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amazon.com®

ANNUAL REPORT

To our shareholders:

Ouch. It's been a brutal year for many in the capital markets and certainly for Amazon.com shareholders. As of this writing, our shares are down more than 80% from when I wrote you last year. Nevertheless, by almost any measure, Amazon.com the company is in a stronger position now than at any time in its past.

- We served 20 million customers in 2000, up from 14 million in 1999.
- Sales grew to $2.76 billion in 2000 from $1.64 billion in 1999.
- Pro forma operating loss shrank to 6% of sales in Q4 2000, from 26% of sales in Q4 1999.
- Pro forma operating loss in the U.S. shrank to 2% of sales in Q4 2000, from 24% of sales in Q4 1999.
- Average spend per customer in 2000 was $134, up 19%.
- Gross profit grew to $656 million in 2000, from $291 million in 1999, up 125%.
- Almost 36% of Q4 2000 U.S. customers purchased from one of our ''non-BMV'' stores such as electronics, tools, and kitchen.
- International sales grew to $381 million in 2000, from $168 million in 1999.
- We helped our partner Toysrus.com sell more than $125 million of toys and video games in Q4 2000.
- We ended 2000 with cash and marketable securities of $1.1 billion, up from $706 million at the end of 1999, thanks to our early 2000 euroconvert financing.
- And, most importantly, our heads-down focus on the customer was reflected in a score of 84 on the American Customer Satisfaction Index. We are told this is the highest score ever recorded for a service company in any industry.

So, if the company is better positioned today than it was a year ago, why is the stock price so much lower than it was a year ago? As the famed investor Benjamin Graham said, ''In the short term, the stock market is a voting machine; in the long term, it's a weighing machine.'' Clearly there was a lot of voting going on in the boom year of '99—and much less weighing. We're a company that wants to be weighed, and over time, we will be—over the long term, all companies are. In the meantime, we have our heads down working to build a heavier and heavier company.

Many of you have heard me talk about the ''bold bets'' that we as a company have made and will continue to make—these bold bets have included everything from our investment in digital and wireless technologies, to our decision to invest in smaller e-commerce companies, including living.com and Pets.com, both of which shut down operations in 2000. We were significant shareholders in both and lost a significant amount of money on both.

We made these investments because we knew we wouldn't ourselves be entering these particular categories any time soon, and we believed passionately in the ''land rush'' metaphor for the Internet. Indeed, that metaphor was an extraordinarily useful decision aid for several years starting in 1994, but we now believe its usefulness largely faded away over the last couple of years. In retrospect, we significantly underestimated how much time would be available to enter these categories and underestimated how difficult it would be for single-category e-commerce companies to achieve the scale necessary to succeed.

Online selling (relative to traditional retailing) is a scale business characterized by high fixed costs and relatively low variable costs. This makes it difficult to be a medium-sized e-commerce company. With a long

enough financing runway, Pets.com and living.com may have been able to acquire enough customers to achieve the needed scale. But when the capital markets closed the door on financing Internet companies, these companies simply had no choice but to close their doors. As painful as that was, the alternative—investing more of our own capital in these companies to keep them afloat—would have been an even bigger mistake.

Future: Real Estate Doesn't Obey Moore's Law.

Let's move to the future. Why should you be optimistic about the future of e-commerce and the future of Amazon.com?

Industry growth and new customer adoption will be driven over the coming years by relentless improvements in the customer experience of online shopping. These improvements in customer experience will be driven by innovations made possible by dramatic increases in available bandwidth, disk space, and processing power, all of which are getting cheap fast.

Price performance of processing power is doubling about every 18 months (Moore's Law), price performance of disk space is doubling about every 12 months, and price performance of bandwidth is doubling about every 9 months. Given that last doubling rate, Amazon.com will be able to use 60 times as much bandwidth per customer 5 years from now while holding our bandwidth cost per customer constant. Similarly, price performance improvements in disk space and processing power will allow us to, for example, do ever more and better real-time personalization of our Web site.

In the physical world, retailers will continue to use technology to reduce costs, but not to transform the customer experience. We too will use technology to reduce costs, but the bigger effect will be using technology to drive adoption and revenue. We still believe that some 15% of retail commerce may ultimately move online.

While there are no foregone conclusions, and we still have much to prove, Amazon.com today is a unique asset. We have the brand, the customer relationships, the technology, the fulfillment infrastructure, the financial strength, the people, and the determination to extend our leadership in this infant industry and to build an important and lasting company. And we will do so by keeping the customer first.

The year 2001 will be an important one in our development. Like 2000, this year will be a year of focus and execution. As a first step, we've set the goal of achieving a pro forma operating profit in the fourth quarter. While we have a tremendous amount of work to do and there can be no guarantees, we have a plan to get there, it's our top priority, and every person in this company is committed to helping with that goal. I look forward to reporting to you our progress in the coming year.

As I usually do, I've appended our 1997 letter, our first letter to shareholders. It gets more interesting every year that goes by, in part because so little has changed. I especially draw your attention to the section entitled ''It's All About the Long Term.''

We at Amazon.com remain grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement. Many, many thanks.

Jeffrey P. Bezos
Founder and Chief Executive Officer
Amazon.com, Inc.

1997 LETTER TO SHAREHOLDERS

(Reprinted from the 1997 Annual Report)

To our shareholders:

Amazon.com passed many milestones in 1997: by year-end, we had served more than 1.5 million customers, yielding 838% revenue growth to $147.8 million, and extended our market leadership despite aggressive competitive entry.

But this is Day 1 for the Internet and, if we execute well, for Amazon.com. Today, online commerce saves customers money and precious time. Tomorrow, through personalization, online commerce will accelerate the very process of discovery. Amazon.com uses the Internet to create real value for its customers and, by doing so, hopes to create an enduring franchise, even in established and large markets.

We have a window of opportunity as larger players marshal the resources to pursue the online opportunity and as customers, new to purchasing online, are receptive to forming new relationships. The competitive landscape has continued to evolve at a fast pace. Many large players have moved online with credible offerings and have devoted substantial energy and resources to building awareness, traffic, and sales. Our goal is to move quickly to solidify and extend our current position while we begin to pursue the online commerce opportunities in other areas. We see substantial opportunity in the large markets we are targeting. This strategy is not without risk: it requires serious investment and crisp execution against established franchise leaders.

It's All About the Long Term

We believe that a fundamental measure of our success will be the shareholder value we create over the long term. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital.

Our decisions have consistently reflected this focus. We first measure ourselves in terms of the metrics most indicative of our market leadership: customer and revenue growth, the degree to which our customers continue to purchase from us on a repeat basis, and the strength of our brand. We have invested and will continue to invest aggressively to expand and leverage our customer base, brand, and infrastructure as we move to establish an enduring franchise.

Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies. Accordingly, we want to share with you our fundamental management and decision-making approach so that you, our shareholders, may confirm that it is consistent with your investment philosophy:

- We will continue to focus relentlessly on our customers.
- We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.
- We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.
- We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.

- When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.
- We will share our strategic thought processes with you when we make bold choices (to the extent competitive pressures allow), so that you may evaluate for yourselves whether we are making rational long-term leadership investments.
- We will work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture, particularly in a business incurring net losses.
- We will balance our focus on growth with emphasis on long-term profitability and capital management. At this stage, we choose to prioritize growth because we believe that scale is central to achieving the potential of our business model.
- We will continue to focus on hiring and retaining versatile and talented employees, and continue to weight their compensation to stock options rather than cash. We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner.

We aren't so bold as to claim that the above is the ''right'' investment philosophy, but it's ours, and we would be remiss if we weren't clear in the approach we have taken and will continue to take.

With this foundation, we would like to turn to a review of our business focus, our progress in 1997, and our outlook for the future.

Obsess Over Customers

From the beginning, our focus has been on offering our customers compelling value. We realized that the Web was, and still is, the World Wide Wait. Therefore, we set out to offer customers something they simply could not get any other way, and began serving them with books. We brought them much more selection than was possible in a physical store (our store would now occupy 6 football fields), and presented it in a useful, easy-to-search, and easy-to-browse format in a store open 365 days a year, 24 hours a day. We maintained a dogged focus on improving the shopping experience, and in 1997 substantially enhanced our store. We now offer customers gift certificates, 1-Click^{SM} shopping, and vastly more reviews, content, browsing options, and recommendation features. We dramatically lowered prices, further increasing customer value. Word of mouth remains the most powerful customer acquisition tool we have, and we are grateful for the trust our customers have placed in us. Repeat purchases and word of mouth have combined to make Amazon.com the market leader in online bookselling.

By many measures, Amazon.com came a long way in 1997:

- Sales grew from $15.7 million in 1996 to $147.8 million—an 838% increase.
- Cumulative customer accounts grew from 180,000 to 1,510,000—a 738% increase.
- The percentage of orders from repeat customers grew from over 46% in the fourth quarter of 1996 to over 58% in the same period in 1997.
- In terms of audience reach, per Media Metrix, our Web site went from a rank of 90th to within the top 20.
- We established long-term relationships with many important strategic partners, including America Online, Yahoo!, Excite, Netscape, GeoCities, AltaVista, @Home, and Prodigy.

Infrastructure

During 1997, we worked hard to expand our business infrastructure to support these greatly increased traffic, sales, and service levels:

- Amazon.com's employee base grew from 158 to 614, and we significantly strengthened our management team.

- Distribution center capacity grew from 50,000 to 285,000 square feet, including a 70% expansion of our Seattle facilities and the launch of our second distribution center in Delaware in November.
- Inventories rose to over 200,000 titles at year-end, enabling us to improve availability for our customers.
- Our cash and investment balances at year-end were $125 million, thanks to our initial public offering in May 1997 and our $75 million loan, affording us substantial strategic flexibility.

Our Employees

The past year's success is the product of a talented, smart, hard-working group, and I take great pride in being a part of this team. Setting the bar high in our approach to hiring has been, and will continue to be, the single most important element of Amazon.com's success.

It's not easy to work here (when I interview people I tell them, ''You can work long, hard, or smart, but at Amazon.com you can't choose two out of three''), but we are working to build something important, something that matters to our customers, something that we can all tell our grandchildren about. Such things aren't meant to be easy. We are incredibly fortunate to have this group of dedicated employees whose sacrifices and passion build Amazon.com.

Goals for 1998

We are still in the early stages of learning how to bring new value to our customers through Internet commerce and merchandising. Our goal remains to continue to solidify and extend our brand and customer base. This requires sustained investment in systems and infrastructure to support outstanding customer convenience, selection, and service while we grow. We are planning to add music to our product offering, and over time we believe that other products may be prudent investments. We also believe there are significant opportunities to better serve our customers overseas, such as reducing delivery times and better tailoring the customer experience. To be certain, a big part of the challenge for us will lie not in finding new ways to expand our business, but in prioritizing our investments.

We now know vastly more about online commerce than when Amazon.com was founded, but we still have so much to learn. Though we are optimistic, we must remain vigilant and maintain a sense of urgency. The challenges and hurdles we will face to make our long-term vision for Amazon.com a reality are several: aggressive, capable, well-funded competition; considerable growth challenges and execution risk; the risks of product and geographic expansion; and the need for large continuing investments to meet an expanding market opportunity. However, as we've long said, online bookselling, and online commerce in general, should prove to be a very large market, and it's likely that a number of companies will see significant benefit. We feel good about what we've done, and even more excited about what we want to do.

1997 was indeed an incredible year. We at Amazon.com are grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement.

Jeffrey P. Bezos
Founder and Chief Executive Officer
Amazon.com, Inc.

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, 2000

or

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

For the transition period from __________ to __________.

Commission File No. 000-22513

AMAZON.COM, INC.
(Exact name of registrant as specified in its charter)

Delaware	**91-1646860**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

P.O. Box 81226
Seattle, Washington 98108-1226
(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:

None

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

Common Stock, par value $.01 per share

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 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. Yes ☒ No ☐

Aggregate market value of voting stock held by non-affiliates of the registrant as of February 28, 2001	$2,540,000,000
Number of shares of common stock outstanding as of February 28, 2001	358,555,061

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 stockholders to be held in 2001, 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.

AMAZON.COM, INC.

FORM 10-K
For the Fiscal Year Ended December 31, 2000

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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 ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Statements.''

General

Amazon.com, Inc. commenced operations on the World Wide Web in July 1995. We seek to be the world's most customer-centric company, where customers can find and discover anything they may want to buy online. We list millions of unique items in categories such as books, music, DVDs, videos, consumer electronics, toys, camera and photo items, software, computer and video games, tools and hardware, lawn and patio items, kitchen products, and wireless products. Through our Amazon Marketplace, Auctions and zShops services, any business or individual can sell virtually anything to our approximately 30 million cumulative customers, and with Amazon.com Payments, sellers can accept credit card transactions. In addition to our U.S.-based Web site, *www.amazon.com*, we operate four internationally-focused Web sites: *www.amazon.co.uk*, *www.amazon.de*, *www.amazon.fr* and *www.amazon.co.jp*. We also operate the Internet Movie Database (*www.imdb.com*), a comprehensive and authoritative source of information on movies and entertainment titles, and cast and crew members.

Amazon.com is principally organized into three operating segments. The U.S. Books, Music and DVD/video segment consists of our U.S. online stores for books, music and DVDs/videos, as well as commissions earned on the sales of these products through Amazon Marketplace, Auctions and zShops. The Early-Stage Businesses and Other segment consists of our U.S. online stores for all other products, as well as commissions earned on sales of these products through Amazon Marketplace, Auctions and zShops, and all other activities that generate service revenue rather than retail revenue, such as strategic partnerships which often involve co-branded Web sites. The International segment consists of operations associated with our internationally-focused Web sites. See Note 15 of ''Notes to Consolidated Financial Statements'' included in Item 8 of Part II for additional information regarding our segments.

Amazon.com 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. Amazon.com completed its initial public offering in May 1997, and its common stock is listed on the Nasdaq National Market under the symbol ''AMZN.''

As used herein, ''Amazon.com'' includes Amazon.com, Inc. and its subsidiaries, unless the context indicates otherwise.

Business Strategy

Amazon.com seeks to be the world's most customer-centric company where customers can find and discover anything they may want to buy online. We intend to continue to optimize our Internet platform to expand the range of products and services offered to our customers and partners. This platform consists of strong global brand recognition, a large and growing customer base, innovative technology, extensive and sophisticated fulfillment capabilities (consisting of fulfillment and customer service) and significant e-commerce expertise. We believe that this platform allows us to launch new e-commerce businesses quickly, with a high quality of customer experience, economical incremental cost and good prospects for success. We also believe that this platform's flexibility allows us to expand the range of products and services offered to our customers through relationships with strategic partners on terms that are attractive to our customers, our strategic partners and us.

Products and Services

General

Our U.S. online retail stores currently consist of books, music, DVDs, videos, consumer electronics, toys, camera and photo items, software, computer and video games, tools and hardware, lawn and patio items, kitchen products and wireless products. We anticipate new online store additions in 2001 and beyond.

U.S. Books, Music and DVD/Video Segment. The U.S. Books, Music and DVD/video segment had net sales of $1.7 billion, $1.3 billion and $588 million in 2000, 1999 and 1998, respectively. During 2000, we continued to enhance our book, music, DVD and video stores by expanding selection, making it easier to find items, and generally improving the customer experience.

In 2000, our Book store had the largest pre-order in our history. Over 410,000 copies of ''Harry Potter and the Goblet of Fire'' were pre-ordered on our sites worldwide. We joined with Federal Express to provide complementary upgrades to the first 250,000 customers who ordered to ensure delivery on the day of release. In addition, we launched an e-Books store, offering e-books in Microsoft Reader format for PCs and laptops, as well as downloadable e-audiobooks from our strategic partner, Audible, Inc.

During 2000, our Music store launched Bargain Music, Latin and Box Set stores, as well as a Music Accessories store, where customers can now find items such as MP3 players and blank media. We also continued to expand our selection of free music downloads, adding thousands of tracks customers can sample before making a purchase.

Also in 2000, we created over thirty genre or franchise stores for our DVD and Video stores, such as Fitness, Bargain, Cult, and European Cinema. In addition, we launched a new feature that notifies consumers when specific theatrical titles are announced on DVD and/or video. We also created and hosted the official Web sites for a number of prominent films, including *Traffic*, *What Lies Beneath*, *Nurse Betty*, and *The Legend of Bagger Vance*. Our DVD and Video stores were recognized in 2000 as the number one online DVD and Video retailers by Forrester, Gomez Advisors, *Video Business* magazine and the Video Software Dealers Association.

We expanded the selection available to our customers for books, music, DVDs and videos with the launches of Amazon Marketplace, a feature that enables customers to buy and sell used, collectible and rare titles alongside the corresponding new title, and Amazon Outlet, a one-stop shopping area where customers can find year-round bargains on thousands of products across our product lines, including book, music, DVD and video titles.

Early-Stage Businesses and Other Segment. Our Early-Stage Businesses and Other segment includes our Other U.S. Retail (non-book, music and DVD/video retail stores in the U.S.), and commissions earned on the sales of these products through Amazon Marketplace, Auctions and zShops, and all other activities that generate service revenue rather than retail revenue. Net sales for this segment were $683 million and $164 million in 2000 and 1999, respectively. We had no revenue from this segment in previous years.

- *Other U.S. Retail.* Our Other U.S. Retail stores consist of the electronics business, which is comprised of consumer electronics, computer and video games, wireless products, camera and photo items, and software; our home improvement business, which is comprised of tools and hardware and lawn and patio; and our kitchen store. For 2000, the electronics business was our second largest U.S. business after books based on revenue. In 2000, we expanded our selection with the launch of Amazon Marketplace, which enables customers to buy and sell used, collectible and rare merchandise alongside the corresponding new product, and Amazon Outlet, where customers can find year-round bargains on thousands of products across our product lines.

- *Amazon Auctions and zShops.* Amazon Auctions allows buyers and sellers to conduct transactions with respect to a wide variety of products in an easy to use auction format. Amazon zShops allows

individuals and businesses to offer popular as well as hard-to-find items to Amazon.com's customers. The participants in Amazon Auctions and zShops can use our Amazon Payments service, which allows individuals and small businesses to accept credit card payments through Amazon.com's 1-Click payment feature, thus eliminating the inconveniences associated with checks and money orders.

- *Other Services.* Services other than Amazon Auctions and zShops result from agreements with strategic partners to promote their products and services to our customers. In September of 2000, we launched a co-branded toy and video game store with Toysrus.com to bring customers the best toy-buying experience available online. Other strategic partners include drugstore.com, an online retail and information source for health, beauty, wellness, personal care and pharmacy; Audible, which delivers spoken audio over the Internet; Ashford.com, an online retailer of luxury and premium products; NextCard, an online issuer of consumer credit cards; Sotheby's.com, an online auction site devoted to art, antiques, jewelry and collectibles; Ofoto.com, an online photography service; and CarsDirect.com (a company that acquired Greenlight.com), an online source for auto purchasing in partnership with local dealerships.

International Segment. Amazon.com operates four internationally-focused sites: *www.amazon.co.uk*, *www.amazon.de, www.amazon.fr* and *www.amazon.co.jp*. Net sales for the International segment (from all internationally-focused sites, including export sales to the U.S.) were $381 million, $168 million, and $22 million in 2000, 1999 and 1998, respectively. According to Media Metrix data released in November 2000, based on the number of unique Web site hits, *www.amazon.co.uk* and *www.amazon.de* are the number one online retailers in the United Kingdom and Germany, respectively, while *www.amazon.fr* is among the top three online retailers in France and *www.amazon.co.jp*, launched November 1, 2000, is the leading online bookseller in Japan. These international sites share the universal Amazon experience of great selection, convenience, ease of use, service, editorial content, and competitive prices. However, each one is localized in terms of language, products, customer service and fulfillment. In 2000, we managed international customer service out of four international customer service facilities in the Netherlands, the United Kingdom, Germany, and Japan, with additional support from our customer service centers in the U.S. Recently, we announced a consolidation of our European customer service centers to serve our European customers better and more cost-effectively out of two expanded centers in the United Kingdom and Germany. We have fulfillment centers in the United Kingdom, Germany and France as well as in Japan, where we jointly manage fulfillment with Nippon Express, a leading courier company. We intend to expand the product and service offerings of our internationally-focused Web sites in the coming year.

Amazon.com Web Sites

Our Web sites promote brand loyalty and repeat purchases by providing an inviting and satisfying experience that encourages customers to return frequently and to interact with other customers. The key features of our Web sites include broad selection, useful product information, reviews, recommendations, low prices, 1-Click technology, secure payment systems, availability, fulfillment, browsing and searching. Other key features include instant and personalized recommendations, personal notification services, and Web pages tailored to individual customer's preferences. Our Wish List feature allows users to create an online wish list of desired products and services that others can reference for gift-giving purposes, and our listmania feature allows users to publish lists with accompanying commentary regarding their favorite products on the Amazon.com Web site.

Marketing and Promotion

Amazon.com's marketing strategy is designed to strengthen and broaden the Amazon.com brand name, increase customer traffic to the Amazon.com Web sites, build customer loyalty, encourage repeat purchases and develop incremental product and service revenue opportunities. We deliver personalized pages and services and employ a variety of media, business development activities and promotional methods to achieve these goals.

We also benefit from public relations activities as well as online and traditional advertising, including radio, television and print media.

We direct customers to our Web site through our Associates Program, which enables associated Web sites to make products available to their audiences with order fulfillment by Amazon.com. Currently, over 530,000 Web sites have enrolled in the Associates Program.

