UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 1999

or

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

For the transition period from ____________ to ____________ .

Commission File No. 000-22513

AMAZON.COM, INC.

(Exact name of registrant as specified in its charter)

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

1200 12th Avenue South, Suite 1200
Seattle, Washington 98144-2734
(206) 266-1000
(Address, and telephone number, including area code, of registrant's principal executive offices)

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 [X] 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. [ ]

Aggregate market value of voting stock held by non-affiliates of the registrant as of February 29, 2000	$ 12,806,989,091
Number of shares of common stock outstanding as of February 29, 2000	349,517,423

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 2000, 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.

EXPLANATORY NOTE:

THIS AMENDMENT TO OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1999 REFLECTS CERTAIN CHANGES PREVIOUSLY REPORTED IN OUR QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2000. IN THAT FORM 10-Q, WE MODIFIED OUR ACCOUNTING POLICY RELATING TO THE CLASSIFICATION OF CASH EQUIVALENTS, AND ACCORDINGLY WE HAVE REVISED ITEMS 6, 7, 7A AND 8 AND THE FINANCIAL DATA SCHEDULE IN THIS REPORT. THE AGGREGATE TOTAL OF CASH EQUIVALENTS AND MARKETABLE SECURITIES HAS NOT CHANGED FROM AMOUNTS PREVIOUSLY REPORTED.

THIS AMENDMENT ALSO CORRECTS TYPOGRAPHICAL ERRORS IN NOTE 9 TO THE CONSOLIDATED FINANCIAL STATEMENTS. THIS FOOTNOTE WAS INCONSISTENT WITH THE CORRECT AMOUNT REPORTED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS. IN NOTE 9 THE WEIGHTED AVERAGE EXERCISE PRICE OF THE OPTIONS CANCELLED AND THE WEIGHTED AVERAGE EXERCISE PRICE OF OPTIONS EXERCISED DURING THE YEAR ENDED DECEMBER 31, 1999 WERE INADVERTENTLY TRANSPOSED, AND THE WEIGHTED AVERAGE EXERCISE PRICE OF OPTIONS EXERCISED FOR THE YEAR ENDED DECEMBER 31, 1999 WAS INCORRECT.

WE HAVE MADE NO FURTHER CHANGES TO THE PREVIOUSLY FILED FORM 10-K. ALL INFORMATION IN THIS FORM 10-K/A IS AS OF DECEMBER 31, 1999 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE AFOREMENTIONED CHANGE IN ACCOUNTING POLICY.

AMAZON.COM, INC.

FORM 10-K/A
For the Fiscal Year Ended December 31, 1999

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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, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results are not necessarily indicative of future results.

	Years Ended December 31,				
	1999	1998	1997	1996	1995
	(in thousands, except per share data)				
Statement of Operations Data(1):					
Net sales	$ 1,639,839	$ 609,819	$ 147,787	$ 15,746	$ 511
Cost of sales	1,349,194	476,155	118,969	12,287	409
Gross profit	290,645	133,664	28,818	3,459	102
Operating expenses:					
Marketing and sales	413,150	132,654	40,077	6,081	200
Technology and content	159,722	46,424	13,384	2,377	171
General and administrative	70,144	15,618	6,741	1,408	35
Stock-based compensation	30,618	1,889	1,211	36	—
Amortization of goodwill and other intangibles	214,694	42,599	—	—	—
Merger, acquisition and investment-related costs	8,072	3,535	—	—	—
Total operating expenses	896,400	242,719	61,413	9,902	406
Loss from operations	(605,755)	(109,055)	(32,595)	(6,443)	(304)
Interest income	45,451	14,053	1,901	202	1
Interest expense	(84,566)	(26,639)	(326)	(5)	—
Other income, net	1,671	—	—	—	—
Net interest income (expense) and other	(37,444)	(12,586)	1,575	197	1
Loss before equity in losses of equity-method investees	(643,199)	(121,641)	(31,020)	(6,246)	(303)
Equity in losses of equity-method investees	(76,769)	(2,905)	—	—	—
Net loss	$ (719,968)	$ (124,546)	$ (31,020)	$ (6,246)	$ (303)
Basic and diluted loss per share(2)	$ (2.20)	$ (0.42)	$ (0.12)	$ (0.03)	$ (0.00)
Shares used in computation of basic and diluted loss per share(2)	326,753	296,344	260,682	222,542	172,728

