.0**	6,485.0	11,843.1	14,786.8
LTM Price to Earnings	**54.6**	**63.5**	69.8	63.5	114.8
NTM Price to Earnings	**29.6**	**17.7**	44.8	60.9	17.7
Price to Book	**6.3**	**2.6**	27.0	4.2	3.2
Dividend Yield	**0.8**	**0.0**	0.0	0.0	0.0
Sales Growth	**+ 12.8**	**+ 7.9**	+ 38.5	+ 9.9	+ 29.3
Gross Profit Growth	**+ 10.6**	**+ 7.7**	+ 36.5	+ 10.9	+ 27.5
EPS Growth	**- 51.1**	**- 16.5**	+ 147.7	- 34.7	- 86.3
Assets Growth	**+ 11.0**	**+ 5.6**	+ 48.6	+ 11.5	+ 9.8

SWOT Analysis

Strengths

- Consistent Revenue Growth
  - Throughout the years, Amazon has consistently had a steady increase in revenue.

- Controls market
  - Amazon continues to be a pioneer in the ecommerce field. A source of 66 million customers

- Customer Relationship
  - Amazon prides themselves on customer service. With customers knowing that Amazon is looking for their best interest, they will continue to shop at Amazon. Positive customer feedback is a vital for third party companies to be successful on Amazon. If Amazon sees that certain merchants have mediocre feedback, they will vacate the company from the site.

- Information Technology
  - Amazon spent $662 million on research and development in 2006.

- Low Advertise expense
  - With their name so well know, Amazon is starting to cut down on their advertising expense and market by word of mouth

- Global brand
  - International revenue is almost equal to revenue in the US.

- Low Cost
  - Customers are almost guaranteed to find the lowest prices on Amazon.

- Safe and Secure
  - Customers feel confident buying from Amazon knowing they are protected by A-to-z Guarantee. This comforts customers to have an enjoyable shopping experience.

- Lowering Overhead
  - With expansion into services. Amazon will cut down on overhead and collection revenues through commissions and services.

Weakness

- Seasonality of business
  - With a large portion of revenue coming from the fourth quarter, a possible bad fourth quarter would result in a bad year. Also, seasonal businesses tend to attract competitors.

- Market share to lose
  - Being a leader in the market, Amazon needs to maintain their strength in the market.

- Growth of E-Commerce
  - With the growth of e commerce, competitors will continue to develop each year; taking away business from Amazon

- Better site navigation
  - From a merchant perspective, it is difficult to locate ones' products through natural site navigation; as opposed to using the search tool.

Opportunity

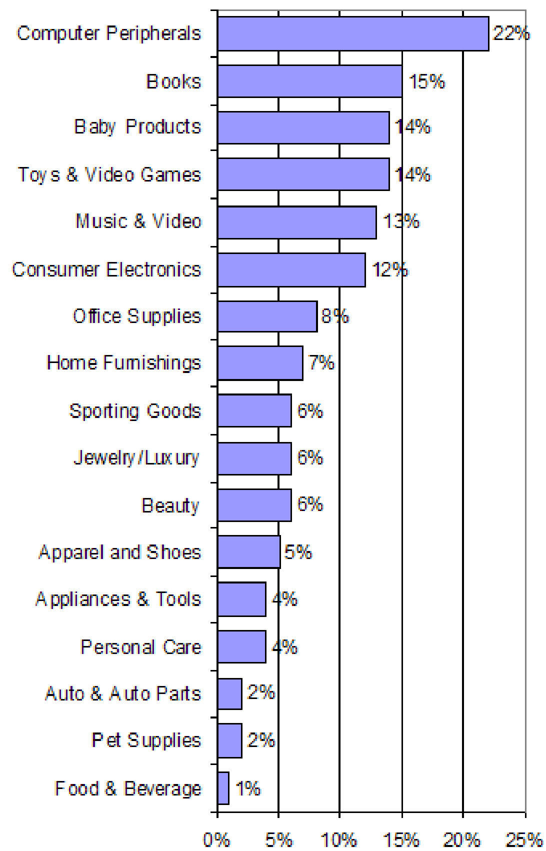
- Growth of E-Commerce
  - Also considered a weakness, the growth of ecommerce creates great opportunity by bringing increasing business to the internet.

- Expanding product selection
  - Amazon has the opportunity to expand product selection. Looking at the market penetration of internet businesses graph below, there are many areas where Amazon can improve business

- Expand Merchant Program
  - By expanding the Merchant program, Amazon will be able to supply customers with more of a selection. Also, new merchants will bring in new products as well. This will help cut down overhead as well.

- Expand Acquisitions
  - In order to strengthen market share, Amazon should try expanding their acquisitions. By adding new companies, this will help take market share from their competitors

- Media Products
  - Their new development of media products has opportunity for tremendous growth on the internet



Threats

- Face Intense Competition

- Expansion Places a Significant Strain on our Management, Operational, Financial and Other Resources
  - This expansion increases the complexity of Amazons' business and places significant strain on their management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. They may not be able to manage growth effectively, which could damage their reputation, limit their growth and negatively affect their operating results

- Significant Fluctuations in Operating Results and Growth Rate

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

  - Revenue growth may not be sustainable, and percentage growth rates may decrease. Revenue and operating profit growth depends on the continued growth of demand for the products and services, and business is affected by general economic and business conditions. A softening of demand may result in decreased revenue or growth.

- Expansion into New Products, Services, Technologies and Geographic Regions Subjects Us to
  - May have limited or no experience in these new activities, and their customers may not adopt them

- May Be Stagnant in Efforts to Expand in International Market Segments
  - Amazons international activities are significant to their revenues and profits, and they plan to further expand internationally. They have relatively little experience operating in these or future market segments and may not benefit from any first-to-market advantages or otherwise succeed. It is costly to establish, develop and maintain international operations and websites and promote their brand internationally. Their international operations may not be profitable on a sustained basis.

- Growth of E-commerce
  - Although a weakness and opportunity, the growth of ecommerce will create more competition; taking away business

- Recession
  - A recession will hurt the retail market as well as the rest of the economy

Section 7
Fundamental Analysis

Building Block#1							
Short-term Liquidity Ratio							
Measure	2007	2006	2005	2004	2003	eBay	Yahoo
Current Ratio (1)	1.39	1.33	1.54	1.57	1.45	2.30	1.41
Quick Ratio (2)	1.07	0.99	1.24	1.27	1.22	2.30	1.41
Accounts receivable turnover (3)	21.75	28.04	32.78	34.76	40.03	9.02	7.02
Inventory turnover	11.06	11.44	12.34	13.75	16.15	N/A	N/A
Day's sales in receivables	16.55	12.84	10.98	10.36	42.60	42.60	54.52
Day's sales in inventory	37.62	38.25	31.59	32.47	26.41	N/A	N/A
Working capital	1450	841	1030	919	568	4023	937
Day's purchases in accounts payable	71.28	67.79	70.01	65.03	64.04	270.30	17.68
Average net trade cycle (4)	(17.11)	(16.71)	(27.44)	(22.21)	4.97	N/A	N/A
Cash provided by operations to average	0.45	0.32	0.42	0.39	0.34	0.94	1.04

1. Current ratios over the past five years have been slightly declining. Current ratio of Amazon is lower than eBay, but compared with Yahoo's, it is about the same. To take a deeper look at it, Amazon's current asset and current liability have been growing. It has been up from 2003 to 2007. The growth rate of total current asset is 184% less than current liability of 196%. One concern is whether the trend of the declining trend of the current ratio would continue. However, for most industrial companies, 1.3 is an acceptable current ratio.