Customer Service

We believe that our ability to establish and maintain long-term relationships with our customers and to encourage repeat visits and purchases depends, in part, on the strength of our customer service operations, and we continually seek to improve the Amazon.com customer service experience. Users can contact customer service representatives 24 hours a day, 7 days a week. We have automated certain tools used by our customer service staff and have plans for further enhancements. We currently have customer service personnel working in seven customer service centers located in Seattle, Washington (this center is scheduled to close in May 2001), Tacoma, Washington; Slough, England; Regensburg, Germany; Grand Forks, North Dakota; Huntington, West Virginia; The Hague, Netherlands (this center is scheduled to close in June 2001); and Sapporo, Japan, which opened in January 2001. In addition, we have an outsourcing arrangement with Daksh.com, a vendor in India.

Warehousing, Inventory, Fulfillment and Distribution

We currently have U.S. fulfillment facilities in Fernley, Nevada; Coffeyville, Kansas; Campbellsville and Lexington, Kentucky; New Castle, Delaware; and Grand Forks, North Dakota, as well as a seasonal fulfillment center in Seattle, Washington. We also have three European fulfillment centers which are located in the United Kingdom, France and Germany. In Japan, we jointly manage fulfillment with Nippon Express, a leading courier company. On an aggregate basis, these fulfillment centers comprise approximately 4.5 million square feet of warehouse space. Our fulfillment centers facilitate our ability to deliver merchandise to customers on a reliable and timely basis.

Seasonality

Our business is generally affected by both seasonal fluctuations in Internet usage and traditional retail seasonality. Internet usage generally declines during the summer. Traditional retail sales for most of our products, including books, music, DVDs/videos, toys and electronics, usually increase significantly in the fourth calendar quarter of each year. In particular, the fourth quarter seasonal impact may be even more pronounced in our sales of toys and electronics in comparison with our other products.

Technology

We have implemented numerous Web site management, search, customer interaction, recommendation, transaction-processing and fulfillment services and systems using a combination of our own proprietary technologies and commercially available, licensed technologies. Our current strategy is to focus our development efforts on creating and enhancing the specialized, proprietary software that is unique to our business and to license or acquire commercially developed technology for other applications where available and appropriate.

We use a set of applications for accepting and validating customer orders, placing and tracking orders with suppliers, managing and assigning inventory to customer orders and ensuring proper shipment of products to customers based on various ordering criteria. Our transaction-processing systems handle millions of items, a number of different status inquiries, gift-wrapping requests and multiple shipment methods, and allow the customer to choose whether to receive single or several shipments based on availability. These applications also manage the process of accepting, authorizing and charging customer credit cards. Amazon.com Web sites also incorporate a variety of search and database tools.

Competition

The online commerce market segments are relatively new, rapidly evolving and intensely competitive. In addition, the retail environment for our products are generally intensely competitive. Our current or potential competitors include (1) publishers, distributors, manufacturers and physical-world retailers of our products, many of which possess significant brand awareness, sales volume and customer bases, and some of which currently sell, or may sell, products or services through the Internet, mail order or direct marketing, (2) online vendors of products that we sell, (3) a number of indirect competitors, including Web portals and Web search engines, that are involved in online commerce, either directly or in collaboration with other retailers, and (4) Web-based retailers using alternative fulfillment capabilities. We believe that the principal competitive factors in our market segments include brand recognition, selection, personalized services, convenience, price, accessibility, customer service, quality of search tools, quality of editorial and other Web site content, reliability, speed of fulfillment, ease of use and our ability to adapt to changing conditions. As the online commerce market segments continue to grow, other companies may also enter into business combinations or alliances that strengthen their competitive positions.

Intellectual Property

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, partners and others to protect our proprietary rights. We have been issued a number of trademarks, servicemarks, patents and copyrights by U.S. and foreign governmental authorities. We also have applied for the registration of other trademarks, service marks and copyrights in the U.S. and internationally, and we have filed U.S. and international patent applications covering certain of our proprietary technology. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our products and services are made available online. We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights, such as trademarks, patents, technologies or copyrighted materials, to third parties.

Employees

As of December 31, 2000, we employed approximately 9,000 full-time and part-time employees. We also employ independent contractors and temporary personnel on a seasonal basis. None of our employees are represented by a labor union and we consider our employee relations to be good. Competition for qualified personnel in our industry is intense, particularly for software development and other technical staff. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel.

Additional Factors That May Affect Future Results

The following risk factors and other information included in this Annual Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

We Have an Accumulated Deficit and Anticipate Further Losses

We have incurred significant losses since we began doing business. As of December 31, 2000, we had an accumulated deficit of $2.3 billion and our stockholders' equity was a deficit of $967 million. While we generated pro forma operating segment profit in our U.S. Books, Music and DVD/video segment for the full year 2000 and have projected pro forma operating profit for the Company as a whole for the fourth quarter of 2001, we are incurring substantial operating losses and may continue to incur such losses for the foreseeable

future. Our historical company-wide revenue growth rates are not sustainable and our percentage growth rate will decrease in the future.

We Have Significant Indebtedness

As of December 31, 2000, we had indebtedness under senior discount notes, convertible notes, capitalized lease obligations and other asset financings totaling approximately $2.1 billion. We make annual or semi-annual interest payments on the indebtedness under our senior discount notes and our two tranches of convertible notes, which are due in 2008, 2009 and 2010, respectively. We may incur substantial additional debt in the future. Our indebtedness could limit our ability to: obtain necessary additional financing for working capital, capital expenditures, debt service requirements or other purposes in the future; plan for, or react to, changes in our business and competition; and react in the event of an economic downturn.

We may not be able to meet our debt service obligations. If we are unable to generate sufficient cash flow or obtain funds for required payments, or if we fail to comply with other covenants in our indebtedness, we will be in default. In addition, our 6.875% Convertible Subordinated Notes due 2010, also known as ''PEACS,'' are denominated in Euros, not dollars, and the exchange ratio between the Euro and the dollar is not fixed by the indenture governing the PEACS. Therefore, fluctuations in the Euro/dollar exchange ratio may adversely affect us, including impacting the conversion.

We Face Intense Competition

The e-commerce market segments in which we compete are relatively new, rapidly evolving and intensely competitive. In addition, the market segments in which we participate are intensely competitive and we have many competitors in different industries, including the Internet and retail industries.

Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have. They may be able to secure merchandise from vendors on more favorable terms and may be able to adopt more aggressive pricing or inventory policies. They also may be able to devote more resources to technology development and marketing than us.

As these e-commerce market segments continue to grow, other companies may enter into business combinations or alliances that strengthen their competitive positions. We also expect that competition in the e-commerce market segments will intensify. As various Internet market segments obtain large, loyal customer bases, participants in those segments may use their market power to expand into the markets in which we operate. In addition, new and expanded Web technologies may increase the competitive pressures on online retailers. The nature of the Internet as an electronic marketplace facilitates competitive entry and comparison shopping and renders it inherently more competitive than conventional retailing formats. This increased competition may reduce our operating profits, or diminish our market segment share.

The Seasonality of Our Business Places Increased Strain on Our Business

We expect a disproportionate amount of our net sales to be realized during the fourth quarter of our fiscal year. If we do not stock popular products in sufficient amounts and fail to meet customer demand, it could significantly impact our revenue and our future growth. If we overstock products, we may be required to take significant inventory mark-downs or write-offs, which could reduce gross profits. A failure to optimize inventory at our fulfillment centers will harm our shipping margins by requiring us to make partial shipments from one or more locations. In addition, we may experience a decline in our shipping margins 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 Web sites within a short period of time due to increased holiday demand, we may experience system interruptions that make our Web sites 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.

Our inventory balance increases substantially in advance of the Christmas holiday. Payments for purchases of much of this inventory does not occur until the first quarter of the following fiscal year. Because we are paid for sales of product upon shipment, we anticipate an increase in available cash in the fourth quarter of our fiscal year, followed by a decrease in the first quarter as we make payments for inventory purchased in the previous fiscal year.

We May Experience Significant Fluctuations in Our Operating Results

Due to our limited operating history and the unpredictability of our industry, we may not be able to accurately forecast our net sales. We base our current and future expense levels and our investment plans on estimates of future net sales. Our expenses and investments are to a large extent fixed. We may not be able to adjust our spending quickly if our net sales fall short of our expectations.

Our operating results will fluctuate for many reasons, including:

- changes in general economic conditions, including consumer spending,
- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' demands,
- our ability to acquire merchandise, manage our inventory and fulfill orders,
- the introduction by our competitors of Web sites, products or services,
- changes in usage of the Internet and online services and consumer acceptance of the Internet and e-commerce,
- timing of upgrades and developments in our systems and infrastructure,
- the effects of acquisitions and other business combinations, and our ability to successfully integrate those acquisitions and business combinations,
- technical difficulties, system downtime or Internet brownouts,
- variations in the mix of products and services we sell,
- variations in our level of merchandise and vendor returns, and
- disruptions in service by shipping carriers.

Both seasonal fluctuations in Internet usage and traditional retail seasonality are likely to affect our business. Internet usage generally slows during the summer months. Sales in almost all of our product groups, particularly toys and electronics, usually increase significantly in the fourth calendar quarter of each year.

Our Past and Planned Future Growth Will Place a Significant Strain on our Management, Operational and Financial Resources

We have rapidly and significantly expanded our operations and will expand further to address growth of our product and service offerings and customer base. This growth will continue to place a significant strain on our management, operational and financial resources. We also need to train and manage our employee base. Our current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage our future operations. We may not be able to hire, train, retain, motivate and manage required personnel, which may limit our growth.

In addition, we may not benefit in our newer market segments from the first-to-market advantage that we experienced in the online book market. Our gross profits in our newer business activities may be lower than in our older business activities. In addition, we may have limited or no experience in new business activities and our customers may not favorably receive our new businesses. If this were to occur, it could damage our reputation.

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

We depend on the continued services and performance of our senior management and other key personnel, particularly Jeffrey P. Bezos, our President, Chief Executive Officer and Chairman of the Board. We do not have ''key person'' life insurance policies. The loss of any of our executive officers or other key employees could harm our business.

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

Customer access to our Web sites directly affects the volume of goods we sell and thus affects our net sales. We experience occasional system interruptions that make our Web sites unavailable or prevent us from efficiently fulfilling orders, which may reduce our net sales and the attractiveness of our products and services. To prevent system interruptions, we continually need to: add additional software and hardware; upgrade our systems and network infrastructure to accommodate both increased traffic on our Web sites and increased sales volume; and integrate our systems.

Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, break-ins, earthquake and similar events. We do not have backup systems or a formal disaster recovery plan, and we may have inadequate insurance coverage or insurance limits to compensate us for losses from a major interruption. Computer viruses, physical or electronic break-ins and similar disruptions could cause system interruptions, delays and loss of critical data and could prevent us from providing services and accepting and fulfilling customer orders. If this were to occur, it could damage our reputation.

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

We plan, over time, to expand our reach in international market segments. We have relatively little experience in purchasing, marketing and distributing products or services for these market segments and may not benefit from any first-to-market advantages. It will be costly to establish international facilities and operations, promote our brand internationally, and develop localized Web sites and stores and other systems. We may not succeed in these efforts. Our net sales from international market segments may not offset the expense of establishing and maintaining the related operations and, therefore, these operations may never be profitable.

Our international sales and related operations are subject to a number of risks inherent in selling abroad, including, but not limited to, risks with respect to:

- currency exchange rate fluctuations,
- local economic and political conditions,
- restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs),
- import or export licensing requirements,
- limitations on the repatriation of funds,
- difficulty in obtaining distribution and support,
- nationalization,

- longer payment cycles,
- consumer protection laws and restrictions on pricing or discounts,
- lower level of adoption or use of the Internet and other technologies vital to our business, and the lack of appropriate infrastructure to support widespread Internet usage,
- lower level of credit card usage and increased payment risk,
- difficulty in developing employees and simultaneously managing a larger number of unique foreign operations as a result of distance, language and cultural differences,
- laws and policies of the U.S. affecting trade, foreign investment and loans, and
- tax and other laws.

As the international e-commerce market segments continue to grow, competition will likely 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 name recognition. In addition, governments in foreign jurisdictions may regulate e-commerce or other online services in such areas as content, privacy, network security, copyright, encryption or distribution. We may not be able to hire, train, retain, motivate and manage required personnel, which may limit our growth in international market segments.

Our Strategic Partner Program Subjects Us to a Number of Risks

Beginning in the fall of 1999, we entered into agreements with selected companies that involved the sale of products and services by these companies on co-branded sections of the Amazon.com Web site and other promotional services, such as advertising placements and customer referrals. In exchange for the services we provide under these agreements, we receive cash, equity securities of these companies, or a combination of the two. In some cases, we have also made separate investments in a strategic partner by making a cash payment in exchange for equity securities of that partner. As part of this program, we may in the future enter into additional agreements with existing strategic partners or new ones and may also make additional investments. To the extent we have received equity securities as compensation, fluctuations in the value of such securities will impact our ultimate realization of cash value either positively or negatively.

At December 31, 2000, we hold several investments in third parties, primarily investments in our strategic partners, that are accounted for using the equity method. Under the equity method, we are required to record our ownership percentage of the income or loss of these companies as being income or loss for us. We record these amounts generally one month in arrears for private companies and three months in arrears for public companies. One of our strategic partners, drugstore.com, is a public company and four others are private companies. The companies in which we have equity method investments are engaged in the Internet and e-commerce industries, are likely to experience large losses for the foreseeable future and may or may not be ultimately successful. While the future losses we will record under the equity method are limited to the amount of our investment, we expect to record additional equity method losses in the future. Our investments in equity securities that are not accounted for under the equity method are included in ''Marketable securities'' and ''Other equity investments'' on our balance sheet.

We regularly review all of our investments in public and private companies for other-than-temporary declines in fair value. When we determine that the decline in fair value of an investment below our accounting basis is other-than-temporary, we reduce the carrying value of the securities we hold and record a loss in the amount of any such decline. During the third and fourth quarters of 2000, we determined that the declines in value of six of our investments in our strategic partners were other-than-temporary, and we recognized losses totaling $189 million (consisting of $34 million and $155 million in the third and fourth quarters of 2000, respectively) to record these investments at their then current fair value. One of our strategic partners in which we also had an investment, living.com, declared bankruptcy during 2000, and another of our investments, Pets.com, voluntarily liquidated in January of 2001.

We also had net unrealized losses of $2 million on available-for-sale securities included in accumulated other comprehensive loss as of December 31, 2000, and have recorded $305 million of equity-method losses for 2000. In recent quarters, companies in the Internet and e-commerce industries have experienced significant difficulties, including difficulties in raising capital to fund expansion or to continue operations. Because the companies in which we have investments are part of the Internet and e-commerce industries, we may conclude in future quarters that the fair values of other of these investments have experienced an other-than-temporary decline. In addition, if our strategic partners experience such difficulties, we may not receive the consideration owed to us and the value of our investment may become worthless. As agreements with strategic partners expire or otherwise terminate, we may be unable to renew or replace these agreements on terms that are as favorable to us.

During 2000, we amended several of our agreements with certain of our strategic partners that reduced future cash proceeds to be received by us, shortened the term of our commercial agreements, or both. Although these amendments did not impact the amount of unearned revenue previously recorded by us, the timing of revenue recognition of these recorded unearned amounts has been changed to correspond with the terms of the amended agreements.

Our Business Could Suffer if We Are Unsuccessful in Making and Integrating Strategic Alliances

We may enter into strategic alliances with other companies through commercial agreements, joint ventures, investments or business combinations. These transactions create risks such as:

- difficulty assimilating the operations, technology and personnel of combined companies,
- disruption of our ongoing business, including loss of management focus on existing businesses,
- problems retaining key technical and managerial personnel,
- additional operating losses and expenses of acquired businesses,
- impairment of relationships with existing employees, customers and business partners, and
- fluctuations in value and losses that may arise from our equity investments.

We Face Significant Inventory Risk Arising Out of Changes in Consumer Demand and Product Cycles

We are exposed to significant inventory risks as a result of seasonality, new product launches, rapid changes in product cycles and changes in consumer tastes with respect to our products. In order to be successful, we must accurately predict these trends and avoid overstocking or understocking products. Demand for products, however, can change significantly between the time inventory is ordered and the date of sale. In addition, when we begin selling a new product, it is particularly difficult to forecast product demand accurately. A failure to optimize inventory will harm our shipping margins by requiring us to make split shipments from one or more locations, complementary upgrades, and additional long-zone shipments necessary to ensure timely delivery. As a result of our agreement with Toysrus.com, Toysrus.com will identify, buy, manage and bear the financial risk of inventory for the co-branded toy and video games store, as well as for the forthcoming baby products store. As a result, if Toysrus.com fails to forecast product demand or optimize inventory, we would receive reduced service fees under the agreement and our business and reputation could be harmed.

The acquisition of certain types of inventory, or inventory from certain sources, may require significant lead-time and prepayment, and such inventory may not be returnable. We carry a broad selection and significant inventory levels of certain products, such as consumer electronics, and we may be unable to sell products in sufficient quantities or during the relevant selling seasons.

Any one of the factors set forth above may require us to mark down or write off inventory.

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

If we do not successfully operate our fulfillment centers, it could significantly limit our ability to meet customer demand. Most of our fulfillment centers are highly automated, and we have had limited experience with automated fulfillment centers. Because it is difficult to predict sales increases, we may not manage our facilities in an optimal way, which may result in excess inventory, warehousing, fulfillment and distribution capacity. In January 2001, we announced our decision to close our fulfillment center in McDonough, Georgia and operate our fulfillment center in Seattle, Washington on a seasonal basis.

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, partners and others to protect our proprietary rights. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our products and services are made available online. 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. The protection of our intellectual property may require the expenditure of significant financial and managerial resources.

Third parties that license our proprietary rights may take actions that diminish the value of our proprietary rights or reputation. In addition, the steps we take to protect our proprietary rights may not be adequate and third parties may infringe or misappropriate our copyrights, trademarks, trade dress, patents and similar proprietary rights. Other parties may claim that we infringed their proprietary rights. We have been subject to claims, and expect to continue to be subject to legal proceedings and claims, regarding alleged infringement by us of the trademarks and other 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 imposition of damages that we must pay. 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.

We Have a Limited Operating History and Our Stock Price Is Highly Volatile

We have a relatively short operating history and, as an e-commerce company, we have a rapidly evolving and unpredictable business model. The trading price of our common stock fluctuates significantly. For example, during the 52-week period ended December 31, 2000, the reported sale price of our common stock on the NASDAQ National Market was as high as $91.50 and as low as $14.88 per share. Trading prices of our common stock may fluctuate in response to a number of events and factors, such as:

- changes in interest rates or other general economic conditions,
- conditions or trends in the Internet and the e-commerce industry,
- fluctuations in the stock market in general and market prices for Internet-related companies in particular,
- quarterly variations in operating results,
- new products, services, innovations and strategic developments by our competitors or us, or business combinations and investments by our competitors or us,

- changes in financial estimates by us or securities analysts and recommendations by securities analysts,
- changes in Internet regulation,
- changes in capital structure, including issuance of additional debt or equity to the public,
- additions or departures of key personnel,
- corporate restructurings, including layoffs or closures of facilities,
- changes in the valuation methodology of, or performance by, other e-commerce companies, and
- news and securities analyst reports and rumors relating to general business or Internet trends or our existing or future products or services.

Any of these events may cause our stock price to rise or fall, and may adversely affect our business and financing opportunities.

In conjunction with the current tight labor market, the recent volatility in our stock price could force us to increase our cash compensation to employees or grant larger stock option awards than we have historically, which could hurt our operating results, or reduce the percentage ownership of our existing stockholders, or both. In the first quarter of 2001, we offered a limited non-compulsory exchange of employee stock options. This option exchange offer will result in variable accounting treatment for stock options representing approximately 15 million shares of the Company's common stock. Variable accounting treatment will result in unpredictable stock-based compensation dependent on fluctuations in quoted prices for the Company's common stock. Pursuant to the option exchange offer, the number of shares issuable upon option exercises decreased from approximately 70 million shares, or 19.5% of the Company's outstanding common stock, to approximately 52 million shares, or 14.4% of the Company's outstanding common stock.

Government Regulation of the Internet and E-commerce Is Evolving and Unfavorable Changes Could Harm our Business

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet and e-commerce. Such existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations may cover taxation, user privacy, pricing, content, copyrights, distribution, electronic contracts, consumer protection, and characteristics and quality of products and services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet and e-commerce. Unfavorable resolution of these issues may harm our business. In addition, many jurisdictions currently regulate ''auctions'' and ''auctioneers'' and may regulate online auction services. Jurisdictions may also regulate consumer-to-consumer fixed price online markets, like zShops. This could, in turn, diminish the demand for our products and services and increase our cost of doing business.

If We Are Required to Collect Taxes in Additional Jurisdictions on the Products We Sell, We May Be Subject to Liability for Past Sales and Our Future Sales May Decrease

In accordance with current industry practice, we do not collect sales taxes or other taxes with respect to shipments of goods into states other than Washington. In addition, we collect Value Added Tax, or VAT, for products that are ordered on *www.amazon.co.uk*, *www.amazon.de* and *www.amazon.fr* and that are shipped into European Union member countries. We also collect Japanese consumption tax for products that are ordered on *www.amazon.co.jp* and that are shipped into Japan. Our fulfillment center and customer service center networks, and any future expansion of those networks, along with other aspects of our evolving business, may result in additional sales and other tax obligations. One or more states or foreign countries may seek to impose sales or other tax collection obligations on out-of-jurisdiction companies which engage in e-commerce. A successful assertion by one or more states or foreign countries that we should collect sales or other taxes on the

sale of merchandise could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers and otherwise harm our business.