	December 31,				
	1999	1998	1997	1996	1995
	(in thousands)				
Balance Sheet Data(1):					
Cash and cash equivalents	$ 133,309	$ 71,583	$ 110,119	$ 6,289	$ 996
Marketable securities	572,879	301,862	15,256	—	—
Working capital	273,243	262,679	93,158	1,698	920
Total assets	2,471,551	648,460	149,844	8,434	1,084
Long-term debt	1,466,338	348,140	76,702	—	—
Stockholders' equity	266,278	138,745	28,591	2,943	977

(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 10 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. This Act provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about themselves so long as they identify these statements as forward looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. 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. The Company's actual results may differ significantly from management's expectations. This following discussion includes forward-looking statements regarding expectations of future profitability of the US books business, gross margin, improvement in operating loss and sales, 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, the amount that the Company invests 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 the Company's actual results to differ significantly from management's expectations, are described in greater detail in the section entitled "Business — Additional Factors That May Affect Future Results," which, along with the following discussion, describes some, but not all, of the factors that could cause actual results to differ significantly from management's expectations.

Results of Operations

Net Sales

	1999	% Change	1998	% Change	1997
			(in thousands)		
Net sales	$ 1,639,839	169%	$ 609,819	313%	$ 147,787

Net sales include the selling price of products sold by us, net of returns and gift certificate discounts, and also include outbound shipping charges. Shipping revenue was $239 million, $94.1 million and $24.8 million in 1999, 1998 and 1997, respectively. Net sales also include commissions from auctions and zShops transactions, which include sales commissions, placement fees and fees from payment service transactions.

Growth in net sales in 1999 and 1998 reflects a significant increase in units sold due to the growth of our customer base, repeat purchases from existing customers, increased international sales, and the introduction of new product offerings. These new product offerings include music and DVD/video in June and November of 1998, respectively, toys and electronics in July 1999 and home improvement, software and video games in November 1999. We increased our issuance of promotional gift certificates to customers in 1999 to promote new product lines, however, which partially offset such growth in net sales. The Company had approximately 16.9 million, 6.2 million and 1.5 million cumulative customer accounts as of December 31, 1999, 1998 and 1997, respectively. The percentage of orders by repeat customers increased from 64% in the fourth quarter of 1998 to 73% in the fourth quarter of 1999. The increase in net sales in 1998 was also partially due to the launch of the UK and German focused Web sites in October 1998.

Sales to customers outside of the US represented approximately 22%, 20% and 25% of net sales for the years ended December 31, 1999, 1998 and 1997, respectively.

Gross Profit

	1999	% Change	1998	% Change	1997
			(in thousands)		
Gross profit	$ 290,645	117%	$ 133,664	364%	$ 28,818
Gross margin	17.7%		21.9%		19.5%

Gross profit consists of net sales less the cost of sales, which consists of the cost of merchandise sold to customers, as well as inbound and outbound shipping costs and the cost of tangible supplies used to package product for shipment to customers. Gross profit

increased in 1999 and 1998 in absolute dollars, reflecting the Company's increased sales volume. Gross margin decreased in 1999 due to the introduction of new product lines, particularly toys and electronics, and inventory-related charges of approximately $39 million incurred in the fourth quarter of 1999. We also increased our issuance of promotional gift certificates to customers in 1999 to promote these new product lines, which decreased net sales and, therefore, gross margin. Additionally, we realized lower shipping margins in 1999 due to an increase in partial shipments to satisfy holiday demand and because of split shipments from one or more locations, which was caused by our failure to optimize inventory at our distribution centers. Gross margin increased in 1998 as compared to 1997 as a result of improvements in product costs through improved supply chain management, including increased direct purchasing from publishers, as well as higher overall shipping margins. These two factors more than offset the impact of aggressive product pricing and lower music and video margins.

As noted above, outbound shipping costs are included in cost of sales. Gross profit from shipping, which represents shipping revenues less outbound shipping costs, was $11.7 million, $18.2 million and $4.4 million in 1999, 1998 and 1997, respectively.

We expect our overall gross margin to approach 20% for the first quarter of 2000 and for the year.

We believe that offering our customers attractive prices is an essential component of our business strategy. For example, we offer everyday discounts of 50% on every book on the *New York Times* bestseller list, up to 40% on hundreds of thousands of titles and up to 85% on certain "special value" editions. We may in the future expand or increase the discounts we offer to our customers and may otherwise alter our pricing structure and policies in a manner that may adversely impact gross profit and gross margin.

We intend to continue to expand our operations by promoting new or complementary products or sales formats and by expanding the breadth and depth of our product and service offerings. Gross margins attributable to new business areas may be different from those associated with our existing business activities. To the extent such product lines become larger components of our sales, we would expect a corresponding impact on overall product gross margin.