2. Quick ratio excludes inventory, because inventory can sometimes be difficult to liquidate. eBay and Yahoo didn't have inventories in 2007, so Amazon's quick ratio is lower than eBay and Yahoo. The main reason is that Amazon runs a business by retail, but eBay and Yahoo are internet companies that offer an online auction and shopping website in which people and businesses buy and sell goods. So they would not carry any inventory.

3. The higher the accounts receivable turnover ratio, the faster a business is collecting its receivables and the more cash the client generally has on hand. Accounts receivable turnover of Amazon is much higher than Yahoo or eBay.

4. The average net trade cycle provides important insight into how large a company's CR should be to satisfy the firm's need for liquidity. The longer the net trade cycle of a company, the greater the firm's need for liquidity and the higher must be its current ratio. Average net trade cycle of -17.11 shows that the number of days for Amazon to convert its inventory into account receivable and its receivable in cash is not bad. Amazon doesn't need a lot of money to maintain its operation.

5. Although Amazon's cash provided by operations to average current liability is lower than eBay and Yahoo, it looks very good at 45%, significantly above the threshold of 40% for healthy companies.

Conclusion: Overall, most ratios are healthy and steady, but some are influenced by total liabilities. Further research shows the total liabilities was higher in past years because of Amazon's expansion into international Market Segments. In the 10-k, it shows their international activities are significant to their revenues and profits, and they plan to further expand internationally. It is also costly to establish, develop, and maintain international operation and websites and promote their brand internationally.

Building Block #2							
Capital Structure and Solvency							
Measure	2007	2006	2005	2004	2003	eBay	Yahoo
Total debt to equity (1)	1.57	3.68	157.45	(2.94)	(1.63)	0.00	0.08
Total debt ratio (2)	0.24	0.31	0.43	0.69	0.94	0.00	0.06
Long-term debt to equity	1.07	2.89	6.02	(8.17)	(1.88)	N/A	N/A
Financial leverage index (3)	6.66	11.90	369.39	(4.28)	(1.74)	1.28	1.27
Financial leverage ratio (4)	6.66	11.90	369.39	(4.28)	(1.74)	1.28	1.27
Altman Z score (5)	2.71	2.42	2.27	1.74	0.66	13.85	3.51

1. Although in comparison, Amazon's ratio looks higher than eBay and Yahoo. In Amazon's case, the ratios have been decreasing since 2005. This means less of the company is being financed by creditors. The negative numbers in 2003 and 2004 are because the shareholder's equities are negative. The shareholder's equity has been going up since 2002.

2. The debt ratio measures the proportion of assets financed by debt. It is a measure of long-term solvency. A company with a high debt ratio means it has higher financial risk, and has to pay a higher interest rate when borrowing money. Amazon's ratio of under 1 means a majority of assets are financed through equity. From the table above, it shows that the debt ratios from 2003 to 2007 were going down. It means that Amazon had more assets than debt and runs the business with financial health.

3. Financial leverage index evaluates whether the firm uses its debt effectively. Because Amazon's common equity is from negative to positive in 2004 to 2005. Their ROCE is very big in 2005. It causes in Amazon's financial leverage index to be very large. Amazon's financial leverage index of greater than 1 from 2005 implied favorable effects of leverage and use of debt effectively.

4. A lower financial leverage ratio indicates ease in paying interest and principal while obtaining more funding. Although Amazon's financial leverage ratio of 4.53 is higher than eBay, it is lower than the last two years.

5. Altman's Z-Score measures the probability of a company going bankrupt. If Z-score is less than 1.2, then the probability of bankruptcy is high. If Z-score is grater than 2.99, it indicates a low probability of bankrupt. Amazon's Z-Score is form getting better from up from 0.66 to 2.71 in the period 2003 to 2007. It shows Amazon is a healthy financial structure.

Building Block #3							
Asset Utilization Ratios							
Measure	**2007**	**2006**	**2005**	**2004**	**2003**	**eBay**	Yahoo
Sales to receivables	21.75	28.04	32.78	34.76	40.03	8.45	6.60
Sales to inventories	12.36	12.21	15.00	14.43	17.91	N/A	N/A
Sales to working capital	10.23	12.74	8.24	7.53	9.27	1.91	7.44
Sales to fixed assets	27.32	23.44	24.40	28.11	23.47	6.85	5.23
Sales to other assets	26.68	31.69	32.65	21.72	111.28	58.26	13.83
Sales to total assets	2.29	2.45	2.30	2.13	2.43	0.50	0.57

1. Sales to receivables measures net sales over receivables. Sales to receivables have been going down since 2003, but still much higher than eBay.

2. Sale to working capital is 10.23. Although the number was a little down in 2007, Amazon's number in 2007 was higher than its competitor, eBay and Yahoo.

3. For sales to fixed assets in the past five years, the numbers were in a stable range from 23 to 28. The higher the Fixed Asset Turnover ratio, the more effective Amazon's investments in net property, plant and equipment have become.

4. For sales to other asset: this ratio in 2003 was very big, it is because the amount of other asset was small. However, there was a big increasing on other asset in 2004, because they hold warrants to purchase equity securities of other companies that are derivative financial instruments, classified in other assets on the consolidated balance sheets.

5. A higher ratio of sales to total asset indicates that a firm is making or providing adequate revenues from the deployment of every single dollar. In this ratio, Amazon is better and more efficient than eBay and Yahoo.

Building Block #4							
Profit Margin Ratio (%)							
Measure	2007	2006	2005	2004	2003	eBay	Yahoo
Gross profit margin (1)	22.6%	22.9%	24.0%	23.1%	23.9%	74.4%	57.7%
Operating profit margin (2	4.4%	3.5%	5.0%	5.1%	0.7%	9.8%	12.2%
Net profit margin(3)	3.2%	1.8%	4.2%	8.5%	0.7%	4.5%	9.5%

1. Gross profit margins in 2007 decreased. The main reason is because Amazon continues reducing price for customers, including from free shipping offers and Amazon Prime, and a larger percent of sales in lower margin categories such as electronics. They result in high revenues, not higher gross profit margin, because Amazon focus on profit dollars rather than margins

2. We can see a drop of operating profit margin in 2006. A large expense of developing in technology and adding computer scientists and software engineers was not offset by revenue. However, in 2007 a deal of increasing revenue shows their investment is successful.

3. Net profit margins: In 2004, because of large losses in operating, they had a non-cash net benefit from income taxes of $233 million resulting from changes in net profit margin.

Building Block # 5							
Return on Invested Capital Ratio							
Measure	**2007**	**2006**	**2005**	**2004**	**2003**	**eBay**	**Yahoo**
Return on assets (ROA)	0.10	0.06	0.12	0.28	0.07	0.02	0.06
Return on common equity (ROCE)	0.58	0.56	38.19	(0.93)	(0.03)	0.03	0.07
Return on long-term debt and equity	0.23	0.13	0.25	0.60	0.17	0.03	0.07
Equity growth rate	0.58	0.56	38.19	(0.93)	(0.03)	0.03	0.07
Disaggregation of return on common equity							
Adjusted profit margin	0.03	0.02	0.04	0.09	0.01	0.05	0.09
×	x						
Assets turnover	2.74	2.66	2.45	2.56	2.54	0.53	0.59
×	x						
Financial leverage ratio	6.66	11.90	369.39	(4.28)	(1.74)	1.28	1.27
ROCE	0.58	0.56	38.19	(0.93)	(0.03)	0.03	0.07

1. The ROA figure gives investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number, the better. Amazon is 10% and it generates a return of $ 0.12. It is better than eBay 2% and Yahoo 6%.

2. ROCE shows how much profit a company earned in comparison to the total amount of shareholder equity. Amazon that has a higher return on common equity and is more likely to be one that is capable of generating cash internally. The higher a companies return on common equity compared to other companies, the better.