Recent federal legislation limits the imposition of U.S. state and local taxes on Internet-related sales. In 1998, Congress passed the Internet Tax Freedom Act, which places a three-year moratorium on state and local taxes on Internet access, unless such tax was already imposed prior to October 1, 1998, and on discriminatory taxes on e-commerce. There is a possibility that Congress may not renew this legislation in 2001. If Congress chooses not to renew this legislation, U.S. state and local governments would be free to impose new taxes on electronically purchased goods. The imposition of taxes on goods sold over the Internet by U.S. state and local governments would create administrative burdens for us and could decrease our future sales.

Various countries are currently evaluating their VAT positions on e-commerce transactions. It is possible that future VAT legislation in these and other countries or changes to our business model may result in additional VAT collection obligations and administrative burdens.

We Source a Significant Portion of Our Inventory from a Few Vendors

Although we continue to increase our direct purchasing from manufacturers, we still source a significant amount of inventory from relatively few vendors. During 2000, approximately 27% of all inventory purchases were made from three major vendors, of which Ingram Book Group accounts for over 10%. We do not have long-term contracts or arrangements with most of our vendors to guarantee the availability of merchandise, particular payment terms or the extension of credit limits. Our current vendors may stop selling merchandise to us on acceptable terms. If that were the case, we may not be able to acquire merchandise from other suppliers in a timely and efficient manner and on acceptable terms.

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

Some of our products, such as toys, tools, hardware, wireless and kitchen products, may expose us to product liability claims relating to personal injury, death or property damage caused by such products, and may require us to take actions such as product recalls. Our strategic partners also may sell products that may indirectly increase our exposure to product liability 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 vendor agreements with our suppliers do not indemnify us from product liability.

We Could Be Liable for Breaches of Security on Our Web Site and Fraudulent Activities of Users of Our Amazon Payments Program

A fundamental requirement for e-commerce is the secure transmission of confidential information over public networks. Although we have developed systems and processes to prevent fraudulent credit card transactions and other security breaches, failure to mitigate such fraud or breaches may impact our financial results.

The law relating to the liability of providers of online payment services is currently unsettled. We guarantee payments made through Amazon Payments up to certain limits for both buyers and sellers, and we may be unable to prevent users of Amazon Payments from fraudulently receiving goods when payment may not be made to a seller or fraudulently collecting payments when goods may not be shipped to a buyer. Our liability risk will increase as a larger fraction of our sellers use Amazon Payments. Any costs we incur as a result of liability because of our guarantee of payments made through Amazon Payments or otherwise could harm our business. In addition, the functionality of Amazon Payments depends on certain third-party vendors delivering services. If these vendors are unable or unwilling to provide services, Amazon Payments will not be viable (and our businesses that use Amazon Payments may not be viable).

We May Not Be Able to Adapt Quickly Enough to Changing Customer Requirements and Industry Standards

Technology in the e-commerce industry changes rapidly. We may not be able to adapt quickly enough to changing customer requirements and preferences and industry standards. Competitors often introduce new products and services with new technologies. These changes and the emergence of new industry standards and practices could render our existing Web sites and proprietary technology obsolete.

The Internet as a Medium for Commerce Is a Recent Phenomenon

Consumer use of the Internet as a medium for commerce is a recent phenomenon and is subject to a high level of uncertainty. While the number of Internet users has been rising, the Internet infrastructure may not expand fast enough to meet the increased levels of demand. If use of the Internet as a medium for commerce does not continue to grow or grows at a slower rate than we anticipate, our sales would be lower than expected and our business would be harmed.

We Could Be Liable for Unlawful or Fraudulent Activities by Users of Our Marketplace, Auctions and zShops Services

We may be unable to prevent users of our Amazon Marketplace, Auctions and zShops services from selling unlawful goods, or from selling goods in an unlawful manner. We may face civil or criminal liability for unlawful and fraudulent activities by our users. Any costs we incur as a result of liability relating to the sale of unlawful goods, the unlawful sale of goods, the fraudulent receipt of goods or the fraudulent collection of payments could harm our business.

In running our Amazon Marketplace, Auctions and zShops services, we rely on sellers of goods to make accurate representations and provide reliable delivery, and on buyers to pay the agreed purchase price. We do not take responsibility for delivery of payment or goods and while we can suspend or terminate the accounts of users who fail to fulfill their delivery obligations to other users, we cannot require users to make payments or deliver goods. We do not compensate users who believe they have been defrauded by other users except through our guarantee program. Under the guarantee program, fraudulent activities by our users, such as the fraudulent receipt of goods and the fraudulent collection of payments, may create liability for us. In addition, we are aware that governmental agencies are currently investigating the conduct of online auctions and could require changes in the way we conduct this business.

Executive Officers and Directors

The following tables set forth certain information regarding the executive officers and Directors of the Company as of February 28, 2001:

Executive Officers

Name	Age	Position
Jeffrey P. Bezos . . .	37	President, Chief Executive Officer, and Chairman of the Board
Mark J. Britto	36	Senior Vice President, Cross-Site Merchandising
Richard L. Dalzell . .	43	Senior Vice President and Chief Information Officer
Warren C. Jenson . .	44	Senior Vice President and Chief Financial Officer
Diego Piacentini . . .	40	Senior Vice President and General Manager, International
John D. Risher	35	Senior Vice President and General Manager, U.S. Stores
Jeffrey A. Wilke . . .	34	Senior Vice President, Operations

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 from founding until June 1999 and

again from October 2000 to the present. He served as Treasurer and Secretary from May 1996 to March 1997. From December 1990 to June 1994, Mr. Bezos was employed by D.E. Shaw & Co., a Wall Street investment firm, becoming Senior Vice President in 1992. From April 1988 to December 1990, Mr. Bezos was employed by Bankers Trust Company, becoming Vice President in February 1990. Mr. Bezos is also a director of drugstore.com, inc. Mr. Bezos received his B.S. in Electrical Engineering and Computer Science from Princeton University.

Mark J. Britto. Mr. Britto has served as Senior Vice President, Cross-Site Merchandising since February 2001. He served as Vice President, Strategic Alliances from August 1999 to October 2000 and Senior Vice President, Marketing and Cross-Site Merchandising from October 2000 until February 2001. From June 1999 to August 1999, Mr. Britto served as Director of Business Development. Mr. Britto joined Amazon.com in June 1999 as part of the acquisition of Accept.com, which he co-founded in October 1998, for which he served as a Vice President. From October 1994 through October 1998, Mr. Britto was Executive Vice President of Credit Policy at FirstUSA Bank, where he was responsible for their credit risk management practice. Prior to that, he served as Senior Vice President of Risk Management at NationsBank. Mr. Britto received an M.S. in Operations Research and a B.S. in Industrial Engineering and Operations Research from the University of California at Berkeley.

Richard L. Dalzell. Mr. Dalzell has served as Senior Vice President and Chief Information Officer since October 2000. He joined Amazon.com in August 1997 as Vice President and Chief Information Officer. From February 1990 to August 1997, Mr. Dalzell held several management positions within the Information Systems Division at Wal-Mart Stores, Inc., including Vice President of Information Systems from January 1994 to August 1997. From 1987 to 1990, Mr. Dalzell acted as the Business Development Manager for E-Systems, Inc. Prior to joining E-Systems, Inc. he served seven years in the United States Army as a teleprocessing officer. Mr. Dalzell received a B.S. in Engineering from the United States Military Academy, West Point.

Warren C. Jenson. Mr. Jenson joined Amazon.com in September 1999 as Senior Vice President and Chief Financial Officer. Before joining Amazon.com, Mr. Jenson was the Chief Financial Officer and Executive Vice President for Delta Air Lines from April 1998 to September 1999. From September 1992 to April 1998, Mr. Jenson served as Chief Financial Officer and Senior Vice President for the National Broadcasting Company (NBC), a subsidiary of General Electric, and participated in the development of MSNBC, the cable-Internet joint news venture between NBC and Microsoft. Mr. Jenson earned his Masters of Accountancy—Business Taxation, and B.S. in Accounting from Brigham Young University.

Diego Piacentini. Mr. Piacentini joined Amazon.com as Senior Vice President and General Manager, International in February 2000. From April 1997 until joining Amazon.com, Mr. Piacentini was Vice President and General Manager, Europe, of Apple Computer, Inc., with responsibility for Apple Computer's operations in Europe, the Middle East and Africa. From April 1996 to April 1997, Mr. Piacentini was European Sales Director of Apple Computer, Inc. From May 1995 until April 1996, Mr. Piacentini was General Manager of Apple Computer's Italy operations, and before that, from September 1994 to May 1995, Mr. Piacentini was Apple Computer's Sales Director for Italy. Mr. Piacentini joined Apple Computer in 1987. Prior to that time he held a financial management position at Fiatimpresit in Italy. Mr. Piacentini received a degree in Economics from Bocconi University in Milan, Italy.

John D. Risher. Mr. Risher has served as Senior Vice President, U.S. Stores since February 2000. Mr. Risher joined Amazon.com in February 1997 as Vice President of Product Development, a position he held until November 1997, when he was named Senior Vice President of Product Development. From July 1991 to February 1997, Mr. Risher held a variety of marketing and project management positions at Microsoft Corporation, including Team Manager for Microsoft Access and Founder and Product Unit Manager for MS Investor, Microsoft's Web site for personal investment. Mr. Risher received his B.A. in Comparative Literature from Princeton University and his M.B.A. from Harvard Business School.

Jeffrey A. Wilke. Mr. Wilke has served as Senior Vice President, Operations since October 2000. He joined Amazon.com as Vice President and General Manager, Operations in September 1999. Previously, Mr. Wilke held a variety of positions at AlliedSignal from 1993 to 1999, including Vice President and General Manager of the Pharmaceutical Fine Chemicals unit from March 1999 to September 1999 and General Manager of the Carbon Materials and Technologies unit from August 1997 to February 1999. Prior to his employment at AlliedSignal, he was an information technology consultant with Andersen Consulting. He received a B.S.E. in chemical engineering from Princeton University and has an M.B.A. and Master of Science in chemical engineering from the Massachusetts Institute of Technology.

Board of Directors

Name	Age	Position
Jeffrey P. Bezos	37	President, Chief Executive Officer and Chairman of the Board
Tom A. Alberg	61	Managing Director of Madrona Venture Fund
Scott D. Cook	48	Chairman of the Executive Committee of Intuit, Inc.
L. John Doerr	49	General Partner, Kleiner Perkins Caufield & Byers
Patricia Q. Stonesifer	44	President and Co-Chair of the Bill and Melinda Gates Foundation

Item 2. ***Properties***

The Company does not own any real estate. Its principal office facilities in the U.S. are located in several leased facilities in Seattle, Washington under leases that expire at various times through July 2010. The Company's office facilities in the U.S. comprise a total of approximately 725,000 square feet. The Company's warehousing and fulfillment operations are housed in seven fulfillment centers located in Seattle, Washington; New Castle, Delaware; Fernley, Nevada; Lexington, Kentucky; Campbellsville, Kentucky; Coffeyville, Kansas and Grand Forks, North Dakota. These fulfillment centers comprise a total of approximately 3.21 million square feet. In January 2001, the Company announced the closure of its fulfillment center in McDonough, Georgia, the closure of its customer service center in Seattle, Washington, and its intention to operate seasonally its fulfillment center in Seattle, Washington. The Seattle and Delaware fulfillment center leases expire in April 2004 and October 2002, respectively, and the remaining fulfillment center leases expire from 2008 through 2015.

The Company leases additional properties in Europe, including approximately 150,000 square feet of office space in Germany, France, Japan and the United Kingdom, and fulfillment centers in Germany, France and the United Kingdom with a combined one million square feet of available space. The lease for the German fulfillment center, located in Bad Hersfeld, Germany, expires in December 2009. The lease for the United Kingdom fulfillment center, located in Marston Gate, expires in March 2025. The lease for the French fulfillment center, located in Orleans, France, expires in March 2009. In February 2001, the Company announced a consolidation of its European customer service centers into two expanded centers in the United Kingdom and Germany.

The Company believes its properties are suitable and adequate for its present and anticipated near term needs.

Item 3. ***Legal Proceedings***

During the first quarter of 2000, Supnick v. Amazon.com and Alexa Internet and four similar class action complaints were filed against the Company and its wholly owned subsidiary, Alexa Internet. The complaints, which have been consolidated in the United States District Court for the Western District of Washington, allege that Alexa Internet's tracking and storage of Internet Web usage paths violates federal and state statutes prohibiting computer fraud, unfair competition, and unauthorized interception of private electronic communications, as well as common law proscriptions against trespass and invasion of privacy. The complaints

seek actual, statutory and punitive damages, as well as restitution, on behalf of all users of Alexa Internet's Web navigation service, as well as injunctive relief prohibiting Alexa Internet from tracking and storing such information or disclosing it to third parties. Although the Company disputes the allegations of wrongdoing in these complaints, there can be no assurance that the Company will prevail in these lawsuits.

In addition, the Federal Trade Commission has requested information and documents regarding Alexa Internet's practices and has opened a formal investigative file in connection with its inquiry. The Commission is seeking to determine whether the Company has engaged in unfair or deceptive acts in connection with the advertisement and operation of certain services provided by Alexa Internet. The Company is cooperating voluntarily with the Federal Trade Commission's investigation.

As previously disclosed in our Quarterly Report on Form 10-Q for the third quarter of 2000, we have received informal inquiries from the Securities and Exchange Commission Staff with respect to accounting treatment and disclosures for some of our initial strategic partner transactions and have responded to those questions. We reviewed our accounting for the transactions with our auditors and the Securities and Exchange Commission Staff, and we believe our accounting treatment and disclosures were appropriate. We will continue to cooperate with the Securities and Exchange Commission Staff if they have further questions.

In addition, a number of purported class action complaints were filed by stockholders against the Company and some of its senior officers in March 2001, in the United States District Court for the Western District of Washington, alleging that the defendants made false and misleading statements regarding the Company's financial and accounting disclosures in 2000 and early 2001, including disclosures regarding some of the Company's strategic partner transactions. The complaints further allege that the defendants' conduct violated securities laws and seek compensatory damages and injunctive relief against all defendants. The Company disputes the allegations of wrongdoing in these complaints and intends to vigorously defend itself in these matters.

Depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect the Company's business, future results of operations or cash flows in a particular period.

From time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights. The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, prospects, financial condition and operating results.

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

No matters were submitted for a vote of stockholders of the Company during the fourth quarter of the year ended December 31, 2000.

PART II

Item 5. *Market for the Registrant's Common Stock and Related Stockholder Matters*

Market Information

The Company's common stock is traded on the Nasdaq National Market under the symbol ''AMZN.'' The following table sets forth the high and low sale prices for the common stock for the periods indicated, as reported by the Nasdaq National Market.

	High	Low
Year ended December 31, 1999		
First Quarter	$ 99.56	$42.13
Second Quarter	110.63	44.88
Third Quarter	85.00	41.00
Fourth Quarter	113.00	61.00
Year ended December 31, 2000		
First Quarter	$ 91.50	$58.44
Second Quarter	68.63	32.47
Third Quarter	49.63	27.88
Fourth Quarter	40.88	14.88

The prices in this table have been adjusted to reflect the 3-for-1 stock split effected January 4, 1999 and the 2-for-1 stock split effected September 1, 1999.

Holders

As of February 28, 2001, there were 3,723 stockholders of record of the Company's common stock, although there is a much larger number of beneficial owners.

Dividends

We have never declared or paid cash dividends on our common stock. We intend to retain all future earnings to finance future growth and, therefore, do not anticipate paying any cash dividends in the foreseeable future. In addition, we are restricted from paying cash dividends under our senior discount notes. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.''

Recent Sales of Unregistered Securities

None.

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 and the information contained herein 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.

	As of and for the Years Ended December 31,				
	2000	1999	1998	1997	1996
	(in thousands, except per share data)				
Statements of Operations Data(1):					
Net sales	$2,761,983	$1,639,839	$ 609,819	$147,787	$15,746
Gross profit	655,777	290,645	133,664	28,818	3,459
Loss from operations	(863,880)	(605,755)	(109,055)	(32,595)	(6,443)
Interest income	40,821	45,451	14,053	1,901	202
Interest expense	(130,921)	(84,566)	(26,639)	(326)	(5)
Basic and diluted loss per share(2)	$ (4.02)	$ (2.20)	$ (0.42)	$ (0.12)	$ (0.03)
Shares used in computation of basic and diluted loss per share(2)	350,873	326,753	296,344	260,682	222,542
Balance Sheet Data(1):					
Cash and cash equivalents	$ 822,435	$ 133,309	$ 71,583	$110,119	$ 6,289
Marketable securities	278,087	572,879	301,862	15,256	—
Total assets	2,135,169	2,465,850	648,460	149,844	8,434
Long-term debt	2,127,464	1,466,338	348,140	76,702	—
Stockholders' Equity (Deficit)	(967,251)	266,278	138,745	28,591	2,943

(1) Reflects restatement for pooling of interests. See Notes 1 and 2 of Notes to Consolidated Financial Statements.

(2) For further discussion of loss per share, see Notes 1 and 11 of Notes to Consolidated Financial Statements.

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 industry prospects and 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, and intends and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations. The following discussion includes forward-looking statements regarding expectations of future operating net profit, net sales, gross profit, certain operating expenses, improvement in operating loss and cash, cash equivalents and marketable securities balances, all of which are inherently difficult to predict. Actual results could differ significantly for a variety of reasons, including the rate of growth of the Internet and online commerce and the U.S and global economies in general, the amount that we invest in new business opportunities and the timing of those investments, customer spending patterns, the mix of products sold to customers, the mix of revenues derived from product sales as compared to services, risks of inventory management, and risks of distribution and fulfillment throughput and productivity. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management's expectations, are described in greater detail in Item 1 of Part I, ''Business—Additional Factors That May Affect Future Results.''

Results of Operations

Net Sales

Net sales includes the selling price of consumer products sold by us, less promotional gift certificates and sales returns; outbound shipping charges billed to our customers; service revenues earned in connection with our business-to-business strategic relationships (''service revenues''); and commissions earned from our Amazon Marketplace, Auctions, zShops, Payments and other service initiatives.

Net sales were $2.8 billion, $1.6 billion and $610 million for 2000, 1999 and 1998, respectively. Increases in absolute dollars of net sales during 2000 are primarily due to increased unit sales in our existing stores, enhancements and additions to our product offerings, and increases in our service revenues from strategic partners. Increases in absolute dollars of net sales during 1999 were due to factors including increased unit sales and the introduction of new product lines.

Net sales for our U.S. Books, Music and DVD/video segment were $1.7 billion, $1.3 billion and $588 million for 2000, 1999 and 1998, respectively. Annual growth rates for the U.S. Books, Music, and DVD/video segment were 30%, 122% and 298% for 2000, 1999 and 1998, respectively. Declines in year-over-year growth rates during 2000 are reflective of several factors including the relative maturity and increasing revenue base of this segment, a current-year focus on balancing revenue growth with operating efficiency, a shift in marketing strategy aimed to expand our business beyond this segment, and a general slowdown in consumer spending. The decline in growth rate during 1999 as compared to 1998 was due to factors including the relative maturity and increasing revenue base of the segment.

Net sales for our Early-Stage Businesses and Other segment were $683 million and $164 million for 2000 and 1999, respectively. Our Early-Stage Business and Other segment commenced operations in 1999 and, accordingly, no corresponding amounts are associated with 1998. Included in net sales for this segment are U.S.-based consumer products sales and related shipping charges primarily for our electronics and home improvement stores as well as service revenues. Growth in net sales during 2000 reflects a significant increase in units sold by our electronics and home improvement stores in comparison with 1999, as well as enhancements to our existing product offerings with our addition of kitchen and wireless products. Service

revenues were $167 million and $9 million for 2000 and 1999, respectively. Growth in service revenues during 2000 related primarily to our business-to-business strategic relationships with Toysrus.com, Ashford.com, drugstore.com and Audible. Service revenues during 2000 included sales of inventory, at our cost, to Toysrus.com of $29 million. Service revenue recognized during 2000 consisted of consideration, either received during the period or amortized from previously unearned revenue, in the form of $88 million of cash, $73 million of equity securities of public companies and $6 million of equity securities of private companies. In accordance with accounting principles generally accepted in the United States, the fair value of securities received is generally determined at the date agreements are consummated; revenue is generally recognized over the corresponding service periods based on initial valuations, and is not adjusted due to fluctuations in the fair value of the securities. However, if the securities are received after March 16, 2000 and are subject to forfeiture or vesting provisions and no significant performance commitment exists upon signing of the agreements, the fair value is determined as of the date the respective forfeiture or vesting provisions lapse.