We believe that the Amazon.com Commerce Network will tend to increase gross margins in the future because the revenue associated with the activities conducted by Amazon.com Commerce Network generates substantially higher gross profit than the Company's sale of products. See "Business — Additional Factors That May Affect Future Results — Our business could suffer if we are unsuccessful in making and integrating business combinations and strategic alliances."

Organizations responsible for promulgating accounting standards are currently reviewing the financial statement classification of, and accounting for, fulfillment and order processing costs and other items by a number of e-commerce companies, including Amazon.com. The review by these accounting organizations may lead to new accounting standards that could require that some or all of our fulfillment and order processing costs be classified as costs of sales. We currently include these costs in Marketing and Sales. These new standards could also require us to capitalize certain of our fulfillment and order processing costs in inventory. We currently expense these costs as incurred. We will adjust our accounting and classification of fulfillment and order processing costs if required by accounting organizations or by the SEC.

Marketing and Sales

	1999	% Change	1998 (in thousands)	% Change	1997
Marketing and sales	$ 413,150	211%	$ 132,654	231%	$ 40,077
Percentage of net sales	25.2%		21.8%		27.1%

Marketing and sales expenses consist of advertising, promotional and public relations expenditures, credit card fees and payroll and related expenses for personnel engaged in marketing, selling and fulfillment activities. Fulfillment costs included in marketing and sales expenses represent those costs incurred in operating and staffing distribution 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. Fulfillment costs amounted to $188.4 million, $50.3 million and $12.1 million in 1999, 1998 and 1997, respectively. Marketing and sales expenses increased in 1999 and 1998 primarily due to increased payroll and related costs associated with fulfilling customer demand, increases in our advertising and promotional expenditures in the US, Germany and the UK, and increased credit card fees resulting from higher sales. The increase in 1999 was further attributable to increased advertising during the holiday season and the promotion of the new toys, electronics, software, video games and home improvement stores. The increase in 1998 was also attributable to the entry into music and video sales and the launch of new Web sites targeting

Germany and the UK. Marketing and sales expenses increased as a percentage of net sales in 1999 as compared to 1998 primarily due to increases in fulfillment expenses associated with our expansion of our distribution center network and customer service staff during 1999. Marketing and sales expenses decreased as a percentage of net sales in 1998 due to the significant increase in net sales. We intend to continue our advertising and marketing activities in the future and expect that such expenditures will continue to increase in absolute dollars, but, as a percentage of sales, will likely decline in the future. We also expect that fulfillment costs will decline as a percentage of sales in the future as additional capacity of our existing distribution center network is more fully utilized. However, due to risks related to market share, seasonality, distribution centers, inventory management and other factors, advertising and marketing expenditures and fulfillment costs may not decline as a percentage of sales.

Organizations responsible for promulgating accounting standards are currently reviewing the financial statement classification of, and accounting for, fulfillment and order processing costs and other items by a number of e-commerce companies, including Amazon.com. The review by these accounting organizations may lead to new accounting standards that could require that some or all of our fulfillment and order processing costs be classified as costs of sales. These new standards could also require us to capitalize certain of our fulfillment and order processing costs in inventory. We currently expense these costs as incurred. We will adjust our accounting and classification of fulfillment and order processing costs if required by accounting organizations or by the SEC.

Technology and Content

	1999	% Change	1998 (in thousands)	% Change	1997
Technology and content	$ 159,722	244%	$ 46,424	247%	$ 13,384
Percentage of net sales	9.7%		7.6%		9.1%

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. The increases in technology and content expenses in 1999 and 1998 were primarily attributable to increased staffing and associated costs related to 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 also were the result of the costs of developing, introducing and operating new product lines, operating expenses associated with acquired entities and, in 1998, the costs of developing, introducing and operating new Web sites targeting Germany and the UK. Technology and content expenses increased as a percentage of net sales in 1999 due to the significant number of new product lines and services launched by us during the year. Technology and content expenses decreased as a percentage of net sales in 1998 due to the significant increase in net sales. Technology and content costs are generally expensed as incurred, except for certain costs relating to the development of internal-use software that are capitalized and depreciated over estimated useful lives. We believe that continued investment in technology and content is critical to attaining our strategic objectives. In addition to ongoing investments in our Web stores and infrastructure, we intend to increase investments in products, services and international expansion. As a result, we expect technology and content expenses to continue to increase in absolute dollars.