3. Equity Growth Rate implies how much a firm can grow without increasing its current level of financing. Amazon doesn't have any preferred dividend nor minority interest, so Amazon's Equity Growth Rate is equal to its ROCE.

Section 8
Investment Risk

As usual, any investment carries risk. AMZN is in a highly competitive landscape and the intrinsically high valuation multiples of growth stocks in the Internet sector presents grave risks to investors. The main areas Amazon may face are:

- Long-term profit margin uncertainty
- Foreign Exchange Risk
- Market risk
- Interest Rate risk
- Significant Inventory Risk
- Taxation risk

Long-term profit margin uncertainty

Prior to Amazon's recent valuation spikes in May 2007, the company received ongoing criticism from investors about its significant investments in technology and content and its relentless lowering of prices, two practices which caused concerns about the operating margins and long-term profitability of the company.

Management addressed these issues by stating that the investments and decisions made by the company are focused on driving growth in long-term free cash flow. Although healthy Q1 2007 results seem to have calmed margin concerns in many investors, many factors contribute to the continuing uncertainty about the long-term profitability levels of Amazon's business model. Continued investment in technology and in fulfillment centers, increased uptake in various free-shipping promotions, decreasing revenues from ecommerce partnerships, revenue shift to product lines with lower margins, and constant price cuts all represent risks to Amazon's gross margins.

Foreign Exchange Risk

Foreign exchange risk is the risk that company faces during changes in exchange rates. Money must first be converted into a different currency to make a certain investment. This risk would affect Amazon since they do indeed have an international presence. During 2007, net sales from Amazon's International segment accounted for 45% of their consolidated revenues. Thus, the result of operations exposes Amazon to foreign exchange rate fluctuations.

As a result of fluctuations in foreign exchange rates during 2007, International segment revenues increased $390 million which is a positive for Amazon. Vice versa, any payments due on their debts denominated in the local foreign currency will be a negative when the US Dollar weakens.

Market risk

General economic spending can have an impact on how people are willing to spend. This can have an impact of how much Amazon is able to sell. Fortunately, Amazon has broad exposure to online retail's strong secular growth. Amazon also has significant international presence to give them leverage.

As Amazon continues to expand into new categories and markets and to experiment with building new kinds of businesses, substantial investments will be made today in the hopes of planting the seeds that will become substantial revenues opportunities in the future. Many of these bets will fail, but even if a few of them succeed, they could translate into incredible businesses for the company. Online sales still represent only a small percent of the US retail market overall. However, the continuing shift towards online purchasing is a major trend which should provide Amazon with sustained long-term growth potential

Interest Rate risk

Amazon's exposure to changes in interest rate directly affects their investment portfolio and long-term debt. They invested their excess cash in "A" rated, short-to intermediate-term fixed income securities and money market mutual funds. Fixed rate securities may have their fair value affected due to a rise in interest rates, so they may suffer losses in principal if forced to sell securities that have declined in fair value due to changes in interest rates.

Significant Inventory Risk

Amazon is exposed to significant inventory risks that may adversely affect their operating results as a result of seasonality, new product launches, and rapid changes in product cycles. They must accurately predict these trends and avoid overstocking or under-stocking products. Demand for products can change significantly between the time inventory is ordered and the date of sale. In addition, when they begin selling a new product, it may be difficult to establish vendor relationships, determine appropriate product selection, and forecast product demand. A failure to optimize inventory within fulfillment network will increase net shipping cost by requiring them to make inventory shipments from one or more locations, complimentary upgrades, and additional long-zone shipments necessary to ensure timely delivery.

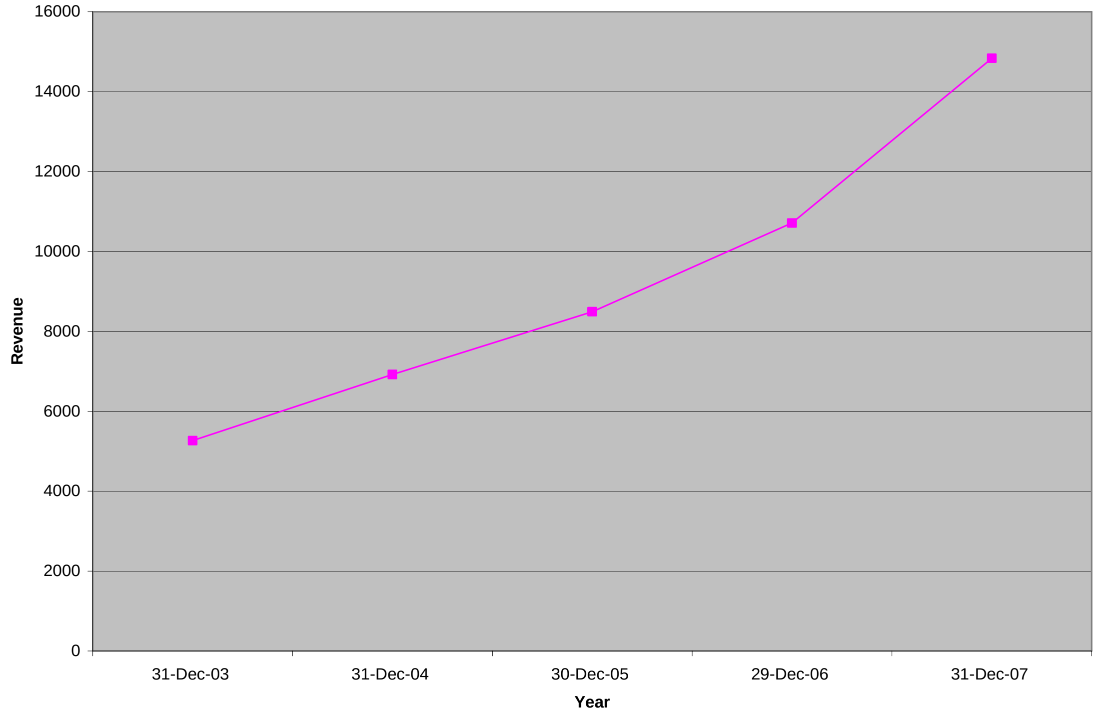
As a result of third-party services relationships with Toysrus.com, Babiesrus.com, Target, and other companies; these parties identify, buy, and bear the financial risk of inventory obsolescence for their corresponding stores and merchandise. As a result, if any parties fail to forecast product demand or optimize or maintain access to inventory, they would receive reduced service fees under the agreements and their reputation could be harmed.

Taxation Risks

Amazon does not collect sales or other taxes on shipments of goods into most states in the U.S. Under some of our commercial agreements, the other company is the seller of record, and they are obligated to collect sales tax in accordance with that company's instructions. They may enter into additional agreements requiring similar tax collection obligations. Fulfillment center and customer service center networks may result in additional sales and other tax obligations. They collect consumption tax (including value added tax, goods and services tax, and provincial sales tax) as applicable on goods and services sold by them that are ordered on international site. More states and foreign countries may seek to impose sales or other tax collection obligations on out-of-jurisdiction e-commerce companies. A successful assertion by more state or foreign countries that they should collect sales or other taxes on the sale of merchandise or service could result in substantial tax liabilities for past sales, decrease ability to compete with traditional retailers, and otherwise harm business.

Section 9
Technical Analysis:

Amazon has seen constant, strong growth and has been trending upward since 2003. Below is a trend analysis of Amazon's revenue for the past five years.