Net sales for our International segment were $381 million, $168 million and $22 million for 2000, 1999 and 1998, respectively, and were comprised primarily of books, music and DVD/video consumer product sales and related shipping charges to our customers. The International segment includes sales from our *www.amazon.co.uk*, *www.amazon.de*, *www.amazon.fr* and *www.amazon.co.jp* Web sites, including their export sales into the United States. Growth in our International segment during 2000 reflects a significant increase in units sold by our *www.amazon.de* and *www.amazon.co.uk* sites in comparison with 1999 as well as the launch of our new *www.amazon.fr* and *www.amazon.co.jp* sites during the second half of 2000. Sales to customers outside the United States, including export sales from *www.amazon.com*, represented approximately 22%, 22% and 20% of consolidated net sales for 2000, 1999 and 1998, respectively.

Shipping revenue across all segments was $339 million, $239 million and $94 million for 2000, 1999 and 1998, respectively. Increases in shipping revenue in 2000 and 1999 correspond with increases in unit sales, offset especially in 2000 by our periodic free and reduced shipping promotions offered during the year.

We expect net sales to be between $650 million and $700 million for the quarter ending March 31, 2001, and net sales to increase between 20% and 30% in 2001 compared to 2000. However, any such projections are subject to substantial uncertainty. See Item 1 of Part I, ''Business—Additional Factors that May Affect Future Results.''

Gross Profit

Gross profit is net sales less the cost of sales, which consists of the purchase price of consumer products sold by us, inbound and outbound shipping charges, packaging supplies and costs associated with our service revenues and marketplace services businesses. Costs associated with our service revenues include employee costs associated with the creation of content for co-branded Web sites, fulfillment-related costs to ship products on behalf of our service partners, and other associated costs.

Gross profit was $656 million, $291 million and $134 million for 2000, 1999 and 1998, respectively. Increases in absolute dollars of gross profit during 2000 are primarily due to increased unit sales in our existing stores, enhancements and additions to our existing product offerings, increases in our service revenues from strategic partners, and improvements in inventory management and product sourcing. Increases in absolute dollars of gross profit during 1999 were primarily due to increased unit sales and the introduction of new product lines. Excluding the effect of our service arrangements with strategic partners, gross margin would have been 21% and 17% as compared with an overall gross margin of 24% and 18% for 2000 and 1999, respectively.

Gross profit for our U.S. Books, Music and DVD/video segment was $417 million, $263 million and $129 million for 2000, 1999 and 1998, respectively. Gross margin for these same periods was 25%, 20% and 22%, respectively. Improvements in gross margin during 2000 were largely reflective of our efforts to improve product sourcing as we continued to increase the percentage of products sourced directly from publishers, as well as from a favorable mix in customer discounts and lower inventory charges as a percent of sales.

Gross profit for our U.S. Early-Stage Businesses and Other segment was $161 million in 2000 compared with a gross loss in 1999 of $8 million. Gross profit from services was $111 million and $9 million during 2000 and 1999, respectively, representing service margins of 66% and 100%, respectively. Gross profit from services corresponds with service revenue of $167 million recognized during 2000, which consisted of consideration, either received during the period or amortized from previously recorded unearned revenue, in the form of $88 million of cash, $73 million of equity securities of public companies and $6 million of equity securities of private companies. See ''Results of Operations—Net Sales,'' and ''Strategic Partnerships.'' The decline in service margin during 2000 relates primarily to costs associated with our strategic relationship with Toysrus.com, as well as costs associated with our personnel dedicated to generate and support our other business-to-business activities.

Gross profit for our International segment was $77 million, $36 million and $5 million for 2000, 1999 and 1998, respectively. Gross margin for these same periods was 20%, 21% and 23%, respectively. Increases during 2000 in our absolute gross profit dollars reflects a significant increase in units sold by our *www.amazon.de* and *www.amazon.co.uk* sites in comparison with 1999, as well as the launch of our new *www.amazon.fr* and *www.amazon.co.jp* sites during the second half of 2000. Our gross margins decreased during 2000 in comparison with 1999 due to factors including changes in the mix of customer discounts and, to a lesser extent, the impact of lower-margin sales, including the impact of shipping promotions, associated with launching our *www.amazon.fr* and *www.amazon.co.jp* sites.

Shipping gross loss was $1 million during 2000 in comparison with gross profit of $12 million and $18 million for 1999 and 1998, respectively. The gross loss in shipping was due to additional free and reduced shipping promotions offered during 2000 compared to 1999 and 1998, as well as increases in split and long-zone shipments, especially during the quarter ended December 31, 2000. We will from time to time continue offering shipping promotions to our customers and may continue to experience low or even negative gross profit dollars from shipping activities.

We expect our overall gross margin to be at least 21% to 23% of net sales for the quarter ending March 31, 2001. However, any such projections are subject to substantial uncertainty. See Item 1 of Part I, ''Business—Additional Factors that May Affect Future Results.''

Marketing and Fulfillment

Marketing expenses consist of advertising, promotional and public relations expenditures, and payroll and related expenses for personnel engaged in marketing and selling activities. Fulfillment costs represent those costs incurred in operating and staffing our fulfillment and customer service centers, including costs attributable to receiving, inspecting and warehousing inventories; picking, packaging and preparing customers' orders for shipment; credit card fees; and responding to inquiries from customers. Marketing and sales expenses, net of co-operative marketing reimbursements, were $180 million, $176 million and $67 million for 2000, 1999 and 1998, respectively. Fulfillment costs were $415 million, $237 million and $65 million for 2000, 1999 and 1998, respectively, representing 15%, 14% and 11% of net sales for the corresponding periods. The increase in fulfillment costs as a percentage of net sales in 2000 reflects the full year of operating our newly opened fulfillment centers, offset by improved utilization of our fulfillment network in comparison with 1999. The increase in fulfillment expense during 1999 relates to the expansion of our fulfillment network capacity during 1999. In January 2001, we announced our decision to close our fulfillment center in McDonough, Georgia, close our customer service center in Seattle, Washington, and operate seasonally our fulfillment center in Seattle, Washington. In February 2001, we announced our decision to consolidate our European customer service centers by closing our center in The Hague, Netherlands, and operating out of two expanded centers in the United Kingdom and Germany. We expect these decisions, along with our continued efforts to improve operational efficiency, will cause marketing and fulfillment costs to decline as a percentage of net sales during 2001.

Technology and Content

Technology and content expenses consist principally of payroll and related expenses for development, editorial, systems and telecommunications operations personnel and consultants; systems and telecommunications infrastructure; and costs of acquired content, including freelance reviews. Technology and content expense was $269 million, $160 million and $46 million for 2000, 1999 and 1998, representing 10%, 10%, and 8% of net sales for the corresponding periods. The increase in absolute dollars spent during 2000 and 1999 were primarily reflective of our continual enhancements to the features, content and functionality of our Web sites and transaction-processing systems, as well as increased investment in systems and telecommunications infrastructure. These increases were also attributable to our new product offerings and expansions of existing product offerings, as well as costs associated with launching our *www.amazon.fr* and *www.amazon.co.jp* sites during 2000. During 2000 and 1999, in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, which we adopted in 1999, we capitalized, net of depreciation, $16 million and $8 million, respectively, of costs related to the development of internal-use software, including those relating to operating our Web sites. We expect to continue to invest in technology and improvements in our Web sites during 2001, including, but not limited to, offering additional product categories to our customers, as well as potentially continuing our international expansion.

General and Administrative

General and administrative expenses consist of payroll and related expenses for executive, finance and administrative personnel, recruiting, professional fees and other general corporate expenses. General and administrative expenses were $109 million, $70 million and $16 million for 2000, 1999 and 1998, respectively, representing 4%, 4%, and 3% of net sales for the corresponding periods.

Stock-Based Compensation

Stock-based compensation is comprised of the portion of acquisition-related consideration conditioned on the continued tenure of key employees of certain of our acquired businesses, which must be classified as compensation expense rather than as a component of purchase price under accounting principles generally accepted in the United States. Stock-based compensation also includes stock-based charges such as option-related deferred compensation recorded at our initial public offering, as well as certain other compensation and severance arrangements. Stock-based compensation was $25 million, $31 million, and $2 million for 2000, 1999 and 1998, respectively. During 2000, declines in the Company's stock price and the termination of certain acquisition-related employees prior to vesting in stock-based compensation awards had the effect of reducing stock-based compensation in comparison with 1999. The increase during 1999 of stock-based compensation was primarily attributable to deferred compensation arrangements associated with our business acquisitions during 1999. In the first quarter of 2001, we announced plans to offer a limited non-compulsory exchange of employee stock options. This option exchange offer will result in variable accounting treatment for stock options representing approximately 15 million shares of the Company's common stock. Variable accounting treatment will result in unpredictable stock-based compensation dependent on fluctuations in quoted prices for the Company's common stock. These unpredictable fluctuations in stock-based compensation may result in material non-cash fluctuations in our results of operations. For example, in periods of general decline in the quoted price of our common stock, if any, variable accounting will cause us to recognize less stock-based compensation than in periods of general appreciation in the quoted price of our common stock. Furthermore, in circumstances where increases in the quoted price of our common stock are followed by declines in the quoted price of our common stock, variable accounting may result in negative expense recognition as we adjust the cumulative compensation of our stock-based awards. Stock-based compensation is non-cash and will therefore have no impact on our cash flows or liquidity. Pursuant to the option exchange offer, the number of shares issuable upon option exercises decreased from approximately 70 million shares, or 19.5% of the Company's outstanding common stock, to approximately 52 million shares, or 14.4% of the Company's outstanding common stock.

Amortization of Goodwill and Other Intangibles

Amortization of goodwill and other intangibles was $322 million, $215 million and $43 million for 2000, 1999 and 1998, respectively. These costs increased in 2000 relating to the full year of amortization for the acquisitions completed in 1999, and increased during 1999 resulting from amortization of goodwill recorded in connection with acquisitions completed during the first part of 1999. During the fourth quarter of 2000, we recorded an impairment loss on goodwill and other intangibles of $184 million relating to certain of our 1999 acquisitions (See ''Results of Operations—Impairment-Related and Other''). This impairment loss reduced our recorded basis in goodwill and other intangibles as of December 31, 2000 and will have the effect of reducing amortization expense in 2001. The Financial Accounting Standards Board has tentatively decided to require use of a nonamortization approach to account for purchased goodwill. Under a nonamortization approach, goodwill would not be amortized into earnings, but instead would be reviewed for impairment, that is, written down and charged to earnings only in the periods in which the recorded value of goodwill is more than its fair value. If this tentative decision is finalized, our amortization of goodwill and other intangibles would significantly decline in future periods.

Impairment-Related and Other

Impairment-related and other was $200 million, $8 million and $4 million for 2000, 1999 and 1998, respectively. We record impairment losses on goodwill and other intangible assets when events and circumstances indicate that such assets might be impaired and the estimated fair value of the asset is less than its recorded amount. Conditions that would necessitate an impairment assessment include material adverse changes in operations, significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition, a decision to abandon acquired products, services or technologies, or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable. During the fourth quarter of 2000, we identified indicators of possible impairment of our recorded goodwill and other intangibles. Such indicators included the general slowdown in consumer spending, our decline in market capitalization as determined by the quoted market price for our common stock, the pervasive and significant declines in e-commerce business valuations in comparison with the market valuations at the time we invested in our acquisitions, and changes in our strategic plans for certain of our acquired businesses. Based on the results of our discounted cash flow analyses, we identified certain levels of impairment corresponding with the business-unit goodwill and other intangibles initially recorded in connection with the following acquisitions: Alexa Internet, Back to Basics Toys, Inc., Acme Electric Motor Co. (Tool Crib) and LiveBid.com, Inc. Accordingly, we recorded an impairment loss of $184 million during the fourth quarter of 2000. No impairments were identified in the Company's enterprise-level goodwill and other intangibles, and no impairments of goodwill and other intangibles were recorded in 1999 and 1998.

Loss from Operations

Our loss from operations was $864 million, $606 million and $109 million for 2000, 1999 and 1998, respectively. These increases are primarily due to the aggressive expansion of our business through strategic acquisitions and investments, new consumer product-line offerings, launching additional internationally-focused Web sites, and significantly increasing our fulfillment capacity in advance of demand. Additionally, during 2000 our operating loss included impairment-related and other costs of $200 million primarily relating to the impairment of goodwill and other intangibles. Our operating expenses have historically increased more quickly than our revenues as we have expanded our operations. We expect that our overall loss from operations incurred in 2001 will decrease significantly as a percentage of net sales, and in absolute dollars, compared to 2000. However, any such projections are subject to substantial uncertainty. See Item 1 of Part I ''Business—Additional Factors that May Affect Future Results.''

Net Interest Expense and Other

Net interest expense and other, excluding ''Non-cash gains and losses,'' was $100 million, $37 million and $13 million for 2000, 1999 and 1998, respectively. Included was interest income of $41 million,

$45 million and $14 million, and interest expense of $131 million, $85 million and $27 million for 2000, 1999 and 1998, respectively. Interest income relates primarily to interest earned on fixed income securities and correlates with the average balance of those investments. The increase in interest expense during 2000 and 1999 is primarily related to our February 2000 issuance of 690 million Euros of 6.875% Convertible Subordinated Notes due 2010, also known as PEACS (the ''PEACS''), our February 1999 issuance of $1.25 billion of 4.75% Convertible Subordinated Notes due 2009 (the ''4.75% Convertible Subordinated Notes''), and our May 1998 issuance of approximately $326 million gross proceeds of 10% Senior Discount Notes due 2008 (the ''Senior Discount Notes'').

Non-Cash Gains and Losses

Non-cash gains and losses were recorded during 2000 and amounted to a loss of $143 million, net. No corresponding amounts related to 1999 or 1998. During 2000, we recorded non-cash impairment losses, which totaled $189 million, relating to other-than-temporary declines in our equity investments in Audible, Inc., NextCard, Inc., Webvan Group, Inc., Ashford.com, Inc., Greg Manning Auctions, Inc, and Sotheby's Holdings, Inc. Additionally, we recorded a non-cash gain of $40 million in connection with the September 2000 acquisition of HomeGrocer.com, Inc. by an unrelated third-party, Webvan Group, Inc. This non-cash gain represents the difference between our recorded basis in the common stock of HomeGrocer.com prior to the acquisition and the fair value of equity securities received from the acquiring company, Webvan Group, Inc. After the acquisition, we classified the resulting investment as available-for-sale as we no longer have the ability to exercise significant influence over the investee. We also recorded a net gain when living.com, Inc. declared bankruptcy and terminated its commercial agreement with us. Our net gain of $6 million was comprised of a $14 million loss representing our remaining investment balance in living.com and a $20 million gain relating to the unamortized portion of unearned revenue associated with the living.com commercial agreement. As of December 31, 2000, our basis in equity securities was $128 million, including $36 million classified as ''Marketable securities,'' $52 million classified as ''Investments in equity-method investees,'' and $40 million classified as ''Other equity investments.''

Equity in Losses of Equity-Method Investees

Equity in losses of equity-method investees represents our share of losses of companies in which we have investments that give us the ability to exercise significant influence, but not control, over an investee. This is generally defined as an ownership interest of the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's Board of Directors and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Our share of equity-method losses was $305 million, $77 million and $3 million for 2000, 1999 and 1998, respectively. Equity-method losses reduce our underlying investment balances until the recorded basis is reduced to zero. As of December 31, 2000, our basis in equity-method investments was $52 million. Accordingly, we expect equity-method losses to decline substantially during 2001 in comparison with 2000.

Income Taxes

We provided for an immaterial amount of current and deferred U.S. federal, state or foreign income taxes for the current and all prior periods presented. We provided a full valuation allowance on our deferred tax asset, consisting primarily of net operating losses, because of uncertainty regarding its realization.

Operational Restructuring

Subsequent to December 31, 2000, we approved a plan for an operational restructuring in which we will reduce our employee staff by approximately 1,300 positions, or 15% of our workforce. Additionally, we will consolidate our Seattle, Washington corporate office locations, close our McDonough, Georgia fulfillment center, operate our Seattle, Washington fulfillment center on a seasonal basis, close our customer service centers in Seattle, Washington and The Hague, Netherlands, and migrate a large portion of our technology

infrastructure to a new hardware and software platform. We estimate that the restructuring will result in costs during the first half of 2001 exceeding $150 million relating primarily to severance, fixed asset impairments, continuing lease obligations and other exit costs directly related to our restructuring.

Pro Forma Results of Operations

We provide certain pro forma information regarding our results from operations, which excludes stock-based compensation, amortization of goodwill and other intangibles, and impairment-related and other. We also provide certain pro forma information regarding our net loss which excludes non-cash gains and losses, net; equity in losses of equity-method investees, net; as well as the amounts excluded from pro forma operating results. This pro forma information is not presented in accordance with accounting principles generally accepted in the United States and may not necessarily be useful in analyzing our results. For information about our financial results, as reported in accordance with accounting principles generally accepted in the United States, see Item 6 of Part II, ''Selected Consolidated Financial Data,'' and Item 8 of Part II, ''Financial Statements and Supplementary Data.''

Full year and corresponding quarterly pro forma results, and certain cash flow information for 2000, 1999 and 1998, were as follows:

	Year Ended December 31, 2000				
	Full Year	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Pro forma loss from operations	$(317,000)	$ (59,946)	$(68,439)	$ (89,349)	$ (99,266)
Pro forma net loss	$(417,158)	$ (90,426)	$(89,493)	$(115,704)	$(121,535)
Pro forma loss from operations as a percentage of net sales	11%	6%	11%	15%	17%
Pro forma basic and diluted loss per share	$ (1.19)	$ (0.25)	$ (0.25)	$ (0.33)	$ (0.35)
Shares used in computation of pro forma basic and diluted loss per share	350,873	355,681	353,954	349,886	343,884
Net cash provided by (used in) operating activities	$(130,442)	$ 247,653	$ (3,688)	$ (54,029)	$(320,378)

	Year Ended December 31, 1999				
	Full Year	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Pro forma loss from operations	$(352,371)	$(175,349)	$(79,198)	$ (67,253)	$ (30,571)
Pro forma net loss	$(389,815)	$(184,885)	$(85,810)	$ (82,786)	$ (36,334)
Pro forma loss from operations as a percentage of net sales	21%	26%	22%	21%	10%
Pro forma basic and diluted loss per share	$ (1.19)	$ (0.55)	$ (0.26)	$ (0.26)	$ (0.12)
Shares used in computation of pro forma basic and diluted loss per share	326,753	338,389	332,488	322,340	313,794
Net cash provided by (used in) operating activities	$ (90,875)	$ 31,506	$(75,573)	$ (29,614)	$ (17,194)

	Year Ended December 31, 1998				
	Full Year	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Pro forma loss from operations	$ (61,038)	$ (17,632)	$(20,802)	$ (12,798)	$ (9,800)
Pro forma net loss	$ (73,623)	$ (21,990)	$(24,466)	$ (16,977)	$ (10,184)
Pro forma loss from operations as a percentage of net sales	10%	7%	14%	11%	11%
Pro forma basic and diluted loss per share	$ (0.25)	$ (0.07)	$ (0.08)	$ (0.06)	$ (0.04)
Shares used in computation of pro forma basic and diluted loss per share	296,344	308,778	301,405	292,554	282,636
Net cash provided by (used in) operating activities	$ 31,035	$ 38,698	$ (572)	$ (654)	$ (6,437)

Presentation of pro forma results on the face of the financial statements is not in conformity with accounting principles generally accepted in the United States. We are providing pro forma results for informational purposes only. The pro forma results are derived from information recorded in our financial statements.

We expect that our pro forma loss from operations will decline as a percentage of net sales for 2001. Additionally, we expect to generate pro forma operating income for the quarter ended December 31, 2001. We also expect that our U.S. Books, Music and DVD/video segment will generate income on a pro forma operating basis for the second consecutive year in 2001. Over the longer term, it is our objective that pro forma operating profit will reach the low double-digits as a percentage of net sales and our return on invested capital may reach the low triple-digits. However, any such projections are subject to substantial uncertainty. See Item 1 of Part I, ''Business—Additional Factors That May Affect Future Results.''

Liquidity and Capital Resources

Our cash and cash equivalents balance was $822 million and $133 million, and our marketable securities balance was $278 million and $573 million, at December 31, 2000 and 1999, respectively.

Net cash used by operating activities in 2000 was $130 million. This was primarily attributable to the net loss for the year of $1.4 billion, largely offset by net non-cash charges totaling $995 million primarily related to depreciation, stock-based compensation, equity in losses of equity-method investees, amortization of goodwill and other intangibles, impairment-related and other costs, amortization of unearned revenue, investment gains and losses, and interest expense, as well as $286 million of cash provided by changes in operating assets and liabilities. Cash provided by changes in operating assets and liabilities is primarily a function of a decrease in inventories, increases in accounts payable and accrued liabilities and increases in unearned revenue, offset by an increase in prepaid expenses and other current assets. For 1999, net cash used in operating activities was $91 million and was primarily attributable to the net loss for the year of $720 million offset by net non-cash expenses of $399 million and changes in operating assets and liabilities of $230 million. For 1998, net cash provided by operating activities was $31 million.

Net cash provided by investing activities in 2000 was $164 million and consisted of net sales of marketable securities of $361 million, offset by purchases of fixed assets of $135 million and cash paid for investments in equity-method investees and other investments of $63 million. Net cash used in investing activities during 1999 and 1998 was $952 million and $324 million, respectively, and consisted of net purchases of marketable securities of $295 million and $277 million, purchases of fixed assets of $287 million and $28 million, and cash paid for investments in equity-method investees and other investments of $370 million and $19 million, respectively.