General and Administrative

	1999	% Change	1998 (in thousands)	% Change	1997
General and administrative	$ 70,144	349%	$ 15,618	132%	$ 6,741
Percentage of net sales	4.3%		2.6%		4.6%

General and administrative expenses consist of payroll and related expenses for executive, finance and administrative personnel, recruiting, professional fees and other general corporate expenses. The 1999 and 1998 increases in general and administrative expenses were primarily a result of increased salaries and related expenses associated with the hiring of additional personnel and legal and other professional fees related to our growth. In both 1999 and 1998, additional expenses were incurred associated with acquired entities and the related international expansion and expanded activities. We expect general and administrative expenses to increase in absolute dollars as we incur additional costs to support the growth of our business.

Stock-based Compensation

	1999	% Change	1998 (in thousands)	% Change	1997
Stock-based compensation	$ 30,618	1,521%	$ 1,889	56%	$ 1,211
Percentage of net sales	1.9%		0.3%		0.8%

Stock-based compensation is comprised of the portion of acquisition-related consideration conditioned on the continued tenure of key employees of the acquired businesses, 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 our initial public offering, as well as certain other compensation and severance arrangements. The increase in stock-based compensation in 1999 resulted primarily from acquisitions closed in 1999. Stock-based compensation for 1998 and 1997 relates primarily to option-related deferred compensation recorded at the time of our initial public offering.

Amortization of Goodwill and Other Purchased Intangibles

	1999	% Change	1998	% Change	1997
			(in thousands)		
Amortization of goodwill and other purchased intangibles	$ 214,694	404%	$ 42,599	N/M	$ 0

Increases in amortization of goodwill and other purchased intangibles in 1999 primarily resulted from the amortization of goodwill and other intangibles recorded at the time of our acquisitions of Exchange.com, Alexa Internet, Accept.com, LiveBid.com, the catalog and online commerce assets of Acme Electric Motor Co. (Tool Crib of the North), Back to Basics Toys and other acquisitions. In 1998, amortization charges resulted from the amortization of goodwill and other intangibles recorded in the acquisitions of Junglee and three smaller Internet companies. We expect that amortization charges from the acquisitions consummated in 1999 will increase in 2000 based on a full year of amortization for all of the acquisitions. It is likely that we will continue to expand our business through acquisitions, which would cause amortization of goodwill and other intangibles to increase.

Loss from Operations

	1999	% Change	1998	% Change	1997
			(in thousands)		
Loss from operations	$ 605,755	455%	$ 109,055	235%	$ 32,595
Percentage of net sales	36.9%		17.9%		22.1%

Our loss from operations increased from 1997 to 1998, and from 1998 to 1999, due to continued expansion of our business. 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 2000 will decrease significantly as a percentage of net sales, compared to that percentage in 1999.

Interest Income and Expense

	1999	% Change	1998	% Change	1997
			(in thousands)		
Interest income	$ 45,451	223%	$ 14,053	639%	$ 1,901
Interest expense	84,566	217%	26,639	8,071%	326

Interest income on cash and marketable securities increased in 1999 due to higher investment balances resulting from the proceeds from the issuance of $1.25 billion of 4 ¾% Convertible Subordinated Notes due 2009 (the "Convertible Subordinated Notes") in February 1999 and increased in 1998 due to the issuance of approximately $326 million gross proceeds of 10% Senior Discount Notes due May 1, 2008 (the "Senior Discount Notes") in May 1998. Interest expense increased in 1999 and 1998 due to the interest expense associated with this debt, as well as amortization of deferred charges associated with issuance of the notes.

On February 16, 2000, we completed an offering of €690,000,000 ($680,685,000 as of February 11, 2000) of 6.875% Convertible Subordinated Notes due 2010, also known as Premium Adjustable Convertible Securities, or "PEACS." Therefore, we expect interest expense to increase in the future for interest associated with these notes.

Equity in Losses of Equity-Method Investees

	1999	% Change	1998	% Change	1997
			(in thousands)		
Equity in losses of equity-method investees	$ 76,769	2,543%	$ 2,905	N/M	$ 0

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%. We made several equity-method investments in 1999 and increased our investment in the equity-method investment we made in 1998. We expect to make additional equity-method investments in the future. Many of the companies in which we have invested to date are in the early stage of their operations and are incurring net losses. Therefore, we expect to continue to record losses on our equity-method investments.