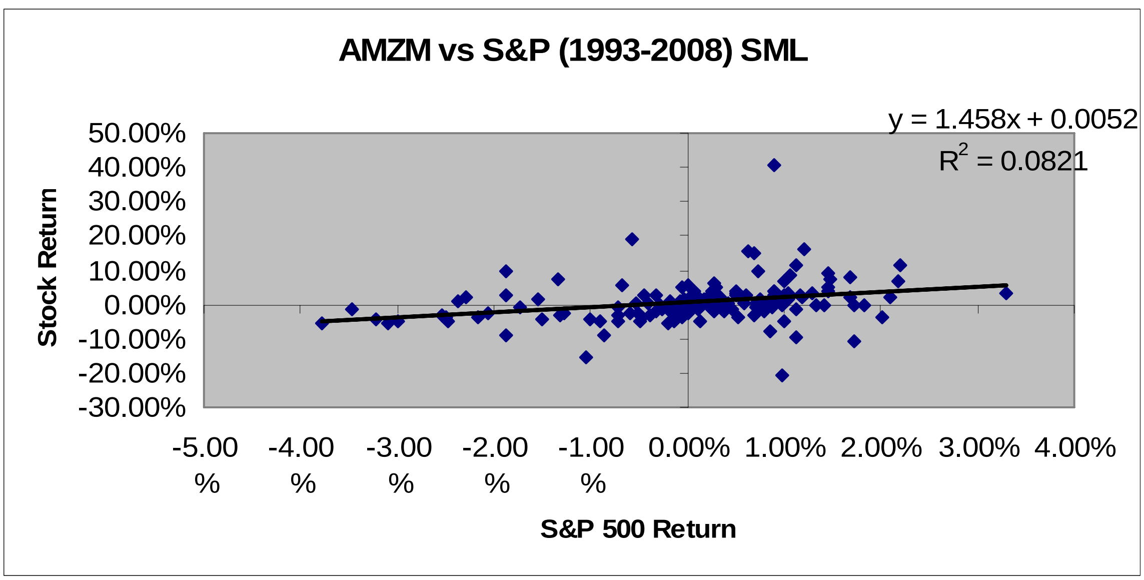
Below is a chart showing the stock price growth over the past year.

The Capital Asset Pricing Model depicts the relationship of a company's Beta and how it affects its rate of return. We calculated expected rate of return as discount rate by using Capital Asset Pricing Model (CAPM). We used a 5-year T-note average interest rate from past 3 auctions as the risk free rate. We used a five-year risk free rate to reflect the expected holding period of Amazon within the Investment Fund.

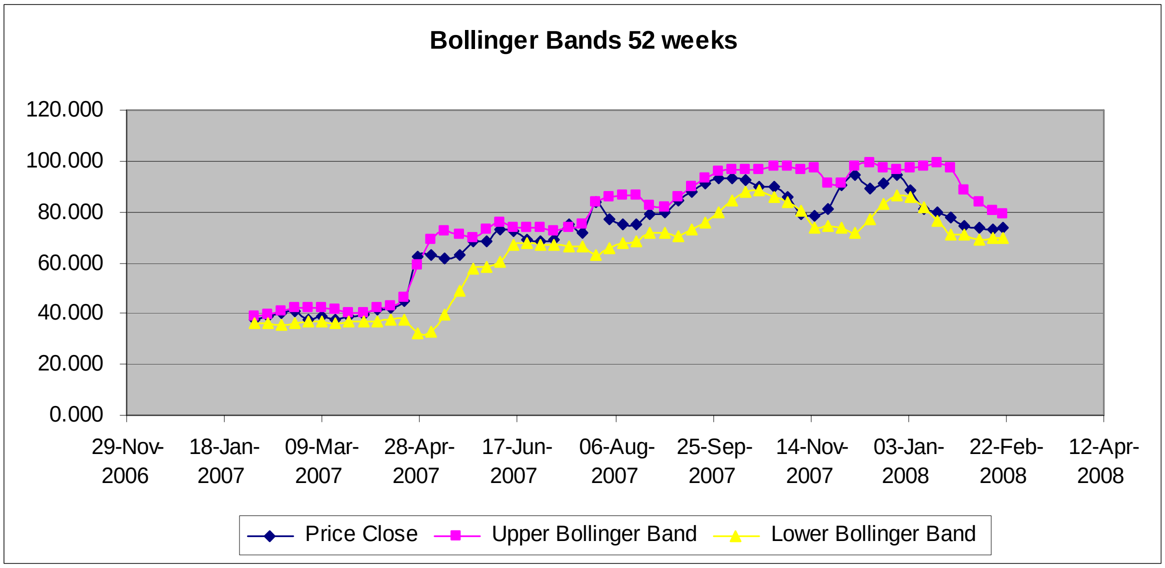
We used the Compound Annual Growth Rate from past 15-year of S&P 500 returns (1993-2007) for expected market return. The stock's required rate of return is based on relative analysis of the returns being offered by competing investments, taking into account the respective risk involved. The security characteristic line (SCL) represents the relationship between the market return and the return of a given asset at a given time. Beta is the monthly price change of a particular company relative to the monthly price change of the S&P500. The time period for Beta is 3 years (36 months) when available. Beta for AMZN will be calculated based on the company's weekly closing prices for the past three years.

Given:

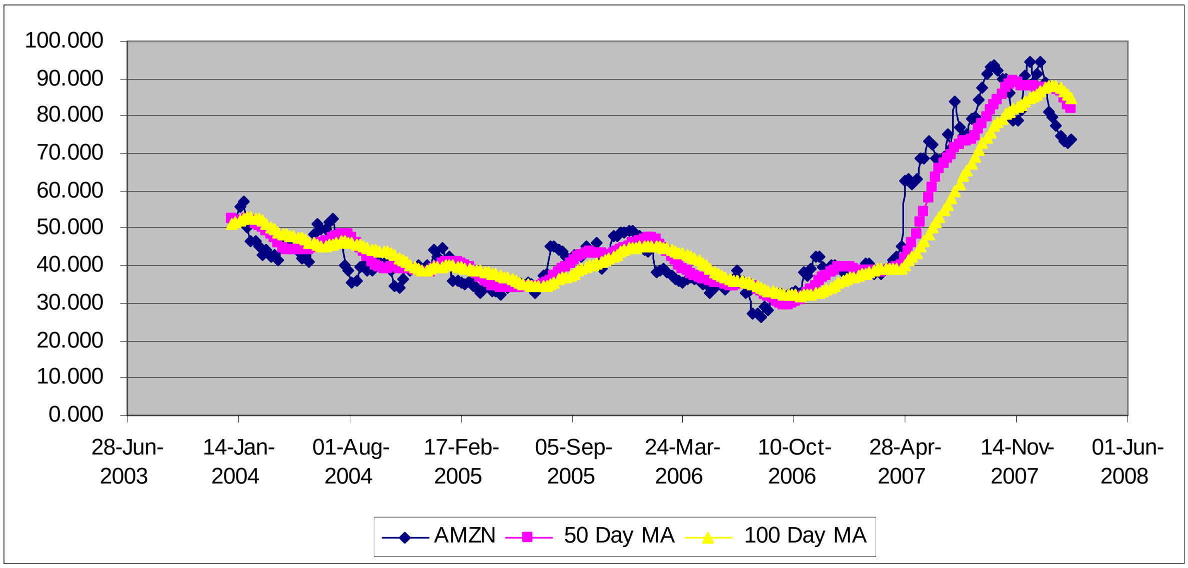
- Rf = 3.075% 5-year T-note average interest rate from past 3 auction
- E(Rm) = 8.44 % Compound Annual Growth Rate from past 15-year of S&P 500 returns
- AMZN's β = Beta Coefficient = 1.458
- k = Rf+ β [E(Rm)- Rf] = 3.075 + 1.458 * (8.44-3.075) = 10.89%



Bollinger Bands (BOL) is a useful technical tool to measure the degree of price changing. The line in the middle is the price of stock. The price of stock plus (minus) 2 times standard deviation becomes upper (lower) line. The gap between upper and lower lines is the degree of price changing. When the price line surpasses the upper line could be seemed that the stock price is climbing, and it's a strong buy signal. For the majority of 2007, AMZN was riding near the upper line but has since gotten to the middle, but we believe it will eventually come back and surpass the upper line.