Net cash provided by financing activities in 2000 was $693 million relating primarily to our issuance of 690 million Euros of PEACS, net of financing costs of $16 million, and proceeds of $45 million from exercises of stock options, offset by repayments of long-term debt of $17 million. Net cash provided by financing activities of $1.1 billion for 1999 was primarily due to $1.25 billion of proceeds from the sale of our 4.75% Convertible Subordinated Notes, net of financing costs of $35 million, and proceeds of $64 million from exercises of stock options, offset by repayments of long-term debt, including $178 million of cash paid to repurchase a portion of our outstanding Senior Discount Notes. Net cash provided by financing activities during 1998 was $254 million and was related to the issuance of our Senior Discount Notes, offset by financing costs and the repayment of other long-term debt obligations.

As of December 31, 2000, our principal sources of liquidity consisted of $1.1 billion of cash and cash equivalents and marketable securities. As of that date, our principal commitments consisted of obligations totaling $2.1 billion related primarily to our 6.875% PEACS, 4.75% Convertible Subordinated Notes and Senior Discount Notes, as well as $1.1 billion in obligations related to operating leases, trade payables, and commitments for advertising and promotional arrangements.

For a more complete discussion of our long-term debt and other commitments see Notes 8 and 9 to Consolidated Financial Statements incorporated by reference to Item 8 of Part II ''Financial Statements and Supplementary Data''.

We believe that current cash and cash equivalents and marketable securities balances will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. We expect that our cash and cash equivalents and marketable securities balance will be approximately $650 million at March 31, 2001 and approximately $900 million at December 31, 2001. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. See Item 1 of Part I, ''Business—Additional Factors that May Affect Future Results.'' We continually evaluate opportunities to sell additional equity or debt securities, or obtain credit facilities from lenders, for strategic reasons or to further strengthen our financial position. The sale of additional equity or convertible debt securities could result in additional dilution to the Company's stockholders. In addition, we will, from time to time, consider the acquisition of or investment in complementary businesses, products, services and technologies, and the repurchase and retirement of debt, which might impact our liquidity requirements or cause us to issue additional equity or debt securities. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all.

Strategic Partnerships

In the fall of 1999, we began entering into commercial agreements with select strategic partners that involved the sale of their products and services on co-branded sections of our Web site as well as other promotional services, such as advertising placements and customer referrals. As compensation for the services we provide under these agreements, we receive cash, equity securities of these strategic partners, or a combination of the two. In some cases, we have also made separate investments in these partners by making cash payment in exchange for their equity securities. During 2000, we received cash payments or recorded cash receivables of $98 million as unearned revenue, of which $85 million was cash received from our strategic partners. We also recorded as unearned revenue equity securities received in a number of these partners, net of cash paid by us, with an estimated fair value of $107 million as of the date the securities were received. Service revenue recognized during 2000 was $167 million, which consisted of consideration, either received during the period or amortized from previously unearned revenue, in the form of $88 million of cash, $73 million of equity securities of public companies and $6 million of equity securities of private companies.

For equity securities of public companies, we generally determine fair value based on the quoted market price at the time we enter into the underlying commercial agreement, and adjust such market price appropriately if significant restrictions on marketability exist. Because an observable market price does not exist for equity securities of private companies, our estimates of fair value of such securities are more subjective than for the securities of public companies. For significant transactions involving equity securities in private companies, we obtain and consider independent, third-party valuations where appropriate. Such valuations use a variety of methodologies to estimate fair value, including comparing the security with securities of publicly traded companies in similar lines of business, applying price multiples to estimated future operating results for the private company, and then also estimating discounted cash flows for that company. These valuations also reduce the otherwise fair value by a factor that is intended to account for restrictions on control and marketability where appropriate. Using these valuations and other information available to us, such as our knowledge of the industry and knowledge of specific information about the investee, we determine the estimated fair value of the securities received.

The fair value of these securities, less the net amount of cash we paid for them, is then recorded as unearned revenue. Our recorded unearned revenue resulting from these transactions and any additional proceeds received under the arrangements is recognized as revenue over the terms (generally, one to three years) of the commercial agreements with our strategic partners. We do not adjust unearned revenue to give effect to either increase or decrease in value of the equity securities subsequent to their initial measurement (to the extent that such securities are either not subject to vesting or forfeiture or, if subject to vesting or forfeiture were not

modified after March 16, 2000, pursuant to Emerging Issues Task Force Issue No. 00-8 ''*Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods or Services*,''). Therefore, the value of equity securities recorded as unearned revenue could decline in value significantly after the initial measurement is made. We have in the past experienced, and may experience in the future, losses with respect to investments in strategic partners that are not equity method investees as a result of either liquidation of such investments at a loss or provision for an other-than-temporary decline in the fair value of these investments. See ''Non-cash Gains and Losses.'' During 2000, we amended several of our agreements with certain of our strategic partners that reduced future cash proceeds to be received by us, shortened the term of our commercial agreements, or both. Although these amendments did not impact the amount of unearned revenue previously recorded by us, the timing of revenue recognition of these recorded unearned amounts has been changed to correspond with the terms of the amended agreements.

During 2000, we recorded $305 million of equity-method losses, which reduced our investment in equity-method investees. Offsetting this reduction are new investments we have made since December 31, 1999. We also made cash payments during 2000 for investments in equity-method investees and other investments of $63 million, which included cash payments by us of $62 million to purchase securities primarily of strategic partners, and non-cash consideration we received from our partners consisting of their equity securities with an estimated fair value of $107 million. Additionally, three of the Company's equity-method investees (HomeGrocer.com, Inc., acquired by Webvan Group, Inc.; Pets.com, Inc.; and drugstore.com, inc.), successfully completed public offerings of their common stock during 2000 and 1999. As a result of these public offerings, and in accordance with Staff Accounting Bulletin No. 51, *Accounting by the Parent in Consolidation for Sale of Stock by Subsidiary*, the Company recorded unrealized gains, net of unrealized losses, as additional paid-in capital totaling $77 million and $14 million in 2000 and 1999, respectively. Furthermore, the Company's ownership percentage in each investee was diluted, creating an ''implied sale'' of a portion of our investments. The net unrealized gains represent the difference between the Company's carrying basis and the fair value of the portion of each investment deemed to have been sold by the investees. As of December 31, 2000, our recorded basis was $11 million, $38 million, and $0 for our investments in Webvan (acquiror of Homegrocer.com), drugstore.com, and Pets.com, respectively.

We reclassified certain of our equity investments amounting to $60 million from ''Other equity investments'' to ''Marketable securities'' as we no longer had the intent to hold these investments for over one year from the date of reclassification. Additionally, we reclassified $14 million of equity investments from ''Investments in equity-method investees'' to ''Other equity investments'' upon the acquisition of an investee by a third party, which resulted in the loss of significant influence over the investee. As of December 31, 2000, the fair value of all equity securities classified in ''Marketable securities'' on the accompanying consolidated balance sheet was $36 million. No equity securities were classified in ''Marketable securities'' as of December 31, 1999.

''Unearned revenue'' increased from $55 million at December 31, 1999 to $131 million at December 31, 2000. This is due to our receipt of consideration in the form of cash payments of $98 million and equity securities of $107 million from strategic partners and others. The revenue is termed ''unearned'' because it is received in advance of our performance of certain services we have agreed to provide in the future. Offsetting these increases in unearned revenue, we have recognized $108 million of revenue during 2000 that was previously categorized as being ''unearned.'' We have also recognized previously unearned revenue of $20 million associated with the termination of our commercial agreement with living.com, which was offset by a $14 million loss from our investment in living.com and reported as a net amount of $6 million included in ''Non-cash gains and losses, net'' on the accompanying consolidated statements of operations.

Item 7A. *Quantitative and Qualitative Disclosure About Market Risk*

We are exposed to market risk for the impact of interest rate changes, foreign currency fluctuations and changes in the market values of our investments. We have not utilized derivative financial instruments in our investment portfolio.

Information relating to quantitative and qualitative disclosure about market risk is set forth below and in ''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 balance sheets. We generally invest our excess cash in A-rated or higher short- to intermediate-term fixed income securities and money market mutual funds. Fixed rate securities may have their fair market value adversely impacted 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 cash equivalent and marketable fixed income securities, including principal cash flows for 2001 through 2005 and the related weighted average interest rates. Amounts are presented in U.S. dollar equivalents, which is the Company's reporting currency.

Principal (notional) amounts by expected maturity in U.S. dollars as of December 31, 2000 are as follows (in thousands, except percentages):

	2001	2002	2003	2004	2005	Thereafter	Total	Estimated Fair Value at December 31, 2000
Commercial paper and short-term obligations	$677,895	$ —	$ —	$ —	$ —	$ —	$677,895	$677,895
Weighted average interest rate	5.40%	—	—	—	—	—	5.40%	
Corporate notes and bonds	950	7,937	8,560	—	—	—	17,447	17,447
Weighted average interest rate	4.45%	4.95%	4.95%	—	—	—	4.92%	
Asset-backed and agency securities	21,507	11,718	11,114	—	19,635	20,748	84,721	85,189
Weighted average interest rate	5.68%	5.96%	4.71%	—	6.87%	7.39%	6.30%	
Treasury notes and bonds	42,535	74,021	25,595	—	—	—	142,151	142,085
Weighted average interest rate	5.05%	5.22%	4.52%	—	—	—	5.04%	
Cash equivalents and marketable fixed-income securities	$742,887	$93,676	$45,269	$	$19,635	$20,748	$922,214	$922,616

Principal (notional) amounts by expected maturity in U.S. dollars as of December 31, 1999 are as follows (in thousands, except percentages):

	2001	2002	2003	2004	2005	Thereafter	Total	Estimated Fair Value at December 31, 1999
Commercial paper and short-term obligations	$37,477	$ 6,250	$12,176	$1,047	$ 9,599	$ 8,236	$ 74,785	$ 73,558
Weighted average interest rate	5.80%	8.58%	8.96%	6.61%	6.98%	7.00%	6.84%	
Corporate notes and bonds	2,455	102,850	—	—	—	—	105,305	103,844
Weighted average interest rate	5.80%	6.70%	—	—	—	—	6.68%	
Asset-backed and agency securities	32,807	81,160	24,198	25	20,119	100,246	258,555	247,667
Weighted average interest rate	20.20%	8.48%	7.49%	7.68%	7.00%	7.97%	9.56%	
Treasury notes and bonds	12,400	127,795	20,000	3,950	—	—	164,145	164,158
Weighted average interest rate	5.21%	6.60%	0.00%	6.07%	—	—	5.68%	
Cash equivalents and marketable fixed-income securities	$85,139	$318,055	$56,374	$5,022	$29,718	$108,482	$602,790	$589,227

Foreign Currency Exchange Rate Risk

In 2000, net sales from our foreign subsidiaries accounted for 14% of consolidated revenues. Net sales generated from our foreign subsidiaries, as well as most expenses incurred, are denominated in their local currencies. Accordingly, our foreign subsidiaries use their local currencies as their functional currencies. Results of operations from our foreign subsidiaries are exposed to foreign currency exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars upon consolidation. As exchange rates vary, net sales and other operating results, when translated, may differ materially from expectations. The effect of foreign currency exchange rate fluctuations for the year ended December 31, 2000 was not material.

At December 31, 2000, we were also exposed to foreign currency risk related to our PEACS and Euro denominated cash equivalents and investment securities (''Euro investments''). The PEACS have an outstanding principal balance of 690 million Euros ($650 million), and our Euro investments, classified as available-for-sale, had a balance of 624 million Euros ($589 million). Debt principal of 615 million Euros is designated as a hedge of an equivalent portion of our Euro investments, which results in offsetting currency gains and losses, which are recorded as a net amount in ''Accumulated other comprehensive loss.'' We also hedge the exchange rate risk on the remaining debt principal and a portion of the interest payments using a cross-currency swap agreement and a series of foreign currency forward purchase agreements. Under the swap agreement, we agreed to pay at inception and receive upon maturity 75 million Euros in exchange for receiving at inception and paying at maturity $67 million. In addition, we agreed to receive in February of each year 27 million Euros for interest payments on 390 million Euros of the PEACS and, simultaneously, to pay $32 million. This agreement is cancelable, in whole or in part, at our option at no cost on or after February 20, 2003 if our common stock price (converted into Euros) is greater than or equal to the minimum conversion price of the PEACS. Under the forward purchase agreements, we agreed to pay $18 million and receive 21 million Euros in February 2001. We account for these agreements as hedges of the risk of exchange rate fluctuations on the debt principal and interest. Currency gains and losses on the hedge agreements are recognized upon the recognition of the corresponding currency gains and losses on the hedged liabilities. Additionally, because the conversion option in the PEACS is denominated in Euros, changes in the Euro to U.S. dollar exchange rate may affect the future conversion of the PEACS.

Investment Risk

As of December 31, 2000, our total holdings in equity securities of other companies, including equity-method investments, investments recorded at cost, and available-for-sale equity securities, was $128 million. We invest in both private and public companies, including our business partners, primarily for strategic purposes. We have also received securities from some of our strategic partners in exchange for services provided by us to those partners. These investments are accounted for under the equity method if they give us the ability to exercise significant influence, but not control, over an investee. Some of our cost-method investments are in private companies and are accounted for at cost and others are in public companies and are accounted for as available-for-sale securities and recorded at fair value. We regularly review the carrying value of our investments and identify and record losses when events and circumstances indicate that such declines in the fair value of such assets below our accounting basis are other-than-temporary. In 2000, we recorded non-cash impairment losses totaling $189 million to write-down several of our equity securities to fair value. As of December 31, 2000, we had equity-method investments of $52 million, which includes $11 million of securities of private companies; investments recorded at cost of $33 million, which includes $30 million of securities of private companies; and available-for-sale equity securities at fair value totaling $43 million ($36 million of which was included in ''Marketable securities'' and $7 million of which was included in ''Other equity investments''). All of these investments are in companies involved in the Internet and e-commerce industries and their fair values are subject to significant fluctuations due to volatility of the stock market and changes in general economic conditions. Based on the fair value of the publicly traded equity securities we held, including $11 million included in ''Investments in equity-method investees,'' at December 31, 2000, an assumed 15%, 30% or 50% adverse change to market prices of these securities would result in a corresponding decline in total fair value of approximately $8 million, $16 million or $27 million, respectively.

Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Amazon.com, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(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 auditing standards generally accepted in the 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 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, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. 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.

/s/ Ernst & Young LLP

Seattle, Washington
January 26, 2001,
except for Note 16, as to which the date is
March 19, 2001

AMAZON.COM, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31, 2000	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 822,435	$ 133,309
Marketable securities	278,087	572,879
Inventories	174,563	220,646
Prepaid expenses and other current assets	86,044	79,643
Total current assets	1,361,129	1,006,477
Fixed assets, net	366,416	317,613
Goodwill, net	158,990	534,699
Other intangibles, net	96,335	195,445
Investments in equity-method investees	52,073	226,727
Other equity investments	40,177	144,735
Other assets	60,049	40,154
Total assets	$ 2,135,169	$2,465,850
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 485,383	$ 463,026
Accrued expenses and other current liabilities	272,683	176,208
Unearned revenue	131,117	54,790
Interest payable	69,196	24,888
Current portion of long-term debt and other	16,577	14,322
Total current liabilities	974,956	733,234
Long-term debt	2,127,464	1,466,338
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value:		
Authorized shares — 500,000		
Issued and outstanding shares — none	—	—
Common stock, $0.01 par value:		
Authorized shares — 5,000,000		
Issued and outstanding shares — 357,140 and 345,155 shares at December 31, 2000 and 1999, respectively	3,571	3,452
Additional paid-in capital	1,338,303	1,194,369
Deferred stock-based compensation	(13,448)	(47,806)
Accumulated other comprehensive loss	(2,376)	(1,709)
Accumulated deficit	(2,293,301)	(882,028)
Total stockholders' equity (deficit)	(967,251)	266,278
Total liabilities and stockholders' equity (deficit)	$ 2,135,169	$2,465,850

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years Ended December 31,		
	2000	1999	1998
Net sales	$ 2,761,983	$1,639,839	$ 609,819
Cost of sales	2,106,206	1,349,194	476,155
Gross profit	655,777	290,645	133,664
Operating expenses:			
Marketing and fulfillment	594,489	413,150	132,654
Technology and content	269,326	159,722	46,424
General and administrative	108,962	70,144	15,618
Stock-based compensation	24,797	30,618	1,889
Amortization of goodwill and other intangibles	321,772	214,694	42,599
Impairment-related and other	200,311	8,072	3,535
Total operating expenses	1,519,657	896,400	242,719
Loss from operations	(863,880)	(605,755)	(109,055)
Interest income	40,821	45,451	14,053
Interest expense	(130,921)	(84,566)	(26,639)
Other income (expense), net	(10,058)	1,671	—
Non-cash gains and losses, net	(142,639)	—	—
Net interest expense and other	(242,797)	(37,444)	(12,586)
Loss before equity in losses of equity-method investees, net	(1,106,677)	(643,199)	(121,641)
Equity in losses of equity-method investees, net	(304,596)	(76,769)	(2,905)
Net loss	$(1,411,273)	$ (719,968)	$(124,546)
Basic and diluted loss per share	$ (4.02)	$ (2.20)	$ (0.42)
Shares used in computation of basic and diluted loss per share	350,873	326,753	296,344

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2000	1999	1998
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 133,309	$ 71,583	$ 110,119
OPERATING ACTIVITIES:			
Net loss	(1,411,273)	(719,968)	(124,546)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation of fixed assets and other amortization	84,460	36,806	9,421
Amortization of deferred stock-based compensation	24,797	30,618	2,386
Equity in losses of equity-method investees, net	304,596	76,769	2,905
Amortization of goodwill and other intangibles	321,772	214,694	42,599
Impairment-related and other	200,311	8,072	1,561
Amortization of previously unearned revenue	(108,211)	(5,837)	—
Loss (gain) on sale of marketable securities, net	(280)	8,688	271
Non-cash investment gains and losses, net	142,639	—	—
Non-cash interest expense and other	24,766	29,171	23,970
Changes in operating assets and liabilities:			
Inventories	46,083	(172,069)	(20,513)
Prepaid expenses and other current assets	(8,585)	(54,927)	(16,758)
Accounts payable	22,357	330,166	78,674
Accrued expenses and other current liabilities	93,967	95,839	31,232
Unearned revenue	97,818	6,225	—
Interest payable	34,341	24,878	(167)
Net cash provided by (used in) operating activities	(130,442)	(90,875)	31,035
INVESTING ACTIVITIES:			
Sales and maturities of marketable securities	545,724	2,064,101	227,789
Purchases of marketable securities	(184,455)	(2,359,398)	(504,435)
Purchases of fixed assets	(134,758)	(287,055)	(28,333)
Investments in equity-method investees and other investments	(62,533)	(369,607)	(19,019)
Net cash provided by (used in) investing activities	163,978	(951,959)	(323,998)
FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	44,697	64,469	14,366
Proceeds from long-term debt	681,499	1,263,639	325,987
Repayment of long-term debt	(16,927)	(188,886)	(78,108)
Financing costs	(16,122)	(35,151)	(7,783)
Net cash provided by financing activities	693,147	1,104,071	254,462
Effect of exchange-rate changes on cash and cash equivalents	(37,557)	489	(35)
Net increase (decrease) in cash and cash equivalents	689,126	61,726	(38,536)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 822,435	$ 133,309	$ 71,583
SUPPLEMENTAL CASH FLOW INFORMATION:			
Fixed assets acquired under capital leases	$ 4,459	$ 25,850	$ —
Fixed assets acquired under financing agreements	4,844	5,608	—
Stock issued in connection with business acquisitions	32,130	774,409	217,241
Equity securities received for commercial agreements	106,848	54,402	—
Cash paid for interest	92,253	59,688	26,629

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Balance at January 1, 1998	289,818	$2,898	$ 65,137	$ (1,930)	$ —	$ (37,514)	$ 28,591
Net loss	—	—	—	—	—	(124,546)	(124,546)
Foreign currency translation losses	—	—	—	—	(35)	—	(35)
Change in unrealized gain on available-for-sale securities	—	—	—	—	1,841	—	1,841
Comprehensive loss	—	—	—	—	—	—	(122,740)
Issuance of capital stock	18,050	180	225,444	—	—	—	225,624
Exercise of common stock options	10,666	108	5,875	—	—	—	5,983
Note receivable for common stock	—	—	(1,099)	—	—	—	(1,099)
Deferred stock-based compensation	—	—	2,081	(2,081)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	2,386	—	—	2,386
Balance at December 31, 1998	318,534	3,186	297,438	(1,625)	1,806	(162,060)	138,745
Net loss	—	—	—	—	—	(719,968)	(719,968)
Foreign currency translation gains	—	—	—	—	490	—	490
Change in unrealized gain (loss) on available-for-sale securities, net	—	—	—	—	(4,005)	—	(4,005)
Comprehensive loss	—	—	—	—	—	—	(723,483)
Issuance of capital stock	10,496	105	743,169	—	—	—	743,274
Exercise of common stock options	16,125	161	67,969	—	—	—	68,130
Public offering of equity-method investee	—	—	13,787	—	—	—	13,787
Note receivable for common stock	—	—	(72)	—	—	—	(72)
Deferred stock-based compensation	—	—	72,078	(72,078)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	25,897	—	—	25,897
Balance at December 31, 1999	345,155	3,452	1,194,369	(47,806)	(1,709)	(882,028)	266,278
Net loss	—	—	—	—	—	(1,411,273)	(1,411,273)
Foreign currency translation gains	—	—	—	—	(364)	—	(364)
Change in unrealized gain (loss) on available-for-sale securities, net	—	—	—	—	(303)	—	(303)
Comprehensive loss	—	—	—	—	—	—	(1,411,940)
Issuance of capital stock, net of adjustments	866	8	30,977	—	—	—	30,985
Exercise of common stock options	11,119	111	41,995	—	—	—	42,106
Public offering of equity-method investees, net	—	—	76,898	—	—	—	76,898
Repayments of note receivable for common stock	—	—	27	—	—	—	27
Deferred stock-based compensation	—	—	(5,963)	2,528	—	—	(3,435)
Amortization of deferred stock-based compensation, net	—	—	—	31,830	—	—	31,830
Balance at December 31, 2000	357,140	$3,571	$1,338,303	$(13,448)	$(2,376)	$(2,293,301)	$ (967,251)

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, Inc. (Amazon.com or the Company) is an Internet retailer of consumer products and a business platform for business-to-consumer and business-to-business online commerce. The Company sells products worldwide, with its principal geographic market segments in North America, Europe and Asia. The Company was incorporated in July 1994 and began operations in July 1995. Amazon.com lists millions of unique items in a variety of consumer product categories and through its marketplace services, Amazon.com Auctions and zShops, the Company's business platform allows virtually any business or individual to sell products to Amazon.com's customer base. The Company maintains several Web sites including *www.amazon.com, www.amazon.co.uk, www.amazon.de, www.amazon.fr, www.amazon.co.jp* and *www.imdb.com.*

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the accounting for doubtful accounts, inventory reserves, depreciation, amortization, sales returns, unearned revenue, taxes and contingencies. Actual results could differ from those estimates.