In July 1999, one of our equity-method investees, drugstore.com, inc., completed the initial public offering of its common stock. drugstore.com operates an online retail store and information site for health, beauty, wellness, personal care and pharmacy products. In connection with this transaction, we recorded a contribution to additional paid-in capital of $13.8 million, representing the difference between the carrying value of our investment and the underlying net book value of drugstore.com after the IPO. Two of our other equity-method investees, Pets.com and Homegrocer.com, completed their IPOs in February 2000 and March 2000, respectively. We therefore will record a contribution to additional paid-in capital in connection with these transactions, and it is reasonably possible that other equity-method investees may complete IPOs in the future.

Income Taxes

We did not provide any current or deferred US federal, state or foreign income tax provision or benefit for any of the periods presented because we have experienced operating losses since inception. Utilization of our net operating loss carryforwards, which begin to expire in 2010, may be subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended, and other limitations under state and foreign tax laws. We have provided a full valuation allowance on the deferred tax asset, consisting primarily of net operating loss carryforwards, because of uncertainty regarding its realizability.

Pro Forma Information

Pro forma information regarding our results, which excludes amortization of goodwill and other intangibles, stock-based compensation, equity in losses of equity-method investees and merger, acquisition and investment-related costs, is as follows:

	Year Ended December 31, 1999
	(in thousands, except per share amount)
Pro forma loss from operations	$ (352,371)
Pro forma net loss	$ (389,815)
Pro forma basic and diluted loss per share	$ (1.19)
Shares used in computation of pro forma basic and diluted loss per share	326,753

Using the methodology described above to derive pro forma loss from operations, our US books business was profitable in the fourth quarter of 1999 and we expect this business to be profitable in 2000. The pro forma results are presented for informational purposes only and are not prepared in accordance with generally accepted accounting principles.

Liquidity and Capital Resources

At December 31, 1999, our cash and cash equivalents balance was $133.3 million, compared to $71.6 million at December 31, 1998. Our marketable securities balance was $572.9 million and $301.9 million at December 31, 1999 and 1998, respectively.

Net cash used by operating activities amounted to $90.9 million for 1999. This was primarily attributable to the net loss for the year of $720 million, partially offset by non-cash charges related to depreciation, stock- based compensation, amortization of goodwill and other purchased intangibles, and equity in losses of equity-method investees totaling $358.9 million, as well as $230.1 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 an increase in accounts payable and accrued liabilities, offset by an increase in inventories and prepaid expenses and other current assets. For 1998, net cash provided by operating activities was $31 million and was primarily attributable to non-cash expenses and increases in accounts payable and accrued expenses, largely offset by the net loss and increases in inventories and prepaid expenses and other.

Net cash used in investing activities was $952 million in 1999 and consisted of net purchases of marketable securities of $295.3 million, purchases of fixed assets of $287.1 million and cash paid for acquisitions and investments in businesses of $369.6 million. Net cash used in investing activities during 1998 was $324 million and consisted of net purchases of marketable securities of $276.7 million, purchases of fixed assets of $28.3 million and cash paid for acquisitions and investments in businesses of $19 million.

Net cash provided by financing activities of $1.104 billion for 1999 was primarily due to $1.25 billion of proceeds from the sale of our Convertible Subordinated Notes in February 1999, partially offset by repayment of long-term debt, including $178.4 million of cash paid to repurchase a portion of our outstanding Senior Discount Notes. Net cash provided by financing activities of $254.5 million for 1998 primarily resulted from net proceeds of approximately $318.2 million from the Senior Discount Notes offering offset by the repayment of $78.1 million of long-term debt.

As of December 31, 1999, our principal sources of liquidity consisted of $706.2 million of cash, cash equivalents and marketable securities. As of that date, our principal commitments consisted of obligations outstanding under our Convertible Subordinated Notes due 2009 and Senior Discount Notes, as well as obligations in connection with operating leases and commitments for advertising and promotional arrangements. During 1999, we undertook a substantial expansion of our distribution center network in the US, adding six distribution centers in the US. We also opened new distribution centers in the UK and Germany. We anticipate that our current distribution center capacity in the US will be adequate for our needs for at least the next 12 months, but we may require additional capacity in international markets.

In May 1998, we completed the offering of approximately $326 million gross proceeds of the Senior Discount Notes, in February 1999, we completed the offering of approximately $1.25 billion Convertible Subordinated Notes, and in February 2000, we completed the offering of €690 million of 6.875% Convertible Subordinated Notes due 2010, also knows as PEACS. See Notes 7 and 15 to Consolidated Financial Statements incorporated by reference to Item 8 of Part II.