Below is a simple moving average graph that covers 2 years of data. When the 50-day moving average line goes below the 100-day MA, we noticed the price of AMZN started to drop and when it touches the 100-day MA and goes up, there appears to be a bullish run on the stock price on Amazon. Many traders watch for short-term averages to cross above longer-term averages to signal the beginning of an uptrend. Based on the chart below, we can see after the 50-day moving average surpassed the 100-moving average, we have seen an upward trend on the stock price of Amazon.



Section 10
Income Statement, Balance Sheet, and Cash Flow

INCOME STATEMENTS					
(In millions, except per share amounts)	2007	2006	2005	2004	2003
	Amount	**Amount**	**Amount**	**Amount**	**Amount**
Year Ended December 31					
Revenue	14835.0	10711.0	8490.0	6921.1	5263.7
Operating expenses:					
Cost of Good Sold	11482.0	8255.0	6451.0	5319.1	4006.5
Gross Income	**3353.0**	**2456.0**	**2039.0**	**1602.0**	**1257.2**
Selling, General & Admin Expense	1871.0	1395.0	1109.0	918.3	775.9
Reasearch & Development	818.0	662.0	451.0	251.2	207.8
Other Operating Expenses	9.0	10.0	47.0	(8.0)	2.9
Operating Inc Before Unusual Items	**655.0**	**389.0**	**432.0**	**440.5**	**270.6**
Interest Expense	(77.0)	(78.0)	(92.0)	(107.2)	(130.0)
Interest/Invenstemetn Income	90.0	59.0	44.0	28.2	22.0
Other Incom (expense)	(8.0)	7.0	44.0	(5.5)	(123.6)
Income Before Income Taxes	**660.0**	**377.0**	**428.0**	**356.0**	**39.0**
Income Taxes	184.0	187.0	95.0	(232.6)	3.7
Net Income	**476.0**	**190.0**	**333.0**	**588.6**	**35.3**

Balance Sheet					
(In millions) 31-DEC	2007	2006	2005	2004	2003
Assets					
Current assets:					
Cash and equivalents	3112.0	2019.0	2000.0	1779.2	1394.8
Accounts Receivable	682.0	382.0	259.0	199.1	131.5
Inventories, net	1200.0	877.0	566.0	479.7	293.9
Prepaid Expenses	23.0	17.0	15.0	0.0	0.0
Deferred Income Tax	147.0	78.0	89.0	81.4	0.6
Total current assets	**5164.0**	**3373.0**	**2929.0**	**2539.4**	**1820.8**
Property and equipment, net	543.0	457.0	348.0	246.2	224.3
Goodwill	222.0	195.0	159.0	139.0	69.1
Intangibles, Net	0.0	0.0	0.0	5.4	0.5
Deferred Income Tax	260.0	199.0	223.0	281.8	4.1
Other	296.0	139.0	37.0	36.8	43.2
Total assets	**6485.0**	**4363.0**	**3696.0**	**3248.6**	**2162.0**
Liabilities and stockholders' equity					
Current liabilities:					
Short-term Debt	0.0	0.0	0.0	2.4	4.2
Accounts Payables	2795.0	1816.0	1366.0	1141.7	819.8
Accrued Expenses	919.0	716.0	533.0	361.1	317.7
Other Current Liabilities	0.0	0.0	0.0	115.2	110.9
Total current liabilities	**3714.0**	**2532.0**	**1899.0**	**1620.4**	**1252.6**
Long-term Debt	1282.0	1247.0	1480.0	1855.3	1945.4
Other long-term liabilities	292.0	153.0	71.0	0.0	0.0
Total Liabilities	**5288.0**	**3932.0**	**3450.0**	**3475.7**	**3198.0**
Common stock	4.0	4.0	4.0	4.1	4.0
Additional Paid-In Capital	3063.0	2517.0	2263.0	2124.6	1899.4
Retained earnings	(1375.0)	(1837.0)	(2027.0)	(2368.0)	(2974.4)
Treasury Stock - Common	(500.0)	(252.0)	0.0	0.0	0.0
Other Equity	5.0	(1.0)	60.0	30.1	34.9
Total stockholders' equity	**1197.0**	**431.0**	**300.0**	**(209.2)**	**(1036.1)**
Total liabilities and stockholders' equity	**6485.0**	**4363.0**	**3750.0**	**3266.5**	**2161.9**

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CASH FLOW					
(In millions) Year Ended Dec. 31	2007	2006	2005	2004	2003
Operations					
Net income	476.0	190.0	359.0	588.5	35.3
Depreciation	246.0	205.0	121.0	75.7	78.2
Deferred Taxes	(99.0)	22.0	70.0	(256.7)	0.0
Non-Cash Items	(50.0)	1.0	30.0	54.7	221.2
Accounts receivable	(255.0)	(103.0)	(84.0)	(1.7)	0.0
invetories	(303.0)	(282.0)	(104.0)	(168.9)	(76.8)
prepaid Expense	0.0	0.0	0.0	0.0	0.3
Accounts payable	928.0	402.0	274.0	286.1	167.7
Accrued Expenses	429.0	241.0	60.0	(15.1)	(25.7)
other Liabilities	33.0	26.0	7.0	4.0	(8.2)
Net cash from operations	**1405.0**	**702.0**	**733.0**	**566.6**	**392.0**
Financing					
Repurch/Retirement Common	(248.0)	(252.0)	0.0	0.0	0.0
Options Exercised	91.0	35.0	66.0	60.1	163.3
Issuance of LT Debt	24.0	98.0	11.0	0.0	0.0
Reduction of LT Debt	(74.0)	(383.0)	(270.0)	(157.4)	(495.3)
Other	257.0	102.0	0.0	0.0	0.0
Net cash used in financing	**50.0**	**(400.0)**	**(193.0)**	**(97.3)**	**(332.0)**
Investing					
Capital Expenditures	(224.0)	(216.0)	(204.0)	(89.1)	(46.0)
Acquisition/Sale of Business	(75.0)	(32.0)	(24.0)	(71.2)	5.1
Purchase/Sale fo Investments	341.0	(85.0)	(550.0)	(157.3)	277.5
Net cash from (used in) investing	**42.0**	**(333.0)**	**(778.0)**	**(317.6)**	**236.6**
Purchase/Sale fo Investments	20.0	40.0	(52.0)	48.7	67.3
Net change in cash and equivalents	1517.0	9.0	(290.0)	200.4	363.9
Cash and equivalents, beginning of period	1022.0	1013.0	1303.0	1102.3	738.3
Cash and equivalents, end of period	**2539.0**	**1022.0**	**1013.0**	**1302.7**	**1102.2**
Sum of Positive Flow	2825.0	1322.0	998.0	1054.0	948.6

Initial Assessment: Revenue rose significantly over the past 5 years from 2003 to 2007. Earnings per share was also rising from 0.36 in 2003 to 1.13 in 2007.

Income Statement

From the common size income statement, Amazon showed a strong 2007 4th quarter earning. Net income has risen dramatically from last year. The percentage of net income over revenue increased from 1.77% in 2006 to 3.21% in 2007. This is partly due to the company's ability to produce solid sales growth over the holiday season, a time that was generally weak for retailers. Their research and development cost have been increasing showing their continuing commitment to excellence.

Balance Sheet

The total assets of the company have near doubled since 2005. Cash and short term investments grew from $2,019 million in 2006 to $3112 in 2007. Accounts receivable increased by 78% from 2006 in 2007. Debt has been falling since 2005 but has gone up a bit in 2007.