Business Combinations

For business combinations that have been accounted for under the purchase method of accounting, the Company includes the results of operations of the acquired business from the date of acquisition. Net assets of the companies acquired are recorded at their fair value at the date of acquisition. The excess of the purchase price over the fair value of tangible and identifiable intangible net assets acquired is included in goodwill in the accompanying consolidated balance sheets.

For business combinations accounted for under the pooling of interests method of accounting, the assets, liabilities and stockholders' equity of the acquired entity are combined with the Company's respective accounts at recorded values and the consolidated financial statements are restated to reflect the historical results of the pooled entity. The historical results of the pooled entity reflect its actual operating cost structures and, as a result, do not necessarily reflect the cost structure of the newly-combined entity and may not be indicative of future results.

Cash and Cash Equivalents

Effective April 1, 2000, the Company changed its policy for determining which investments are treated as cash equivalents and now classifies all highly liquid instruments with an original maturity of three months or less as cash equivalents. Previously, such instruments were included in ''Marketable securities.'' The Company believes this change is preferable because it results in a presentation that is consistent with practice in the Company's industry and because it results in a better reflection of the Company's liquidity. The consolidated financial statements presented in this Form 10-K reflect this change.

Investments

The Company has certain investments in debt and equity securities.

Investments are accounted for using the equity method of accounting if the investment gives the Company the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's Board of Directors and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. The Company records its equity in the income or losses of these investees generally one month in arrears for private companies and three months in arrears for public companies. The Company records its investments in equity-method investees on the consolidated balance sheets as ''Investments in equity-method investees'' and its share of the investees' earnings or losses as ''Equity in losses of equity-method investees, net'' on the consolidated statements of operations.

All other equity investments, which consist of investments for which the Company does not have the ability to exercise significant influence, are accounted for under the cost method. Under the cost method of accounting, investments in private companies are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments. For public companies that have readily determinable fair values, the Company classifies its equity investments as available-for-sale and, accordingly, records these investments at their fair values with unrealized gains and losses included in ''Accumulated other comprehensive loss.'' Such investments are included in ''Marketable securities'' on the accompanying consolidated balance sheets if the Company does not have the intent to hold the investment for over one year from the balance sheet date and are included in ''Other equity investments'' in cases where the Company does not have the intent and ability to liquidate such investments within one year from the balance sheet date.

The Company also invests in certain marketable debt securities, which consist primarily of high-quality short- to intermediate-term fixed income securities that are also classified as available-for-sale securities. Such investments are included in ''Marketable securities'' on the accompanying consolidated balance sheets and are reported at fair value with unrealized gains and losses included in ''Accumulated other comprehensive loss.'' The specific identification method is used to determine the cost of securities sold.

The initial cost of the Company's investments is determined based on the fair value of the investment at the time of its acquisition. The Company has received equity securities as consideration for services to be performed for the issuer under commercial agreements. In such cases, the Company has estimated the fair value of the equity securities received. For securities of public companies, the Company generally determines fair value based on the quoted market price at the time the Company enters into the underlying agreement, and adjusts such market price appropriately if significant restrictions on marketability exist. As an observable market price does not exist for equity securities of private companies, estimates of fair value of such securities are more subjective than for securities of public companies. For significant transactions involving equity securities in private companies, the Company obtains and considers independent, third party valuations where appropriate. Such valuations use a variety of methodologies to estimate fair value, including comparing the security with securities of publicly traded companies in similar lines of business, applying price multiples to estimated future operating results for the private company, and estimating discounted cash flows for that company. These valuations also reduce the fair value to account for restrictions on control and marketability where appropriate. Using these valuations and other information available to the Company, such as the Company's knowledge of the industry and knowledge of specific information about the investee, the Company determines the estimated fair value of the securities received. To the extent that equity securities received or modified after March 16, 2000 are subject to forfeiture or vesting provisions and no significant performance

commitment exists upon signing of the agreements, the fair value of the securities is determined as of the date the respective forfeiture or as vesting provisions lapse.

The Company periodically evaluates whether the declines in fair value of its investments are other-than-temporary. This evaluation consists of a review of qualitative and quantitative factors by members of senior management. For investments with publicly quoted market prices, the Company generally considers a decline to be an other-than-temporary impairment if the quoted market price is less than its accounting basis for two consecutive quarters, absent evidence to the contrary. The Company considers additional factors to determine whether declines in fair value are other-than-temporary, such as the investee's financial condition, results of operations, operating trends and other financial ratios. The evaluation also considers publicly available information regarding the investee companies, including reports from investment analysts and other publicly available investee-specific news or general market conditions. For investments in private companies with no quoted market price, the Company considers similar qualitative and quantitative factors and also considers the implied value from any recent rounds of financing completed by the investee, as well as market prices of comparable public companies. The Company generally requires its private investees to deliver monthly, quarterly and annual financial statements to assist in reviewing relevant financial data and to assist in determining whether such data may indicate other-than-temporary declines in fair value below the Company's accounting basis.

Inventories

Inventories, consisting of products available for sale, are recorded using the specific-identification method and valued at the lower of cost or market value.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation, which includes the amortization of assets recorded under capital leases. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets (generally two to ten years). Fixed assets purchased under capital leases are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the lease term.

Included in fixed assets is the cost of internal-use software, including software used to operate the Company's Web sites. The Company expenses all costs related to the development of internal-use software other than those incurred during the application development stage. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software (generally two years).

Goodwill and Other Intangibles

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business acquisitions accounted for under the purchase accounting method. Other intangibles include identifiable intangible assets purchased by the Company, primarily in connection with business acquisitions. Goodwill and other intangibles are presented net of related accumulated amortization and impairment charges and are being amortized over lives ranging from two to four years.

The Company records impairment losses on goodwill and other intangible assets when events and circumstances indicate that such assets might be impaired and the estimated fair value of the asset is less than its recorded amount. Conditions that would necessitate an impairment assessment include material adverse changes in operations, significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition, a decision to abandon acquired products, services or technologies,

or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable.

Goodwill is viewed in two separate categories: enterprise-level and business-unit level. Enterprise-level goodwill results from purchase acquisitions of businesses that have been fully integrated into the Company's operations and no longer exist as a discrete business unit. Business-unit goodwill results from purchase business combinations where the acquired operations have been managed as a separate business unit and not fully absorbed into the Company. Enterprise-level goodwill is evaluated using the market-value method, which compares the Company's net book value to the value indicated by the market price of the Company's equity securities; if the net book value were to exceed the Company's market capitalization, the excess carrying amount of goodwill would be written off as an impairment-related charge. Measurement of fair value for business-unit goodwill as well as other intangibles is based on discounted cash flow analysis at the business-unit level.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The Company does not perform a periodic assessment of assets for impairment in the absence of such information or indicators. 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 a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company measures fair value based on quoted market prices or based on discounted estimates of future cash flows. Long-lived assets to be disposed of are carried at fair value less costs to sell.

Unearned Revenue

Unearned revenue is recorded when payments, whether received in cash or equity securities, are received in advance of the Company's performance in the underlying agreement. Unearned revenue is amortized ratably over the period in which services are provided.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered. The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

Revenue Recognition

The Company recognizes revenue from product sales, net of any promotional gift certificates, when the products are shipped and title passes to customers. Outbound shipping charges are included in net sales and amounted to $339 million, $239 million and $94 million in 2000, 1999 and 1998, respectively. The Company provides an allowance for sales returns based on historical experience.

Under an agreement with Toysrus.com and other third parties, the Company acts as an agent for the sale of certain products ordered on its Web site. For such arrangements, the Company records the net amount of revenue earned as commissions on transactions rather than the gross amount of product sales and related costs.

The Company also earns revenues from other services, primarily by entering into commercial agreements that involve the sale of products and services by third-party companies (''strategic partners'' or ''partners'') on

co-branded sections of the Amazon.com Web site and by other promotional services, such as advertising placements and customer referrals. Generally, the fair value of consideration received, whether in cash, equity securities, or a combination thereof, is measured at the commencement of the service term, and any subsequent appreciation or decline in the fair value of the securities received does not impact the amount of revenue recognized over the term of the agreement. The Company generally recognizes revenue from these services on a straight-line basis over the period during which the Company performs services under these agreements. Subsequent appreciation or decline in the fair value of equity securities received in connection with services agreements is accounted for in accordance with the Company's Investment policies, as described in ''Investments.'' For securities received from public companies, the Company generally determines fair value based on the quoted market price at the time the Company enters into the underlying agreement, and adjusts such market price appropriately if significant restrictions on marketability exist. As an observable market price does not exist for equity securities of private companies, estimates of fair value of such securities are more subjective than for securities of public companies. For significant transactions involving equity securities in private companies, the Company obtains and considers independent, third party valuations where appropriate. Such valuations use a variety of methodologies to estimate fair value, including comparing the security with securities of publicly traded companies in similar lines of business, applying price multiples to estimated future operating results for the private company, and then also estimating discounted cash flows for that company. These valuations also reduce the fair value to account for restrictions on control and marketability where appropriate. Using these valuations and other information available to the Company, such as the Company's knowledge of the industry and knowledge of specific information about the investee, the Company determines the estimated fair value of the securities received. To the extent that equity securities received or modified after March 16, 2000 are subject to forfeiture or vesting provisions and no significant performance commitment exists upon signing of the agreements, the fair value of the securities is determined as of the date the respective forfeiture or vesting provisions lapse.

Revenue is recognized over the period in which the service is performed (generally one to three years). During the years ended December 31, 2000 and 1999, the Company recorded $167 million and $9 million, respectively, of service revenue from strategic partners. Service revenues for the year ended December 31, 2000 included sales of inventory, at cost, to Toysrus.com of $29 million. For the year ended December 31, 2000, service revenue recognized during the period consisted of consideration, either received during the period or amortized from previously unearned revenue, in the form of $88 million of cash, $73 million of equity securities of public companies and $6 million of equity securities of private companies.

Cost of Sales

Cost of sales consists of the purchase price of products sold, inbound and outbound shipping charges, packaging supplies and costs associated with service revenues and marketplace business. Outbound shipping charges and the cost of tangible supplies used to package products for shipment to customers totaled $340 million, $227 million, and $76 million in 2000, 1999, and 1998, respectively.

Marketing and Fulfillment

Marketing costs include advertising, public relations, and other promotional costs including payroll and related expenses for personnel engaged in marketing activities. Such costs are expensed as incurred, except for advance payments under marketing-related contracts, which are deferred and recognized on a straight-line basis over the life of the underlying contract. The prepaid marketing balance was $6 million and $5 million as of December 31, 2000 and 1999. For the years ended December 31, 2000, 1999, and 1998, the Company incurred marketing expense of $180 million, $176 million, and $67 million, respectively, which includes advertising expenses of $130 million, $141 million and $54 million for the same periods.

Fulfillment costs represent costs incurred in operating and staffing fulfillment and customer service centers (including costs attributable to receiving, inspecting and warehousing inventories; picking, packaging and preparing customers' orders for shipment; and responding to inquiries from customers), and credit card fees. Fulfillment costs amounted to $415 million, $237 million, and $65 million in 2000, 1999, and 1998, respectively.

Technology and Content

Technology and content expenses consist principally of payroll and related expenses for development, editorial, systems and telecommunications operations personnel and consultants; systems and telecommunications infrastructure; and costs of acquired content, including freelance reviews.

Technology and content costs are generally expensed as incurred, except for certain costs relating to the development of internal-use software, including those relating to operating the Company's Web sites, that are capitalized and depreciated over two years. For the years ended December 31, 2000 and 1999, capitalized costs related to the development of internal-use software, including those relating to operating the Company's Web sites, net of amortization, were $16 million and $8 million, respectively. No such costs were capitalized during 1998.

Stock-Based Compensation

The Company recognizes expense relative to its employee stock option plans based on the intrinsic value of the stock options granted. Generally, expense is not recorded to the extent individual stock option exercise prices are set equal to the current market price of the Company's stock on the date of grant. The Company provides additional pro forma disclosure of the accounting impact as if it had adopted fair value treatment (see Note 10).

Foreign Currency

The functional currency of the Company's subsidiaries that operate our *www.amazon.co.uk*, *www.amazon.de*, *www.amazon.fr* and *www.amazon.co.jp* Web sites and our foreign subsidiaries is the local currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average rates prevailing during the year. Translation adjustments are included in ''Accumulated other comprehensive loss,'' a separate component of stockholders' equity (deficit). Transaction gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, which have been insignificant, are included in ''Other income (expense), net'' on the consolidated statements of operations.

Hedging

The Company uses derivative financial instruments to hedge the risk of fluctuations in foreign exchange rates associated with its Euro denominated debt. Currency gains and losses on hedge instruments are included in ''Other income (expense), net'' and are recognized concurrently with currency gains and losses of the hedged liabilities. The Company also uses a portion of the Euro denominated debt to hedge an equivalent amount of Euro denominated cash equivalents and marketable fixed income securities classified as available for sale. Currency gains and losses on the Euro debt are included in ''Accumulated other comprehensive loss'' as an offset to the currency changes in the underlying cash equivalents and investments. The level of effectiveness of the hedge is determined based on the extent to which changes in the value of the hedged item due to fluctuations in the foreign exchange rates are reduced by inverse changes in the hedge instruments. The hedge

instruments are determined to be highly inversely correlated to the hedged items and are designated, and considered effective as, hedges of the underlying assets and liabilities. As a matter of policy, the Company does not enter into derivative transactions for trading or speculative purposes.

Earnings per Share

Basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Basic earnings per share is computed using the weighted average number of common shares outstanding, net of shares subject to repurchase, during the period. Diluted earnings per share is computed using the weighted average number of common and common stock equivalent shares outstanding during the period; common stock equivalent shares are excluded from the computation as their effect is antidilutive.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, ''Accounting for Derivative Instruments and Hedging Activities,'' as amended by SFAS No. 138, which was issued in June 2000. The Company will adopt SFAS No. 133 on January 1, 2001. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Adoption of SFAS No. 133 will result in cumulative transition losses in ''Net loss'' of approximately $11 million and in ''Accumulated other comprehensive loss'' of approximately $12 million in the first quarter of 2001. Assets and liabilities recorded on the balance sheet will also be impacted by adoption of SFAS No. 133.

In March 2000, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on EITF Issue 00-2, ''Accounting for Web Site Development Costs.'' This consensus provides guidance on what types of costs incurred to develop Web sites should be capitalized or expensed. The Company adopted this consensus on July 1, 2000. During the year ended December 31, 2000, the Company capitalized $3 million of Web site development costs. Such capitalized costs are included in ''Fixed assets, net'' and will be depreciated over a period of two years.

In March 2000, the FASB issued Financial Interpretation (FIN) No. 44, ''Accounting for Certain Transactions Involving Stock Compensation.'' FIN 44 clarifies the application of Accounting Principles Board (APB) Opinion No. 25 for certain issues, such as the definition of an employee for purposes of applying APB Opinion No. 25, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award and the accounting for an exchange of stock compensation awards in a business combination. Adoption of FIN 44 did not change the Company's existing accounting policies or disclosures.

In July 2000, the EITF reached a consensus on EITF Issue 99-19, ''Reporting Revenue Gross as a Principal versus Net as an Agent.'' This consensus provides guidance concerning under what circumstances a company should report revenue based on (a) the gross amount billed to a customer because it has earned revenue from the sale of the goods or services or (b) the net amount retained (that is, the amount billed to the customer less the amount paid to a supplier) because it has earned a commission or fee. Adoption of this consensus did not change the Company's existing accounting policies.

In September 2000, the EITF reached a final consensus on EITF Issue 00-10, ''Accounting for Shipping and Handling Fees and Costs.'' This consensus requires that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenue and should be classified as revenue. The

Company historically has classified shipping charges to customers as revenue. With respect to the classification of costs related to shipping and handling incurred by the seller, the EITF determined that the classification of such costs is an accounting policy decision that should be disclosed. Adoption of this consensus did not change the Company's existing accounting policies or disclosures.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2—BUSINESS COMBINATIONS

The Company completed the following acquisitions during 1999: e-Niche Incorporated (Exchange.com), Accept.com Financial Services Corporation, Alexa Internet (Alexa), LiveBid.com, Inc. (Livebid), the catalog and online commerce assets of Acme Electric Motor Co. (Tool Crib), Back to Basics Toys, Inc. (Back to Basics), and other less significant acquisitions. The aggregate original purchase price of these acquisitions, plus related charges, was approximately $780 million. The consideration for the acquisitions was comprised of common stock and cash. The Company originally issued an aggregate of approximately 10 million shares of its common stock to effect these transactions. Pursuant to the terms of certain of these acquisitions, the Company issued approximately 866,000 additional shares during 2000 with a value of approximately $32 million; these additional shares increased the purchase price of the related transactions and corresponding goodwill. Each transaction was recorded under the purchase method of accounting, and results of operations for each acquired company have been included in the financial results of the Company from the closing date of each transaction forward. The goodwill and other intangibles are being amortized on a straight-line basis over a period of two to four years and are subject to the Company's periodic impairment evaluation.

No significant acquisitions occurred during 2000.

Note 3—CASH AND MARKETABLE SECURITIES

The following tables summarize, by major security type, the Company's cash and marketable securities:

Cash and Cash Equivalents

	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash	$141,922	$ —	$ —	$141,922
Commercial paper and short-term obligations	696,545	87	(18,737)	677,895
Asset-backed and agency securities	2,618	—	—	2,618
	$841,085	$ 87	$(18,737)	$822,435

	December 31, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash	$116,961	$ —	$ —	$116,961
Commercial paper and short-term obligations	16,348	—	—	16,348
	$133,309	$ —	$ —	$133,309

Marketable Securities

	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Corporate notes and bonds	$ 16,063	$ 1,384	$ —	$ 17,447
Asset-backed and agency securities	80,748	1,982	(159)	82,571
Treasury notes and bonds	134,646	7,647	(208)	142,085
Equity securities	37,434	—	(1,450)	35,984
	$268,891	$11,013	$ (1,817)	$278,087

	December 31, 1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Commercial paper and short-term obligations	$ 57,856	$ 8	$ (654)	$ 57,210
Corporate notes and bonds	105,282	—	(1,438)	103,844
Asset-backed and agency securities	252,874	136	(5,343)	247,667
Treasury notes and bonds	169,021	32	(4,895)	164,158
	$585,033	$ 176	$(12,330)	$572,879

The following table summarizes contractual maturities of the Company's marketable fixed-income securities as of December 31, 2000:

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due within one year	$ 40,504	$ 43,306
Due after one year through five years	110,205	116,226
Asset-backed and agency securities with various maturities	80,748	82,571
	$231,457	$242,103

Gross gains of $7 million and $7 million and gross losses of $11 million and $15 million were realized on sales of available-for-sale marketable securities for the years ended December 31, 2000 and 1999, respectively.

During the year ended December 31, 2000, the Company recorded non-cash impairment losses, which totaled $189 million, relating to other-than-temporary declines in its equity investments in Audible, Inc., Nextcard, Inc., Ashford.com, Inc., Webvan Group, Inc., Greg Manning Auctions, Inc., and Sotheby's Holdings, Inc. These impairment losses were recorded to reflect each investment at its fair value. No such impairment-related losses were reported in 1999 and 1998.

Note 4—FIXED ASSETS

Fixed assets, at cost, consist of the following:

	December 31,	
	2000	1999
	(in thousands)	
Computers, equipment and software	$317,806	$187,345
Leasehold improvements	107,367	43,968
Leased assets	51,969	52,374
Construction in progress	4,122	83,290
	481,264	366,977
Less accumulated depreciation	(99,244)	(43,204)
Less accumulated amortization on leased assets	(15,604)	(6,160)
Fixed assets, net	$366,416	$ 317,613

Depreciation expense on fixed assets was $83 million, $35 million and $10 million, which includes amortization of fixed assets acquired under capital lease obligations of $11 million, $6 million and $0, for the years ended December 31, 2000, 1999 and 1998.