We believe that current cash, cash equivalents and marketable securities balances, together with net proceeds from the PEACS, will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. If current cash, cash equivalents, marketable securities and cash that may be generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or to obtain credit facilities from lenders. 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.

Year 2000 Implications

Many currently installed computer systems, software programs and embedded data chips are programmed using a two-digit date field and are therefore unable to distinguish dates beyond the 20th century. A failure to identify and correct any mission-critical internal or third-party year 2000 processing problem could have a material adverse operational or financial consequence to us.

We established a Year 2000 Project Team that, together with external consultants, developed a process for addressing the year 2000 issue, including performing an inventory, an assessment, remediation procedures (to the extent necessary) and testing procedures of all mission-critical information systems and equipment and machinery that contain embedded technology, as well as obtaining assurances from all mission-critical third parties as to their own year 2000 preparedness. As of the date of filing of this Annual Report on Form 10-K, all of our mission-critical systems have been successfully tested for year 2000 compliance, and we have not experienced any significant year 2000 problems with our own mission-critical systems or any mission-critical third parties. Although we have not experienced any significant year 2000 problems to date, we plan to continue to monitor the situation closely.

We cannot be sure that we will be completely successful in our efforts to address the year 2000 issue or that problems arising from the year 2000 issue will not cause a material adverse effect on our operating results or financial condition. We believe, however, that our most reasonably likely worst-case scenario would relate to problems with the systems of third parties rather than with our internal systems. We are limited in our efforts to address the year 2000 issue as it relates to third parties and rely solely on the assurances of these third parties as to their year 2000 preparedness.

As part of our broader contingency planning, we also developed business continuity plans to address each critical process and activity that we believe would cause a significant disruption to operations if not functional for 24 hours. Despite these efforts, we

cannot guarantee that the contingency plan will adequately address all circumstances that may disrupt operations or that such planning will prevent circumstances that may cause a material adverse effect on our operating results or financial condition.

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

We do not have any derivative financial instruments in our marketable securities portfolio as of December 31, 1999. However, we are exposed to interest rate risk on debt instruments we hold. We employ established policies and procedures to manage our exposure to changes in the market risk of our marketable securities, which are classified as available-for-sale as of December 31, 1999 and 1998. Our Senior Discount Notes, Convertible Subordinated Notes, PEACS and other long-term debt have fixed interest rates and the fair value of these instruments is affected by changes in market interest rates. We believe that the market risk arising from holdings of our financial instruments is not material.

Our exposure to currency exchange risk through December 31, 1999 has not been material. However, with the completion of the offering of PEACS notes on February 16, 2000, we will be exposed to currency exchange risk because the debt is denominated in euros while our functional currency is the US dollar. We plan to employ established policies and procedures to mitigate the risk of exchange rate fluctuations. Additionally, the conversion price for the PEACS is denominated in euros.

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."

The table below provides information about our marketable securities, including principal cash flows for 2000 through 2004 and the related weighted average interest rates.

Principal (notional) amounts by expected maturity in US dollars as of December 31, 1999:

	2000	2001	2002	2003	2004	Thereafter	Total	Estimated Fair Value at December 31, 1999
Commercial paper and short-term obligations	$ 21,129	$ 6,250	$ 12,176	$ 1,047	$ 9,599	$ 8,236	$ 58,437	$ 57,210
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%	
Total Portfolio	$ 68,791	$ 318,055	$ 56,374	$ 5,022	$ 29,718	$ 108,482	$ 586,442	$ 572,879

Principal (notional) amounts by expected maturity in US dollars as of December 31, 1998:

	1999	2000	2001	2002	2003	Thereafter	Total	Estimated Fair Value at December 31, 1998
Commercial paper and short-term obligations	$ 68,557	$ —	$ —	$ —	$ —	$ —	$ 68,557	$ 68,158
Weighted average interest rate	5.34%						5.34%	
Corporate notes and bonds	4,250	46,500	—	—	—	—	50,750	51,351
Weighted average interest rate		5.20%					5.26%	
Asset-backed and agency securities	—	21,500	8,746	7,087	10,086	35,497	82,916	83,569
Weighted average interest rate		5.57%	5.16%	5.29%	5.64%	5.82%	5.62%	
Treasury notes and bonds	8,700	27,400	42,175	8,000	—	—	86,275	89,013
Weighted average interest rate	5.63%	4.89%	4.64%	4.71%			4.82%	
Total Portfolio, excluding equity securities	$ 81,507	$ 95,400	$ 50,921	$ 15,087	$ 10,086	$ 35,497	$ 288,498	$ 292,091

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, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial statement schedule listed in the Index at Item 14(a). 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, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, 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.