Their liabilities are mostly from Accounts payable which is an amount owed to a supplier for good or services purchased on credit. Total Shareholders equity increased from $431 million in 2006 to $1,197 million in 2007. The following was extracted from Amazon’s annual report to reflect the increase in stockholder’s equity for 2007.

- As of December 31, 2007, outstanding common shares plus shares underlying outstanding stock-based awards were 435 million, down from 436 million as of December 31, 2006. This total includes all stock-based awards outstanding, without regard for estimated forfeitures, consisting of vested and unvested awards and in-the-money and out-of-the-money stock options.

- As of December 31, 2007, stock-based awards outstanding were 18 million, or 4.4% of shares outstanding, down from 22 million, or 5.3% of outstanding shares. Underlying outstanding stock awards consist of 16 million shares of restricted stock units and 2 million stock options with a $17.46 weighted-average exercise price.

- We granted restricted stock unit awards of 0.3 million shares in fourth quarter and 8 million shares in 2007, compared with 1.3 million shares and 9 million shares.

- We repurchased 8.2 million shares of our common stock for $252 million in 2006 and $6.3 million shares for $248 million in first quarter 2007. In April 2007, our Board of Directors authorized a 24-month program to repurchase up to an aggregate of $500 million of our common stock.

Cash Flow

Free cash flow has increased significantly from $486 million in 2006 to $1181 million in 2007. With the additional cash, Amazon plans to buy back, redeem or retire up to all of its 4.75 percent convertible subordinated notes due in 2009 and its 6.875 percent convertible subordinated notes due in 2010.

Section 11
Portfolio Risk Management

St. John's University portfolio consists of a few exchange traded funds which is not taken into account when calculating the portfolio's beta. As shown in the table below, the beta for the portfolio currently is standing at 1.07 which indicates it moves with the market.

Name of Company	Symbol	Shares	Amount	Weight	Beta
America Movil S.A.B de C.V...	AMX	400	$23,448.00	4.92%	1.90
Apple Inc.	AAPL	250	$31,507.50	6.61%	2.06
Citigroup Inc.	C	250	$5,302.50	1.11%	1.13
Coach, Inc.	COH	400	$11,240.00	2.36%	1.36
Dell Inc.	DELL	650	$12,798.50	2.69%	1.37
Electronic Arts Inc.	ERTS	300	$14,169.00	2.97%	1.49
Exxon Mobil Corporation	XOM	400	$34,388.00	7.22%	0.86
Forest Laboratories, Inc.	FRX	250	$9,572.50	2.01%	0.68
General Electric Company	GE	300	$10,188.00	2.14%	0.73
Harley-Davidson, Inc.	HOG	200	$7,258.00	1.52%	1.14
Kohl's Corporation	KSS	400	$16,912.00	3.55%	0.54
McDonald's Corporation	MCD	500	$26,850.00	5.64%	1.39
PepsiCo, Inc.	PEP	350	$24,346.00	5.11%	0.46
Rio Tinto plc (ADR)	RTP	150	$65,001.00	13.65%	0.95
SPDR Trust, Series 1	SPY	1100	$144,496.00	30.33%	1.00
Starbucks Corporation	SBUX	600	$10,566.00	2.22%	0.84
Toyota Motor Corporation (ADR)	TM	150	$15,753.00	3.31%	0.43
Wal-Mart Stores, Inc.	WMT	250	$12,572.50	2.64%	0.06
			$476,368.50	100.00%	1.05

If we were to buy 400 shares of Amazon today, whose current closing stock price as of 3/1/2008 is 64.47; the beta of the portfolio only increased by a minuscule amount. Beta of Amazon is the calculated beta using weekly data for the past 3 years.

Name of Company	**Symbol**	**Shares**	**Amount**	**Weight**	**Beta**
Amazon	AMZN	400	$25,788.00	5.06%	1.46
America Movil S.A.B de C.V...	AMX	400	$24,184.00	4.74%	1.90
Apple Inc.	AAPL	250	$31,255.00	6.13%	2.06
Citigroup Inc.	C	250	$5,927.50	1.16%	1.13
Coach, Inc.	COH	400	$12,128.00	2.38%	1.36
Dell Inc.	DELL	650	$12,935.00	2.54%	1.37
Electronic Arts Inc.	ERTS	300	$14,187.00	2.78%	1.49
Exxon Mobil Corporation	XOM	400	$34,804.00	6.83%	0.86
Forest Laboratories, Inc.	FRX	250	$9,942.50	1.95%	0.68
General Electric Company	GE	300	$9,942.00	1.95%	0.73
Harley-Davidson, Inc.	HOG	200	$7,432.00	1.46%	1.14
Kohl's Corporation	KSS	400	$17,776.00	3.49%	0.54
McDonald's Corporation	MCD	500	$27,055.00	5.31%	1.39
PepsiCo, Inc.	PEP	350	$24,346.00	4.78%	0.46
Rio Tinto plc (ADR)	RTP	150	$68,167.50	13.37%	0.95
SPDR Trust, Series 1	SPY	1100	$144,496.00	28.34%	1.00
Starbucks Corporation	SBUX	600	$10,788.00	2.12%	0.84
Toyota Motor Corporation (ADR)	TM	150	$16,282.50	3.19%	0.43
Wal-Mart Stores, Inc.	WMT	250	$12,397.50	2.43%	0.06
			$509,833.50	100.00%	1.07

COMMON SIZE Income Statement						
Source Document Date:	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Operating Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Cost of Goods Sold*	**77.4%**	**77.1%**	**76.0%**	**76.9%**	**76.1%**	**74.8%**
Gross Income	**22.6%**	**22.9%**	**24.0%**	**23.1%**	**23.9%**	**25.2%**
Selling, General & Admin Expenses	**18.1%**	**19.2%**	**18.4%**	**16.9%**	**18.7%**	**22.4%**
Investment/Interest Income	**0.6%**	**0.6%**	**0.5%**	**0.4%**	**0.4%**	**0.6%**
Other Operating Income (Expense)	**-0.1%**	**0.0%**	**0.0%**	**0.0%**	**-2.4%**	**-3.6%**
EBIT	**5.0%**	**4.2%**	**6.1%**	**6.7%**	**3.2%**	**-0.2%**
Interest Expense	**0.5%**	**0.7%**	**1.1%**	**1.5%**	**2.5%**	**3.6%**
Pretax Income	**4.4%**	**3.5%**	**5.0%**	**5.1%**	**0.7%**	**-3.8%**
Income Taxes	**1.2%**	**1.7%**	**1.1%**	**-3.4%**	**0.1%**	**0.0%**
Net Income	**3.2%**	**1.8%**	**3.9%**	**8.5%**	**0.7%**	**-3.8%**