For the year ended December 31, 1999, the Company capitalized $3 million of interest on construction-in-progress. No such amounts were capitalized during the year ended December 31, 2000.

During the year ended December 31, 2000, the Company recorded an impairment loss of $11 million relating to the decline in fair value, measured using discounted estimates of future cash flows, of certain fixed assets. The impairment amount was included in ‘‘Impairment-related and other’’ on the consolidated statements of operations, and included $4 million, $3 million and $4 million of computers, equipment and software; leasehold improvements; and leased assets, respectively. No comparable losses were recorded during 1999 or 1998.

Note 5—GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles were as follows:

	December 31,	
	2000	1999
	(in thousands)	
Goodwill	$ 776,208	$ 747,720
Accumulated amortization	(454,433)	(213,021)
Impairment adjustments	(162,785)	—
Goodwill, net	$ 158,990	$ 534,699
Other intangibles	$ 241,357	$ 239,717
Accumulated amortization	(123,848)	(44,272)
Impairment adjustments	(21,174)	—
Other intangibles, net	$ 96,335	$ 195,445

During the fourth quarter of 2000, the Company identified indicators of possible impairment of its recorded goodwill and other intangibles. Such indicators included the general slowdown in the retail economy

evidenced by general declines in consumer spending, the Company's decline in market capitalization as determined by the quoted market price for its common stock, the pervasive and significant declines in e-commerce valuations in comparison with the market valuations at the time the Company invested in its acquisitions, and changes in the Company's strategic plans for certain of the acquired businesses. Based on the results of its discounted cash flow analyses, the Company identified certain levels of impairment corresponding with the business-unit goodwill and other intangibles initially recorded in connection with the following acquisitions: Alexa, Back to Basics, Tool Crib and Livebid. Accordingly, the Company recorded an impairment loss of $184 million during the fourth quarter of 2000 included in ''Impairment-related and other'' on the consolidated statements of operations. No impairments were identified in the Company's enterprise-level goodwill and other intangibles, and no impairments of goodwill and other intangibles were recorded in 1999 and 1998.

Note 6—INVESTMENTS

At December 31, 2000, the Company's equity-method investees and the Company's approximate ownership interest in each investee, based on outstanding shares, were as follows:

Company	Percentage Ownership
Basis Technology	11%
Drugstore.com	21
Eziba.com	20
Greenlight.com	5
Kozmo.com	16

Although the Company's ownership percentage for Basis Technology, Greenlight.com and Kozmo.com is below 20%, the Company's representation on the investees' Boards of Directors and the impact of commercial arrangements result in the Company having significant influence over the operations of each investee.

Summarized balance sheet information of the Company's equity-method investees is as follows:

	December 31,	
	2000	1999
	(in thousands)	
Current assets	$279,487	$353,182
Noncurrent assets	511,671	316,720
Current liabilities	71,954	47,062
Noncurrent liabilities	113,258	67,692

Summarized statement of operations information of the Company's equity-method investees, calculated for each investee for the period during which the Company had investments in such investees, is as follows:

	For the Years Ended December 31,		
	2000	1999	1998
		(in thousands)	
Net sales	$ 133,821	$ 27,996	$ —
Gross profit (loss)	42,402	(3,072)	—
Net loss	(453,263)	(152,541)	(6,008)

Activity in the Company's equity-method investments and other equity investments for the years ended December 31, 1999 and 2000, is as follows:

	Equity-Method Investments	Other Equity Investments	Total
		(in thousands)	
Balance, January 1, 1999	$ 7,740	$ 0	$ 7,740
Cash investments	281,969	80,329	362,298
Fair value of equity securities received in non-cash transactions	—	54,402	54,402
Equity-method losses, net	(76,769)	—	(76,769)
Basis adjustments for public offerings or acquisitions of investees by a third party	13,787	—	13,787
Unrealized gains on available-for-sale investments, net	—	10,004	10,004
Balance, December 31, 1999	226,727	144,735	371,462
Cash investments	48,091	13,485	61,576
Fair value of equity securities received in non-cash transactions	80,190	26,658	106,848
Equity-method losses, net	(304,596)	—	(304,596)
Sales of investments	(41)	(9,163)	(9,204)
Realized gains (losses) on sales of investments	(2,763)	8,156	5,393
Basis adjustments for public offerings or acquisitions of investees by a third party	117,058	—	117,058
Non-cash loss, living.com bankruptcy	(14,092)	—	(14,092)
Non-cash losses for other-than-temporary declines in fair value (see Note 3)	—	(100,726)	(100,726)
Unrealized gains on available-for-sale investments, net	—	693	693
Investment reclassifications, net, at fair value	(98,501)	(43,661)	(142,162)
Balance, December 31, 2000	$ 52,073	$ 40,177	$ 92,250

Three of the Company's equity-method investees, HomeGrocer.com, Inc., Pets.com, Inc. and drugstore.com, inc., completed public offerings of their common stock during 2000 and 1999. As a result of those public offerings, the Company's ownership percentage in each investee was diluted, creating an ''implied sale'' of a portion of its investments. In accordance with Staff Accounting Bulletin No. 51 ''Accounting for Sales of Stock by a Subsidiary,'' the Company recorded unrealized gains, net of unrealized losses, as additional paid-in capital totaling $77 million and $14 million in 2000 and 1999, respectively. The unrealized gains, net represent the difference between the Company's carrying basis and the fair value of the portion of each investment deemed to have been sold by the investees.

The Company recorded a non-cash gain of $40 million in connection with the September 2000 acquisition of HomeGrocer.com, Inc. by an unrelated third-party, Webvan Group, Inc. This non-cash gain represents the difference between the Company's recorded basis in the common stock of HomeGrocer.com, Inc. prior to the acquisition and the fair value of equity securities received from the acquiring company, Webvan Group, Inc. The resulting investment is classified as available-for-sale at December 31, 2000 as the Company no longer has the ability to exercise significant influence over the investee. This change in classification resulted in a reclassification from ''Investments in equity-method investees'' of $82 million and $2 million to ''Marketable securities'' and ''Other equity investments,'' respectively.

The Company also reclassified certain of its equity investments amounting to $60 million from ''Other equity investments'' to ''Marketable securities'' as it no longer had the intent to hold these investments for over one year from the date of reclassification. Additionally, the Company reclassified $15 million of equity investments from ''Investments in equity-method investees'' to ''Other equity investments'' upon the acquisition of an investee, Della and James, Inc., by an unrelated third party, WeddingChannel.com, Inc., which resulted in the loss of significant influence over the investee. As of December 31, 2000, the fair value of all equity securities classified in ''Marketable securities'' on the accompanying consolidated balance sheet was $36 million. No equity securities were classified in ''Marketable securities'' as of December 31, 1999.

At December 31, 2000 and 1999, ''Other equity investments'' included $7 million and $57 million of equity securities recorded at fair value and $33 million and $88 million of equity securities accounted for under the cost-method, respectively. Gross unrealized gains were $0 and $15 million and gross unrealized losses were $3 million and $5 million at December 31, 2000 and 1999, respectively.

At December 31, 2000 and 1999, the Company's investments in the common stock of publicly held equity-method investees, at fair value, was $12 million and $409 million, respectively.

Note 7—UNEARNED REVENUE

Activity in unearned revenue was as follows (in thousands):

Balance, January 1, 1999	$ —
Cash received or cash receivable	6,225
Fair value of equity securities received	54,402
Amortization to revenue	(5,837)
Balance, December 31, 1999	54,790
Cash received or cash receivable	97,818
Fair value of equity securities received	106,848
Amortization to revenue	(108,211)
Contract termination	(20,128)
Balance, December 31, 2000	$ 131,117

During 2000, living.com, Inc. (living.com) declared bankruptcy and terminated its commercial agreement with the Company. As a result, the Company recorded a net gain of $6 million, comprised of a $14 million loss representing the Company's remaining investment balance in living.com and a $20 million gain relating to the unamortized portion of unearned revenue associated with the living.com commercial agreement. The gain and the loss are recorded net and included in ''Non-cash investment gains and losses'' on the accompanying consolidated statements of operations.

Note 8—LONG-TERM DEBT

The Company's long-term debt is summarized as follows:

	December 31,	
	2000	1999
	(in thousands)	
Convertible Subordinated Notes	$1,249,807	$1,249,807
Euro Convertible Subordinated Notes	650,463	—
Senior Discount Notes	210,278	190,728
Capital lease obligations	24,837	31,266
Other long-term debt	8,656	8,859
	2,144,041	1,480,660
Less current portion of long-term debt	(4,831)	(4,520)
Less current portion of capital lease obligations	(11,746)	(9,802)
	$2,127,464	$1,466,338

Euro Convertible Subordinated Notes

On February 16, 2000, the Company completed an offering of 690 million Euros of 6.875% Convertible Subordinated Notes due 2010, also known as PEACS ''Premium Adjustable Convertible Securities.'' The PEACS are convertible into the Company's common stock at an initial conversion price of 104.947 Euros per share. Interest on the PEACS is payable annually in arrears in February of each year, commencing in February 2001. The PEACS are unsecured and are subordinated to all of the Company's existing and future senior indebtedness. The PEACS rank equally with the Company's outstanding 4.75% Convertible Subordinated Notes due 2009 (the ''Convertible Notes''). The conversion price for the PEACS will be reset on February 16, 2001 and February 16, 2002, but in no event will the conversion price be reset lower than 84.883 Euros per share. Subject to certain conditions, the PEACS may be redeemed at the Company's option on or after February 20, 2003, in whole or in part, at the redemption price of 1,000 Euros per note, plus accrued and unpaid interest.

In order to hedge a portion of the risk of exchange rate fluctuations between the U.S. dollar and the Euro, the Company entered into a cross-currency swap agreement and into a series of foreign currency forward purchase agreements. Under the swap agreement, the Company agreed to pay at inception and receive upon maturity 75 million Euros in exchange for receiving at inception and paying at maturity $67 million. In addition, the Company agreed to receive in February of each year 27 million Euros for interest payments on 390 million Euros of the PEACS and, simultaneously, to pay $32 million. This agreement is cancelable, in whole or in part, at the Company's option at no cost on or after February 20, 2003 if the Company's underlying stock price (converted into Euros) is greater than or equal to the minimum conversion price of the PEACS. Under the forward purchase agreements, the Company agreed to pay $18 million and receive 21 million Euros in February 2001. The Company accounts for these agreements as hedges of the risk of exchange rate fluctuations on the debt principal and interest. Currency gains and losses on the hedge agreements are recognized upon the recognition of the corresponding currency gains and losses on the hedged liabilities.

At December 31, 2000, debt of 615 million Euros was also designated as a hedge of the risk of foreign exchange fluctuations on a portion of the 624 million Euro cash equivalent and marketable fixed-income securities classified as available-for-sale. Accordingly, currency gains and losses on the Euro debt were included in ''Accumulated other comprehensive loss'' as an offset to the currency changes in the underlying available-for-sale cash equivalents and investments.

At December 31, 2000, the swap agreement represented an obligation with a fair value of $11 million. The fair value was determined as the present value of net future cash payments and receipts, adjusted for the Company's ability to cancel the agreement and the likelihood of such cancellation. The fair value takes into consideration current foreign currency exchange rates, market interest rates and the current market price of our common stock. The fair value of the forward purchase agreements, as of December 31, 2000, was $1 million. Based upon quoted market prices, the fair value of the PEACS, as of December 31, 2000, was $248 million.

Convertible Subordinated Notes

On February 3, 1999, the Company completed an offering of $1.25 billion of 4.75% Convertible Subordinated Notes due 2009 (the Convertible Subordinated Notes). The Convertible Subordinated Notes are convertible into the Company's common stock at the holders' option at a conversion price of $78.0275 per share, subject to adjustment in certain events. Interest on the Convertible Subordinated Notes is payable semi-annually in arrears on February 1 and August 1 of each year, and commenced August 1, 1999. The Convertible Subordinated Notes are unsecured and are subordinated to all existing and future Senior Indebtedness as defined in the indenture governing the Convertible Subordinated Notes (the Convertible Subordinated Notes Indenture). Subject to certain conditions, the Convertible Subordinated Notes may be redeemed at the option of the Company prior to February 6, 2002, in whole or in part, at the redemption price of $1,000 per note, plus accrued and unpaid interest, if the closing price for the Company's common stock has exceeded 150% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day prior to the date of mailing of the notice of redemption. Upon any redemption made prior to February 6, 2002, the Company will also make an additional cash payment with respect to the Convertible Subordinated Notes called for redemption in an amount equal to $212.60 per $1,000 note redeemed, less the amount of any interest actually paid on such Convertible Subordinated Notes prior to the call for redemption. At any time on and after February 6, 2002, the Company may redeem the notes, in whole or in part, at the redemption prices set forth in the Convertible Subordinated Notes Indenture.

Upon the occurrence of a ''fundamental change'' (as defined in the Convertible Subordinated Notes Indenture) prior to the maturity of the Convertible Subordinated Notes, each holder thereof shall have the right to require Amazon.com to redeem all or any part of such holder's Convertible Subordinated Notes at a price equal to 100% of the principal amount of the notes being redeemed, together with accrued interest.

Based upon quoted market prices, the fair value of the Convertible Subordinated Notes as of December 31, 2000 and December 31, 1999 was $471 million and $1.42 billion, respectively.

Senior Discount Notes

In May 1998, the Company completed the offering of approximately $326 million of 10% Senior Discount Notes due May 1, 2008 (the Senior Discount Notes). Pursuant to a registration statement on Form S-4 in September 1998, the Company completed an exchange offer of 10% Senior Discount Notes due 2008 (the Exchange Notes), which are registered under the Securities Act of 1933, as amended, for all outstanding Senior Discount Notes. The Exchange Notes have identical terms in all material respects to the terms of the original Senior Discount Notes, except that the Exchange Notes generally are freely transferable (the Exchange Notes are referred to throughout these notes to consolidated financial statements interchangeably with the Senior Discount Notes). The Exchange Notes were issued under the indenture governing the original Senior Discount Notes (the Indenture). The Senior Discount Notes were sold at a substantial discount from their principal amount at maturity of $530 million. Prior to November 1, 2003, no cash interest payments are required; instead, interest will accrete during this period to the aggregate principal amount at maturity. From and after May 1, 2003, the Senior Discount Notes will bear interest at a rate of 10% per annum payable in cash on each May 1 and November 1. The Senior Discount Notes are redeemable, at the option of the Company, in whole or

in part, at any time on or after May 1, 2003, at the redemption prices set forth in the Indenture, plus accrued interest, if any, to the date of redemption.

During 1999, the Company repurchased $266 million (principal amount) of the Senior Discount Notes, representing accreted value of $178 million. The Company recorded an immaterial loss on extinguishment of this debt. No repurchases of Senior Discount Notes occurred in 2000.

The Senior Discount Notes are senior unsecured indebtedness of the Company ranking equally with the Company's existing and future unsubordinated, unsecured indebtedness and senior in right of payment to all subordinated indebtedness of the Company. The Senior Discount Notes are effectively subordinated to all secured indebtedness and to all existing and future liabilities of the Company's subsidiaries.

The Indenture contains certain covenants that, among other things, limit the ability of the Company and its Restricted Subsidiaries (as defined in the Indenture) to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, make investments, create liens, engage in transactions with stockholders and affiliates, sell assets and engage in mergers and consolidations. However, these limitations are subject to a number of important qualifications and exceptions. The Company was in compliance with all financial covenants at December 31, 2000 and 1999.

Based upon quoted market prices, the fair value of the outstanding Senior Discount Notes as of December 31, 2000 and December 31, 1999 was $134 million and $174 million, respectively.

Note 9—COMMITMENTS AND CONTINGENCIES

Leases and Marketing Agreements

The Company currently leases office and fulfillment center facilities and fixed assets under noncancelable operating and capital leases. Rental expense under operating lease agreements for 2000, 1999 and 1998 was $98 million, $43 million and $8 million, respectively.

The Company has also entered into certain marketing agreements that include fixed-fee commitments into the first half of 2002. Total marketing-related commitments amount to $19 million; the corresponding costs are recognized according to the terms of the related agreements.

Future minimum commitments are as follows:

	Capital Leases	Operating Leases	Marketing Agreements
		(in thousands)	
Year Ending December 31,			
2001	$13,676	$105,230	$17,495
2002	9,070	88,958	1,016
2003	5,828	55,200	—
2004	41	46,767	—
2005	—	43,936	—
Thereafter	—	256,907	—
Total minimum lease payments	28,615	$596,998	$18,511
Less imputed interest	(3,778)		
Present value of net minimum lease payments	24,837		
Less current portion	(11,746)		
Long-term capital lease obligation	$13,091		

Legal Proceedings

Certain federal class action lawsuits were filed against the Company and its wholly owned subsidiary, Alexa. The lawsuits allege that Alexa tracking and storage of Internet Web usage paths violates federal and state statutes prohibiting computer fraud, unfair competition, and unauthorized interception of private electronic communications, as well as common law proscriptions against trespass and invasion of privacy. The complaints seek actual, statutory, and punitive damages, as well as restitution, on behalf of all users of Alexa Web navigation service, along with injunctive relief prohibiting Alexa from tracking and storing such information or disclosing it to third parties. Although the Company disputes the allegations of wrongdoing in these complaints, there can be no assurance that the Company will prevail in these lawsuits.

In addition, the Federal Trade Commission has requested information and documents regarding Alexa practices and has opened a formal investigative file in connection with its inquiry. The Company is cooperating voluntarily with the Federal Trade Commission's investigation. An unfavorable resolution of some or all of these matters could materially affect the Company's business, future results of operations or cash flows in a particular period, depending on the amount and timing.

As previously disclosed in the Company's Quarterly Report on Form 10-Q for the third quarter of 2000, the Company has received informal inquiries from the SEC staff with respect to accounting treatment and disclosures for some of its initial strategic partner transactions and has responded to those questions. Members of the Company's management have reviewed the Company's accounting for the transactions with the Company's auditors and the SEC staff. The Company believes that its accounting treatment and disclosures were appropriate and will continue to cooperate with the SEC staff if they have further questions.

From time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights. The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, prospects, financial condition or operating results.

Inventory Suppliers

During 2000, approximately 27% of all inventory purchases were made from three major vendors. The Company does not have long-term contracts or arrangements with most of its vendors to guarantee the availability of merchandise, particular payment terms or the extension of credit limits.

Letters of Credit

The Company is contingently liable under unused letters of credit of approximately $57 million as of December 31, 2000.

Note 10—STOCKHOLDERS' EQUITY (DEFICIT)

Preferred Stock

The Company has authorized 500,000,000 shares of $0.01 par value Preferred Stock. No preferred stock shares were outstanding during 2000, 1999 or 1998.

Common Stock

On June 1, 1998, the Company effected a 2-for-1 stock split in the form of a stock dividend to stockholders of record on May 20, 1998. On January 4, 1999, the Company effected a 3-for-1 stock split in the form of a stock dividend to the stockholders of record on December 18, 1998. On September 1, 1999, the Company effected a 2-for-1 stock split in the form of a stock dividend to stockholders of record on August 12, 1999. Accordingly, the accompanying consolidated financial statements reflect these stock splits.

Stock Option Plans

The Company's stock option plans consist of the 1999 Nonofficer Employee Stock Option Plan, the 1997 Stock Incentive Plan and the Amended and Restated 1994 Stock Option Plan. Shares reserved under these Plans at December 31, 2000 consist of 40 million shares in the 1999 Nonofficer Employee Stock Option Plan, 80 million shares in the 1997 Stock Incentive Plan and 58 million shares in the 1994 Stock Option Plan. Any shares of common stock available for issuance under the Amended and Restated 1994 Stock Option Plan, up to a maximum of 21,025,075 shares, that are not issued under that plan may be added to the aggregate number of shares available for issuance under the 1997 Stock Incentive Plan. In connection with certain acquisitions in 1998 and 1999, the Company assumed outstanding options to purchase common stock originally issued under the acquired companies' stock option plans. The Company's stock option plans as well as the assumed stock option plans are hereby collectively referred to as the ''Plans.''

Generally, the Company's Board of Directors grants options at an exercise price of not less than the fair market value of the Company's common stock at the date of grant. Each outstanding option granted prior to December 20, 1996 has a term of five years from the date of vesting. Generally, outstanding options granted on or subsequent to December 20, 1996 have a term of 10 years from the date of grant; however, certain nonqualified stock options were granted in 1999 and 2000 with terms of approximately 15 and 20 years. Subject to Internal Revenue Service limitations, options granted under the Company's plans prior to April 1999 and granted under certain assumed plans generally became exercisable immediately. Options granted under the Plans since April 1999 generally vest and become exercisable in accordance with the following vesting schedule: 20% after year one, 20% after year two and 5% at the end of each quarter for years three through five. Certain options were granted during 2000 that vest and become exercisable in accordance with the following schedule: 50% after year one and 50% after year two. Shares issued upon exercise of options that are unvested are restricted and subject to repurchase by the Company at the exercise price upon termination of employment or services and such restrictions lapse over the original vesting schedule. At December 31, 2000, approximately 920,000 shares of restricted common stock, which includes restricted shares issued in connection with acquisitions, were subject to repurchase.