As discussed in paragraph 8 of Note 1, the accompanying consolidated financial statements have been restated to reflect a change in Amazon.com's policy for determining cash equivalents.

[SIGNATURE]

Seattle, Washington
February 2, 2000, except for Note 15
as to which the date is February 16, 2000
and Paragraph 8 of Note 1, as to which the date is
September 8, 2000

AMAZON.COM, INC.

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

ASSETS

	December 31, 1999	December 31, 1998
Current assets:		
Cash and cash equivalents	$ 133,309	$ 71,583
Marketable securities	572,879	301,862
Inventories	220,646	29,501
Prepaid expenses and other current assets	85,344	21,308
Total current assets	1,012,178	424,254
Fixed assets, net	317,613	29,791
Goodwill, net	534,699	174,052
Other purchased intangibles, net	195,445	4,586
Investments in equity-method investees	226,727	7,740
Other investments	144,735	—
Deferred charges and other	40,154	8,037
Total assets	$ 2,471,551	$ 648,460

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1999	December 31, 1998
Current liabilities:		
Accounts payable	$ 463,026	$ 113,273
Accrued expenses and other current liabilities	126,017	34,413
Accrued advertising	55,892	13,071
Deferred revenue	54,790	—
Interest payable	24,888	10
Current portion of long-term debt and other	14,322	808
Total current liabilities	738,935	161,575
Long-term debt and other	1,466,338	348,140
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value:		
Authorized shares — 150,000		
Issued and outstanding shares — none	—	—
Common stock, $0.01 par value:		
Authorized shares — 1,500,000		
Issued and outstanding shares — 345,155 and 318,534 shares at December 31, 1999 and 1998, respectively	3,452	3,186
Additional paid-in capital	1,195,540	298,537
Note receivable for common stock	(1,171)	(1,099)
Stock-based compensation	(47,806)	(1,625)
Accumulated other comprehensive income (loss)	(1,709)	1,806
Accumulated deficit	(882,028)	(162,060)
Total stockholders' equity	266,278	138,745
Total liabilities and stockholders' equity	$ 2,471,551	$ 648,460

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

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

	Years Ended December 31,		
	1999	1998	1997
Net sales	$ 1,639,839	$ 609,819	$ 147,787
Cost of sales	1,349,194	476,155	118,969
Gross profit	290,645	133,664	28,818
Operating expenses:			
Marketing and sales	413,150	132,654	40,077
Technology and content	159,722	46,424	13,384
General and administrative	70,144	15,618	6,741
Stock-based compensation	30,618	1,889	1,211
Amortization of goodwill and other intangibles	214,694	42,599	—
Merger, acquisition and investment-related costs	8,072	3,535	—
Total operating expenses	896,400	242,719	61,413
Loss from operations	(605,755)	(109,055)	(32,595)
Interest income	45,451	14,053	1,901
Interest expense	(84,566)	(26,639)	(326)
Other income, net	1,671	—	—
Net interest income (expense) and other	(37,444)	(12,586)	1,575
Loss before equity in losses of equity-method investees	(643,199)	(121,641)	(31,020)
Equity in losses of equity-method investees	(76,769)	(2,905)	—
Net loss	$ (719,968)	$ (124,546)	$ (31,020)
Basic and diluted loss per share	$ (2.20)	$ (0.42)	$ (0.12)
Shares used in computation of basic and diluted loss per share	326,753	296,344	260,682

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Note Receivable For Common Stock	Deferred Compensation	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount						
Balance at January 1, 1997	569	$ 6	190,836	$ 1,908	$ 8,135	$ —	$ (612)	$ —	$ (6,494)	$ 2,943
Net loss	—	—	—	—	—	—	—	—	(31,020)	(31,020)
Sale of preferred stock	5	—	—	—	200	—	—	—	—	200
Public stock offering, net of $4,897 issuance costs	—	—	36,000	360	48,743	—	—	—	—	49,103
Conversion of preferred stock into common stock	(574)	(6)	41,356	414	(408)	—	—	—	—	—
Issuance of common stock for fixed assets and accrued technology and content	—	—	2,700	26	1,474	—	—	—	—	1,500
Issuance of capital stock	—	—	2,540	26	3,976	—	—	—	—	4,002
Exercise of common stock options	—	—	16,386	164	345	—	—	—	—	509
Deferred stock-based compensation	—	—	—	—	2,741	—	(2,741)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	(69)	—	1,423	—	—	1,354
Balance at December 31, 1997	—	—	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 marketable 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	298,537	(1,099)	(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 marketable securities, net of reclassification adjustment	—	—	—	—	—	—	—	(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
Initial 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	$ 1,195,540	$ (1,171)	$ (47,806)	$ (1,709)	$ (882,028)	$ 266,278