COMMON SIZE Balance Sheet					
(In millions) 12/31/2007	2007	2006	2005	2004	2003
Assets					
Current assets:					
Cash and equivalents	47.99%	46.28%	54.11%	54.77%	64.51%
Accounts Receivable	10.52%	8.76%	7.01%	6.13%	6.08%
Inventories, net	18.50%	20.10%	15.31%	14.77%	13.59%
Prepaid Expenses	0.35%	0.39%	0.41%	0.00%	0.00%
Deferred Income Tax	2.27%	1.79%	2.41%	2.51%	0.03%
Total current assets	**79.63%**	**77.31%**	**79.25%**	**78.17%**	**84.22%**
Property and equipment, net	8.37%	10.47%	9.42%	7.58%	10.37%
Goodwill	3.42%	4.47%	4.30%	4.28%	3.20%
Intangibles, Net	0.00%	0.00%	0.00%	0.17%	0.02%
Deferred Income Tax	4.01%	4.56%	6.03%	8.67%	0.19%
Other	4.56%	3.19%	1.00%	1.13%	2.00%
Total assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Liabilities and stockholders' equity					
Current liabilities:					
Short-term Debt	0.00%	0.00%	0.00%	0.07%	0.13%
Accounts Payables	43.10%	41.62%	36.43%	34.95%	25.10%
Accrued Expenses	14.17%	16.41%	14.21%	11.05%	9.73%
Other Current Liabilities	0.00%	0.00%	0.00%	3.53%	3.40%
Total current liabilities	**57.27%**	**58.03%**	**50.64%**	**49.61%**	**38.35%**
Long-term Debt	19.77%	28.58%	39.47%	56.80%	59.56%
Other long-term liabilities	4.50%	3.51%	1.89%	0.00%	0.00%
Total Liabilities	**81.54%**	**90.12%**	**92.00%**	**106.40%**	**97.90%**
Common stock	0.06%	0.09%	0.11%	0.13%	0.12%
Additional Paid-In Capital	47.23%	57.69%	60.35%	65.04%	58.15%
Retained earnings	-21.20%	-42.10%	-54.05%	-72.49%	-91.06%
Treasury Stock - Common	-7.71%	-5.78%	0.00%	0.00%	0.00%
Other Equity	0.08%	-0.02%	1.60%	0.92%	1.07%
Total stockholders' equity	**18.46%**	**9.88%**	**8.00%**	**-6.40%**	**-31.72%**
Total liabilities and stockholders' equity	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**66.18%**

COMMON SIZE CASH FLOW					
(In millions) Year Ended Dec. 31	2007	2006	2005	2004	2003
Operations					
Net income	16.8%	14.4%	36.0%	59.0%	3.5%
Depreciation	8.7%	15.5%	12.1%	7.6%	7.8%
Deferred Taxes	-3.5%	1.7%	7.0%	-25.7%	0.0%
Non-Cash Items	-1.8%	0.1%	3.0%	5.5%	22.2%
Accounts receivable	-9.0%	-7.8%	-8.4%	-0.2%	0.0%
invetories	-10.7%	-21.3%	-10.4%	-16.9%	-7.7%
prepaid Expense	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts payable	32.8%	30.4%	27.5%	28.7%	16.8%
Accrued Expenses	15.2%	18.2%	6.0%	-1.5%	-2.6%
other Liabilities	1.2%	2.0%	0.7%	0.4%	-0.8%
Net cash from operations	**49.7%**	**53.1%**	**73.4%**	**56.8%**	**39.3%**
Financing					
Repurch/Retirement Common	-8.8%	-19.1%	0.0%	0.0%	0.0%
Options Exercised	3.2%	2.6%	6.6%	6.0%	16.4%
Issuance of LT Debt	0.8%	7.4%	1.1%	0.0%	0.0%
Reduction of LT Debt	-2.6%	-29.0%	-27.1%	-15.8%	-49.6%
Other	9.1%	7.7%	0.0%	0.0%	0.0%
Net cash used in financing	**1.8%**	**-30.3%**	**-19.3%**	**-9.7%**	**-33.3%**
Investing					
Capital Expenditures	-7.9%	-16.3%	-20.4%	-8.9%	-4.6%
Acquisition/Sale of Business	-2.7%	-2.4%	-2.4%	-7.1%	0.5%
Purchase/Sale fo Investments	12.1%	-6.4%	-55.1%	-15.8%	27.8%
Net cash from (used in) investing	**1.5%**	**-25.2%**	**-78.0%**	**-31.8%**	**23.7%**
Purchase/Sale fo Investments	0.7%	3.0%	-5.2%	4.9%	6.7%
Net change in cash and equivalents	53.7%	0.7%	-29.1%	20.1%	36.5%
Cash and equivalents, beginning of period	36.2%	76.6%	130.6%	110.5%	74.0%
Cash and equivalents, end of period	**89.9%**	**77.3%**	**101.5%**	**130.5%**	**110.4%**
Sum of Positive Flow	**100%**	**100%**	**100%**	**100%**	**100%**

Section 12
Valuation

BUST SCENERIO						
Revenue Growth: 26% growth (2008), 37% growth (2009), Heavier Increase in CGS, PE Ratio estimated by all time low from previous three years						
Source Document Date:	**2009**		**2008**		**2007**	
Operating Revenue	$25,608.18	100.0%	$18,692.10	100.0%	$14,835.00	100.00%
Cost of Goods Sold*	$19,974.38	78.0%	$14,579.84	78.0%	$11,482.00	77.40%
Gross Income	$5,633.80	22.00%	$4,112.26	22.00%	$3,353.00	22.60%
Selling, General & Admin Expenses	$4,755.03	18.6%	$3,470.82	18.6%	$2,689.00	18.13%
Investment/Interest Income	$143.04	0.6%	$104.41	0.6%	$90.00	0.61%
Other Operating Income (Expense)	($15.19)	-0.1%	($11.09)	-0.1%	($17.00)	-0.11%
EBIT	$1,006.63	3.93%	$734.77	3.93%	$737.00	4.97%
Interest Expense	$97.31	0.4%	$71.03	0.4%	$77.00	0.52%
Pretax Income	$909.32	3.55%	$663.74	3.55%	$660.00	4.45%
Income Taxes	$350.42	1.4%	$255.78	1.4%	$184.00	1.24%
Net Income Before Extraordinaries	$558.90	2.18%	$407.96	2.18%	$476.00	3.21%
EPS Diluted Before Extraordinaries	1.32		0.96		1.12	
Diluted Shares Outstanding	424		424		424	
PE Ratio	32		32		64.4	
Price	**$42.18**		**$30.79**		**$72.25**	

BASE SCENERIO						
Revenue Growth: 30% growth (2008), 37% growth (2009), Steady Increase in CGS, PE Ratio is maintained from 2007						
Source Document Date:	**2009**		**2008**		**2007**	
Operating Revenue	$26,421.14	100.0%	$19,285.50	100.0%	$14,835.00	100.00%
Cost of Goods Sold*	$20,555.64	77.8%	$14,965.55	77.6%	$11,482.00	77.40%
Gross Income	$5,865.49	22.20%	$4,319.95	22.40%	$3,353.00	22.60%
Selling, General & Admin Expenses	$4,905.98	18.6%	$3,581.01	18.6%	$2,689.00	18.13%
Investment/Interest Income	$147.59	0.6%	$107.73	0.6%	$90.00	0.61%
Other Operating Income (Expense)	($15.67)	-0.1%	($11.44)	-0.1%	($17.00)	-0.11%
EBIT	$1,091.43	4.13%	$835.23	4.33%	$737.00	4.97%
Interest Expense	$100.40	0.4%	$73.28	0.4%	$77.00	0.52%
Pretax Income	$991.03	3.75%	$761.95	3.95%	$660.00	4.45%
Income Taxes	$361.54	1.4%	$263.90	1.4%	$184.00	1.24%
Net Income Before Extraordinaries	$629.49	2.38%	$498.05	2.58%	$476.00	3.21%
EPS Diluted Before Extraordinaries	1.48		1.17		1.12	
Diluted Shares Outstanding	424		424		424	
PE Ratio	57		60		64.4	
Price	$84.62		$70.48		$72.25	