Stock Option Activity

The following table summarizes the Company's stock option activity:

	Number of Shares (in thousands)	Weighted Average Exercise Price
Balance January 1, 1998	54,664	$ 0.75
Options granted and assumed	39,548	12.73
Options canceled	(7,537)	4.10
Options exercised	(10,666)	0.55
Balance December 31, 1998	76,009	6.69
Options granted and assumed	31,739	63.60
Options canceled	(11,281)	19.70
Options exercised	(16,125)	4.00
Balance December 31, 1999	80,342	27.76
Options granted	20,717	38.13
Options canceled	(18,291)	39.37
Options exercised	(12,330)	3.63
Balance December 31, 2000	70,438	32.17

At December 31, 2000, 52 million shares of common stock were available for future grant under the Plans.

The following table summarizes information about options outstanding and exercisable at December 31, 2000:

	Options Outstanding			Options Exercisable	
		Weighted Average			
Range of Exercise Prices	Number of Options (in thousands)	Remaining Life (yrs)	Exercise Price	Number of Options (in thousands)	Weighted Average Exercise Price
$ 0.014 –$ 1.000	9,843	5.9	$ 0.40	4,391	$ 0.35
1.167 – 6.979	8,330	6.9	4.35	2,457	3.88
6.990 – 16.333	7,572	7.4	9.68	2,495	9.73
16.521 – 21.656	4,430	7.7	19.61	1,504	19.72
21.833 – 30.875	13,358	9.6	30.60	81	23.92
30.900 – 55.125	7,580	8.9	46.53	929	46.38
55.187 – 63.250	8,456	11.6	60.65	1,136	59.71
63.437 – 71.281	7,392	8.6	68.16	673	67.29
71.687 – 104.969	3,477	8.6	82.65	650	82.72
0.014 – 104.969	70,438	8.4	32.17	14,316	19.34

Deferred Stock-Based Compensation

The Company recorded an adjustment to reduce previously recorded deferred stock-based compensation of $3 million, relating to the termination of employment prior to vesting of certain employees acquired from business combinations. In the years ended December 31, 1999 and 1998, the Company recorded aggregate

deferred stock-based compensation of $72 million and $2 million, respectively. In 1999, deferred stock-based compensation was recorded in connection with acquisitions made by the Company in which restricted Company stock was issued to employees of acquired companies. Such stock is considered compensation for services to be provided by employees, and the related expense will be recognized over the term of the services provided, which is generally four years. The amount recorded in 1998 represents the difference between the grant price and the deemed fair value of the Company's common stock for shares subject to options granted in 1998. Shares underlying options granted below fair market value and the associated weighted average exercise price were 1,072,000 and $2.048 during the year ended December 31, 1998. The amortization of deferred stock-based compensation is charged to operations over the vesting period of the options, which is typically five years. Total amortization expense recognized in 2000, 1999 and 1998 related to deferred stock-based compensation was $35 million, $26 million and $2 million, respectively.

Accumulated Other Comprehensive Loss

Activity in unrealized gains (losses) on available-for-sale securities included in ''Accumulated other comprehensive loss'' on the consolidated balance sheets was as follows:

	For the Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
Unrealized gains (losses) arising during year	$(178,815)	$(12,698)	$1,841
Less reclassification of net realized losses included in net loss	178,512	8,693	—
Net unrealized gains (losses) on available-for-sale Securities	$ (303)	$ (4,005)	$1,841

Pro Forma Disclosure

The Company uses the intrinsic value method in accounting for its stock options. If compensation cost had been recognized based on the fair value at the date of grant for options granted in 2000, 1999 and 1998, the pro forma amounts of the Company's net loss and net loss per share, which may not necessarily be indicative of effects on reported results for future years, for the years ended December 31, 2000, 1999 and 1998 would have been as follows:

	For the Years Ended December 31,		
	2000	1999	1998
	(in thousands, except per share data)		
Net loss — as reported	$(1,411,273)	$ (719,968)	$(124,546)
Net loss — pro forma	(1,720,312)	(1,031,925)	(194,269)
Basic and diluted loss per share — as reported	$ (4.02)	$ (2.20)	$ (0.42)
Basic and diluted loss per share — pro forma	(4.90)	(3.16)	(0.66)

The fair value for each option granted was estimated at the date of grant using a Black-Scholes option-pricing model, assuming no expected dividends and the following weighted average assumptions:

	For the Years Ended December 31,		
	2000	1999	1998
Average risk-free interest rates	6.2%	5.5%	4.7%
Average expected life (in years)	3.0	3.5	3.0
Volatility(1)	89.6%	84.9%	81.6%

(1) Options granted prior to the Company's initial public offering and by PlanetAll prior to its merger with the Company were valued using the minimum value method and therefore volatility was not applicable.

The weighted average fair value of options granted during 2000, 1999 and 1998 was $22.12, $43.36 and $19.07, respectively, for options granted with exercise prices at the current fair value of the underlying stock. During 1998, some options were granted with exercise prices that were below the current fair value of the underlying stock. The weighted average fair value of options granted with exercise prices below the current fair value of the underlying stock during 1998 was $4.61. Compensation expense that is recognized in providing pro forma disclosures might not be representative of the effects on pro forma earnings for future years because SFAS No. 123, ''Accounting for Stock-Based Compensation,'' does not apply to stock option grants made prior to 1995.

Common Stock Reserved for Future Issuance

At December 31, 2000, common stock reserved for future issuance is as follows (in thousands):

Stock options	122,082
Shares issuable upon conversion of Convertible Subordinated Notes	16,017
Shares issuable upon conversion of Euro Convertible Subordinated Notes	6,575
Total	144,674

Note 11—EARNINGS (LOSS) PER SHARE

The following represents the calculations for net loss per share:

	For the Years Ended December 31,		
	2000	1999	1998
	(in thousands, except per share data)		
Net loss — as reported	$(1,411,273)	$(719,968)	$(124,546)
Weighted average shares outstanding	353,394	332,409	304,938
Weighted average common shares issued subject to repurchase agreements	(2,521)	(5,656)	(8,594)
Shares used in computation of basic and diluted loss per share	350,873	326,753	296,344
Basic and diluted loss per share	$ (4.02)	$ (2.20)	$ (0.42)

All of the Company's stock options (see Note 10) are excluded from diluted loss per share since their effect is antidilutive.

Note 12—STOCK-BASED COMPENSATION

Stock-based compensation is comprised of the portion of acquisition-related consideration conditioned on the continued tenure of key employees, which must be classified as compensation expense rather than as a component of purchase price under generally accepted accounting principles. Stock-based compensation also includes stock-based charges, such as option-related deferred compensation recorded at the Company's initial public offering, as well as certain other compensation and severance arrangements.

During 2000, declines in the Company's market capitalization and the termination of certain acquisition-related employees prior to vesting in stock-based compensation awards had the effect of reversing previously recorded stock-based compensation. The following table shows the amounts of stock-based compensation that would have been recorded under the following income statement categories had stock-based compensation not been separately stated in the consolidated statements of operations:

	For the Years Ended December 31,		
	2000	1999	1998
		(in thousands)	
Marketing and fulfillment	$ (2,464)	$ 3,975	$1,276
Technology and content	28,252	25,490	384
General and administrative	(991)	1,153	229
	$24,797	$30,618	$1,889

Note 13—INCOME TAXES

The Company has provided for an immaterial amount of current and deferred U.S. federal, state or foreign income taxes for the current and all prior periods presented. The Company has provided a full valuation allowance on the deferred tax asset, consisting primarily of net operating loss carryforwards, because of uncertainty regarding its realization. The increase in the valuation allowance on the deferred tax asset during the year ended December 31, 2000 was $226 million.

At December 31, 2000, the Company had net operating losses of approximately $1.65 billion related to U.S. federal, foreign and state jurisdictions. Utilization of net operating losses, which begin to expire at various times starting in 2010, may be subject to certain limitations under Sections 382 and 1502 of the Internal Revenue Code of 1986, as amended, and other limitations under state and foreign tax laws. To the extent that net operating losses, when realized, relate to stock option deductions of approximately $973 million, the resulting benefits will be credited to stockholders' equity.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2000	1999
	(in thousands)	
Net operating loss carryforwards	$576,024	$423,222
Depreciation and amortization	9,777	(931)
Accrued expenses and valuation allowances	32,050	19,482
Unearned revenue	39,916	—
Other	19,435	9,030
Total deferred tax assets	677,202	450,803
Valuation allowance for deferred tax assets	(677,202)	(450,803)
Net deferred tax assets	$ —	$ —

Note 14—EMPLOYEE BENEFIT PLAN

The Company has a 401(k) savings plan covering substantially all of its employees. Eligible employees may contribute through payroll deductions. The Company matches employees' contributions at the discretion of the Company's Board of Directors. To date, the Company has not matched employee contributions to the 401(k) savings plan.

Note 15—SEGMENT INFORMATION

The Company identifies operating segments based on product line information, considering line maturity, within the United States and separately identifies its international operations as an operating segment. The financial results of the Company's operating segments are reported to the Company's Chief Operating Decision Maker in the following groupings: U.S. Books; Music; DVD/video; International; and Early-Stage Businesses and Other. The results for U.S. Books, Music and DVD/video have been aggregated into one reportable segment due to the similarity of their economic characteristics.

The measure of profit or loss used for each reportable segment is income (loss) from operations before non-cash operating expenses, including stock-based compensation, amortization of goodwill and other intangibles, and impairment-related and other. Assets are not allocated to operating segments for reporting to the Company's Chief Operating Decision Maker and there are no intersegment revenues on transactions between reportable segments.

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

	U.S. Books, Music and DVD/video	Early-Stage Businesses and Other	Total U.S.	International	Consolidated
			(in thousands)		
2000:					
Net sales	$1,698,266	$ 682,642	$2,380,908	$381,075	$ 2,761,983
Gross profit	417,452	160,889	578,341	77,436	655,777
Segment gain (loss)	71,441	(243,371)	(171,930)	(145,070)	(317,000)
Other non-cash operating expenses	—	—	—	—	(546,880)
Net interest expense and other	—	—	—	—	(242,797)
Equity in losses of equity-method investees, net	—	—	—	—	(304,596)
Net loss	—	—	—	—	$(1,411,273)
1999:					
Net sales	$1,308,292	$ 163,804	$1,472,096	$167,743	$ 1,639,839
Gross profit (loss)	262,871	(7,801)	255,070	35,575	290,645
Segment loss	(31,000)	(242,148)	(273,148)	(79,223)	(352,371)
Other non-cash operating expenses	—	—	—	—	(253,384)
Net interest expense and other	—	—	—	—	(37,444)
Equity in losses of equity-method investees, net	—	—	—	—	(76,769)
Net loss	—	—	—	—	$ (719,968)
1998:					
Net sales	$ 588,013	$ —	$ 588,013	$ 21,806	$ 609,819
Gross profit	128,710	—	128,710	4,954	133,664
Segment loss	(35,534)	—	(35,534)	(25,498)	(61,032)
Other non-cash operating expenses	—	—	—	—	(48,023)
Interest expense, net	—	—	—	—	(12,586)
Equity in losses of equity-method investees, net	—	—	—	—	(2,905)
Net loss	—	—	—	—	$ (124,546)

Net sales to customers outside of the U.S. represented approximately 22%, 22% and 20% of net sales for the years ended December 31, 2000, 1999 and 1998, respectively. No individual foreign country or geographical area or customer accounted for more than 10% of net sales in any of the periods presented. There were no transfers between geographic areas during the years ended December 31, 2000, 1999 or 1998.

Included in U.S. Early-Stage Businesses and Other are revenues earned in connection with the Company's business-to-business strategic relationships (''service revenues''). Service revenues were $167 million and $9 million, and related cost of services included in ''Cost of sales'' were $57 million and $0 for the years ended December 31, 2000 and 1999, respectively. Service revenues during 2000 related primarily to commercial agreements with Toysrus.com, Ashford.com, drugstore.com and Audible. Service revenues during 2000 included sales of inventory, at cost, to Toysrus.com of $29 million.

Depreciation expense for the U.S. Books, Music and DVD/video segment was $30 million, $15 million and $7 million in 2000, 1999 and 1998, respectively. Depreciation expense for the International segment was $19 million, $7 million and $3 million in 2000, 1999 and 1998, respectively. Depreciation expense for the Early-Stage Business and other segment was $34 million and $13 million in 2000 and 1999, respectively.

At December 31, 2000 and 1999, fixed assets, net totaled $315 million and $309 million in the United States, respectively, and $51 million and $9 million in other countries, respectively.

Note 16—SUBSEQUENT EVENTS

Subsequent to December 31, 2000, the Company approved a plan for an operational restructuring in which it will reduce its employee staff by approximately 1,300 positions, or 15% of its workforce. Additionally, the Company will consolidate its Seattle, Washington corporate office locations, close its McDonough, Georgia fulfillment center, operate its Seattle, Washington fulfillment center on a seasonal basis, close its customer service centers in Seattle, Washington and The Hague, Netherlands, and migrate a large portion of its technology infrastructure to a new hardware and software platform. The Company estimates that the restructuring will result in costs during the first half of 2001 exceeding $150 million relating primarily to severance, fixed asset impairments, continuing lease obligations and other exit costs directly related to its restructuring.

Subsequent to December 31, 2000, the Company offered a limited non-compulsory exchange of employee stock options. The option exchange offer will result in variable accounting treatment for stock options representing approximately 15 million shares of the Company's common stock. Variable accounting treatment will result in unpredictable stock-based compensation dependent on fluctuations in quoted prices for the Company's common stock. Pursuant to the option exchange offer, the number of shares issuable upon option exercises decreased from approximately 70 million shares, or 19.5% of the Company's outstanding common stock, to approximately 52 million shares, or 14.4% of the Company's outstanding common stock.

A number of purported class action complaints were filed by stockholders against the Company and some of its senior officers in March 2001, in the United States District Court for the Western District of Washington, alleging that the defendants made false and misleading statements regarding the Company's financial and accounting disclosures in 2000 and early 2001, including disclosures regarding some of the Company's strategic partner transactions. The complaints further allege that the defendants' conduct violated securities laws and seek compensatory damages and injunctive relief against all defendants. The Company disputes the allegations of wrongdoing in these complaints and intends to vigorously defend itself in these matters.

Note 17—QUARTERLY RESULTS (unaudited)

The following tables contain selected unaudited statement of operations information for each quarter of 2000, 1999 and 1998. The Company believes that 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.

	Year Ended December 31, 2000			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)			
Net sales	$ 972,360	$ 637,858	$ 577,876	$ 573,889
Gross profit	224,300	167,279	136,064	128,134
Net loss	(545,140)	(240,524)	(317,184)	(308,425)
Basic and diluted loss per share (1)	$ (1.53)	$ (0.68)	$ (0.91)	$ (0.90)
Shares used in computation of basic and diluted loss per share	355,681	353,954	349,886	343,884

	Year Ended December 31, 1999			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)			
Net sales	$ 676,042	$ 355,777	$ 314,377	$ 293,643
Gross profit	87,846	70,477	67,531	64,791
Net loss	(323,213)	(197,080)	(138,008)	(61,667)
Basic and diluted loss per share (1)	$ (0.96)	$ (0.59)	$ (0.43)	$ (0.20)
Shares used in computation of basic and diluted loss per share	338,389	332,488	322,340	313,794

	Year Ended December 31, 1998			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)			
Net sales	$ 252,829	$ 153,648	$ 115,981	$ 87,361
Gross profit	53,353	34,825	26,188	19,298
Net loss	(46,427)	(45,171)	(22,579)	(10,369)
Basic and diluted loss per share (1)	$ (0.15)	$ (0.15)	$ (0.08)	$ (0.04)
Shares used in computation of basic and diluted loss per share	308,778	301,405	292,554	282,636

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

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

None.

PART III

ITEM 10. ***Directors and Executive Officers of the Registrant***

Information regarding our executive officers required by Item 10, Part III, is set forth in Item 1 of Part I herein under the caption ''Executive Officers and Directors.'' Information required by Item 10, Part III, regarding our directors is included in our Proxy Statement relating to our annual meeting of stockholders to be held on May 23, 2001, and is incorporated herein by reference. Information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is set forth in the Proxy Statement and incorporated herein by reference.

ITEM 11. ***Executive Compensation***

Information required by Item 11, Part III, is included in our Proxy Statement relating to our annual meeting of stockholders to be held on May 23, 2001, and is incorporated herein by reference.

ITEM 12. ***Security Ownership of Certain Beneficial Owners and Management***

Information required by Item 12, Part III, is included in our Proxy Statement relating to our annual meeting of stockholders to be held on May 23, 2001, and is incorporated herein by reference.

ITEM 13. ***Certain Relationships and Related Transactions***

Information regarding certain of our relationships and related transactions is included in our Proxy Statement relating to our annual meeting of stockholders to be held on May 23, 2001, and is incorporated herein by reference.

PART IV

ITEM 14. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

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

(1) *Index to Consolidated Financial Statements:*

Report of Ernst & Young LLP, Independent Auditors

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Operations for each of the three years ended December 31, 2000

Consolidated Statements of Cash Flows for each of the three years ended December 31, 2000

Consolidated Statements of Stockholders' Equity (Deficit) for each of the three years ended December 31, 2000

Notes to Consolidated Financial Statements

(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 is not applicable or required.

(3) *Index to Exhibits*

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ending March 31, 2000).
3.2	Restated Bylaws of the Company (incorporated by reference to the Company's Current Report on Form 8-K dated February 28, 2000).
4.1	Indenture, dated as of May 8, 1998, between Amazon.com, Inc. and the Bank of New York, as trustee (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 1998).
4.2	Form of 10% Senior Discount Notes Due 2008 (incorporated by reference to the Company's Registration Statement on Form S-4 (Registration No. 333-56723) filed June 12, 1998).
4.3	Registration Rights Agreement entered into on May 8, 1998, between Amazon.com, Inc. and Morgan Stanley & Co. Incorporated (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 1998).
4.4	Indenture, dated as of February 3, 1999, between Amazon.com, Inc. and The Bank of New York, as trustee, including the form of 4¾% Convertible Subordinated Note Due 2009 attached as Exhibit A thereto (incorporated by reference to the Company's Current Report on Form 8-K dated February 3, 1999).
4.5	Registration Rights Agreement by and among Amazon.com, Inc. and the Initial Purchasers (incorporated by reference to the Company's Current Report on Form 8-K dated February 3, 1999).
4.6	Indenture, dated as of February 16, 2000, between Amazon.com, Inc. and the Bank of New York, as trustee (incorporated by Reference to the Company's Current Report on Form 8-K dated February 16, 2000).
4.7	Form of 6⅞% Convertible Subordinated Notes due 2010 (incorporated by reference to the Company's Current Report on Form 8-K dated February 28, 2000).

Exhibit Number	Description
10.1†	Amended and Restated 1994 Stock Option Plan (version as of December 20, 1996 for Amended and Restated Grants and version as of December 20, 1996 for New Grants) (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).
10.2†	1997 Stock Incentive Plan (incorporated by reference to Appendix B to the Company's Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on March 29, 2000).
10.3†	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)
10.4†	Accept.com Financial Services Corporation 1998 Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-80495) filed June 11, 1999)
10.5†	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).
10.6†	Non-Qualified Stock Option Letter Agreement, effective December 6, 1995, from the Company to Tom A. Alberg (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).
10.7†	Non-Qualified Stock Option Letter Agreement, effective December 6, 1995, from the Company to Tom A. Alberg (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).
10.8†	Investor Rights Agreement, dated as of June 21, 1996, by and among the Company, Kleiner Perkins Caufield & Byers VIII, KPCB Information Sciences Zaibatsu Fund II and Jeffrey P. Bezos (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).
10.9†	Offer Letter of Employment to Warren C. Jenson dated September 4, 1999, as amended and restated September 30, 1999 (incorporated by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 1999).
10.10†	Offer Letter of Employment to Jeff Wilke, dated September 2, 1999 (incorporated by reference to the Company's Annual Report on Form 10-K for the Year Ended December 31, 1999).
10.11†	Offer Letter of Employment to Diego Piacentini, dated January 17, 2000.
10.12†	Executive Compensation Letter to Jeff Wilke, dated May 16, 2000 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2000).
10.13†	Executive Compensation Letter to Warren Jenson, dated May 16, 2000 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2000).
10.14†	Executive Compensation Letter to Mark Britto, dated January 3, 2000.
10.15†	Executive Compensation Letter to Mark Britto, dated July 27, 2000.
10.16†	Executive Compensation Letter to Diego Piacentini, dated May 16, 2000.
12.1	Computation of Ratio of Earnings to Fixed Charges.
18.1	Preferability Letter of Ernst & Young LLP, Independent Auditors, regarding change in accounting principle
21.1	List of Subsidiaries.
23.1	Consent of Ernst & Young LLP, Independent Auditors.

† Executive Compensation Plan or Agreement

(b) *Reports on Form 8-K:*

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, as of March 21, 2001.

AMAZON.COM, INC.

By: /s/ JEFFREY P. BEZOS

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 21, 2001.

Signature	Title
/s/ JEFFREY P. BEZOS Jeffrey P. Bezos	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/s/ WARREN C. JENSON Warren C. Jenson	Senior Vice President, and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ TOM A. ALBERG Tom A. Alberg	Director
/s/ SCOTT D. COOK Scott D. Cook	Director
/s/ L. JOHN DOERR L. John Doerr	Director
/s/ PATRICIA Q. STONESIFER Patricia Q. Stonesifer	Director

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