BOOM SCENERIO						
Revenue Growth: 33% growth (2008), 37% growth (2009), Steady Increase in CGS, PE Ratio estimated all time high from previous three years						
Source Document Date:	2009		2008		2007	
Operating Revenue	$27,030.85	100.0%	$19,730.55	100.0%	$14,835.00	100.00%
Cost of Goods Sold*	$21,030.00	77.8%	$15,310.91	77.6%	$11,482.00	77.40%
Gross Income	$6,000.85	22.20%	$4,419.64	22.40%	$3,353.00	22.60%
Selling, General & Admin Expenses	$5,019.19	18.6%	$3,663.65	18.6%	$2,689.00	18.13%
Investment/Interest Income	$150.99	0.6%	$110.21	0.6%	$90.00	0.61%
Other Operating Income (Expense)	($16.03)	-0.1%	($11.70)	-0.1%	($17.00)	-0.11%
EBIT	$1,116.61	4.13%	$854.51	4.33%	$737.00	4.97%
Interest Expense	$102.72	0.4%	$74.98	0.4%	$77.00	0.52%
Pretax Income	$1,013.90	3.75%	$779.53	3.95%	$660.00	4.45%
Income Taxes	$369.89	1.4%	$269.99	1.4%	$184.00	1.24%
Net Income Before Extraordinaries	$644.01	2.38%	$509.54	2.58%	$476.00	3.21%
EPS Diluted Before Extraordinaries	1.52		1.20		1.12	
Diluted Shares Outstanding	424		424		424	
PE Ratio	57		60		64.4	
Price	$86.58		$72.11		$72.25	

Discounted Cash Flow Analysis

Bust Scenario

Year	Terminal value	2009	2008	2007
Growth	4%	37%	30%	
Free Cash Flow forecast	$43,054.13	$1,314.11	$1,239.59	$1,407.00
Present value	$37,482.91	$1,144.07	$1,156.61	NA
Structure of firm: 52% debt, 48% equity, 30% tax rate				
Cost of debt	1.94%			
Cost of equity	5.23%			
Weighted Average Cost of Capital (WACC)=cost of debt + cost of equity	7.17%			
Total value-total debt	$38,501.59			
Shares outstanding	424			
Stock price Bust	$90.81			

Base Scenario

Year	Terminal value	2009	2008	2007
Growth	4%	37%	30%	
Free Cash Flow forecast	$46,152.20	$1,408.67	$1,356.08	$1,407.00
Present value	$40,180.08	$1,226.39	$1,265.31	NA
Structure of firm: 52% debt, 48% equity, 30% tax rate				
Cost of debt	1.94%			
Cost of equity	5.23%			
Weighted Average Cost of Capital (WACC)=cost of debt + cost of equity	7.17%			
Total value-total debt	$41,389.78			
Shares outstanding	424			
Stock price Base	$97.62			

Boom Scenario

Year	Terminal value	2009	2008	2007
Growth	4%	37%	30%	
Free Cash Flow forecast	$47,217.25	$1,441.18	$1,387.38	$1,407.00
Present value	$41,107.32	$1,254.69	$1,294.51	NA
Structure of firm: 52% debt, 48% equity, 30% tax rate				
Cost of debt	1.94%			
Cost of equity	5.23%			
Weighted Average Cost of Capital (WACC)=cost of debt + cost of equity	7.17%			
Total value-total debt	$42,374.52			
Shares outstanding	424			
Stock price Boom	$99.94			

Year	**Terminal value**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Growth	4%	10%	15%	15%	20%	20%	
Free Cash Flow forecast	$48,872.15	$1,491.69	$1,412.59	$1,277.47	$1,203.86	$1,306.34	$1,407.00
Present value	$34,562.70	$1,054.94	$1,070.66	$1,037.72	$1,048.08	$1,218.89	NA
Structure of firm: 52% debt, 48% equity, 30% tax rate							
Cost of debt	1.94%						
Cost of equity	5.23%						
Weighted Average Cost of Capital (WACC)=cost of debt + cost of equity	7.17%						
Total value-total debt	$38,710.98						
Shares outstanding	424						
Stock price Multistage	$91.30						

Multistage approach

Section 13
Overall Analysis- Why should we invest in Amazon?

After having a thorough understanding of the company, we believe that there are several factors to take into consideration on why Amazon would be a great purchase. As a team, we believe we should purchase Amazon because it brings diversity to the class portfolio, shows growth even in a slumping economy, the continuous growth of E-commerce, expansion of new products and services, and benefits outweighing the current risks.

Diversity to the Portfolio

Performance Attribution						
GR-SMIF-BOND vs. S&P 500	**2/29/2008 to 3/13/2008**					
		GR-SMIF-BOND			**S&P 500**	
	Average	Total	Contribution	Average	Total	Contribution
Economic Sector	Weight	Return	To Return	Weight	Return	To Return
Commercial Services	--	--	--	0,53	-4,85	-0,03
Communications	2,44	-1,12	-0,03	3,28	-1,51	-0,05
Consumer Durables	3,83	-1,46	-0,06	1,08	-3,58	-0,04
Consumer Non-Durables	3,72	-2,08	-0,08	8,44	0,66	0,06
Consumer Services	3,86	0,48	0,02	4,49	-0,98	-0,04
Distribution Services	--	--	--	0,68	-6,56	-0,05
Electronic Technology	4,51	1,58	0,08	10,44	0,13	0,02
Energy Minerals	3,54	0,05	0,01	10,50	-0,31	-0,03
Finance	0,56	-11,13	-0,07	16,64	-3,50	-0,58
Health Services	--	--	--	1,80	-15,25	-0,29
Health Technology	1,01	-1,43	-0,02	9,95	-2,23	-0,23
Industrial Services	--	--	--	3,35	-0,23	-0,01
Miscellaneous	62,32	-0,81	-0,50	--	--	--
Non-Energy Minerals	6,89	-1,82	-0,15	1,35	3,79	0,05
Process Industries	--	--	--	2,48	-0,71	-0,02
Producer Manufacturing	1,03	3,35	0,03	7,34	1,34	0,10
Retail Trade	3,09	-2,77	-0,09	5,05	-0,71	-0,04
Technology Services	--	--	--	6,89	1,14	0,08
Transportation	--	--	--	1,99	1,18	0,02
Utilities	--	--	--	3,74	1,61	0,06
[Cash]	3,20	0,05	0,00	--	--	--
Total	**100,00**	**-0,83**	**-0,83**	**100,00**	**-1,03**	**-1,03**

As you can see, our class portfolio doesn't have any securities invested in the Service Industry. The purchase of Amazon will diverse and fortify our portfolio.

Growth of Amazon in a Slumping Industry and Market

AMAZON.COM (AMZN)	3/14/08 68.22
P/E Ratio	60.9
Dividend Yield	none
Earnings Per Share - % change	
Latest Qtr (Dec 07)	up 109 %
Latest 12 Months	up 149 %
5 Year Hist Growth Rate	9 %
Estimated Earnings - First Call	
Current Qtr (Mar 08)	up 26 %
Previous Qtr (Dec 07)	up 107 %
Year Ending Dec 08	up 38 %
Year Ending Dec 09	up 38 %
LT Future Growth Rate	22 %

AMAZON.COM (AMZN)	3/14/08 68.22
Latest Earnings Surprise	0 %
Earnings Purity® - Last 12 Qtrs	
Purity %	98 %
Write-Off %	2 %
Earnings Differential	$ .06
Earnings Momentum Value	88 +
Price Momentum Value	99 +
Beta SPX	1.21
Research Commentary - First Call	
Business Overview and Comments	

With the overall market slumping, especially the service sector, Amazon has shown continuous growth despite these implications. For the current quarter, Amazon is up 26%.

Section 14
Conclusion

In conclusion, our team believes Amazon Inc has grown to be a very popular figure and has been performing extremely well over the past few years. Their prospects are bright and aggressive sales growth show Amazon is successfully growing its revenues while simultaneously improving its profitability. In addition, Amazon has few major competitors and is well poised to profit from the long term trend of increasing share of wallet spent online.

The company continues to diversify into other lines of new businesses; a success in any of them could have substantial unexpected impact on their company financials. Our recommendation is to purchase 400 shares of the stock.

Section 15
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