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	1999	1998	1997
Operating Activities:			
Net loss	$ (719,968)	$ (124,546)	$ (31,020)
Adjustments to reconcile net loss to net cash provided (used) in operating activities:			
Depreciation and amortization of fixed assets	36,806	9,421	3,442
Amortization of deferred stock-based compensation	30,618	2,386	1,354
Equity in losses of equity-method investees	76,769	2,905	—
Amortization of goodwill and other intangibles	214,694	42,599	—
Non-cash merger, acquisition, and investment related costs	8,072	1,561	—
Non-cash revenue for advertising and promotional services	(5,837)	—	—
Loss on sale of marketable securities	8,688	271	—
Non-cash interest expense	29,171	23,970	64
Net cash used in operating activities before changes in operating assets and liabilities	(320,987)	(41,433)	(26,160)
Changes in operating assets and liabilities, net of effects from acquisitions:			
Inventories	(172,069)	(20,513)	(8,400)
Prepaid expenses and other current assets	(60,628)	(16,758)	(3,055)
Accounts payable	330,166	78,674	30,172
Accrued expenses and other current liabilities	65,121	21,615	5,274
Accrued advertising	42,382	9,617	2,856
Deferred revenue	262	—	—
Interest payable	24,878	(167)	—
Net cash provided by changes in operating assets and liabilities, net of effects from acquisitions	230,112	72,468	26,847
Net cash provided (used) in operating activities	(90,875)	31,035	687
Investing Activities:			
Sales and maturities of marketable securities	2,064,101	227,789	5,198
Purchases of marketable securities	(2,359,398)	(504,435)	(20,454)
Purchases of fixed assets	(287,055)	(28,333)	(7,603)
Acquisitions and investments in businesses, net of cash acquired	(369,607)	(19,019)	—
Net cash used in investing activities	(951,959)	(323,998)	(22,859)
Financing Activities:			
Proceeds from issuance of capital stock and exercise of stock options	64,469	14,366	53,358
Proceeds from long-term debt	1,263,639	325,987	75,000
Repayment of long-term debt	(188,886)	(78,108)	(47)
Financing costs	(35,151)	(7,783)	(2,309)
Net cash provided by financing activities	1,104,071	254,462	126,002
Effect of exchange rate changes	489	(35)	—
Net increase (decrease) in cash and cash equivalents	61,726	(38,536)	103,830
Cash and cash equivalents at beginning of period	71,583	110,119	6,289
Cash and cash equivalents at end of period	$ 133,309	$ 71,583	$ 110,119
Supplemental Cash Flow Information:			
Fixed assets acquired under capital leases	$ 25,850	$ —	$ 3,463
Fixed assets acquired under financing agreements	5,608	—	1,500
Stock issued in connection with business acquisitions	774,409	217,241	—
Equity securities of other companies received for non-cash revenue for advertising and promotional services	54,402	—	—
Cash paid for interest, net of amounts capitalized	59,688	26,629	326

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — ACCOUNTING POLICIES

Description of Business

Amazon.com, Inc. (Amazon.com or the Company) was incorporated in July 1994 and opened its virtual doors on the Web in July 1995. Amazon.com is an Internet retailer offering more than 18 million unique items in categories including books, music, DVD/video, toys, electronics, software, video games and home improvement products. Amazon.com offers a free electronic greeting card service and also provides a community of online shoppers with an easy and safe way to purchase and sell a large selection of products through Amazon.com Auctions and zShops.

Business Combinations and Investments

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.

One business combination in 1998 was accounted for under the pooling of interests method of accounting. In this case, the assets, liabilities and stockholders' equity of the acquired entity was combined with the Company's respective accounts at recorded values. The consolidated financial statements reflect the restatement of all periods presented to include the accounts of the acquired entity accounted for under the pooling of interests method of accounting. 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. The historical results do not purport to be indicative of future results.

Investments in affiliated entities in which the Company has the ability to exercise significant influence, but not control, of an investee, generally an ownership interest of the voting stock of between 20% and 50%, are accounted for under the equity method of accounting. Accordingly, under the equity method of accounting, the Company's share of the investee's earnings or loss is included in the consolidated statements of operations. 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 in "Equity in losses of equity-method investees." The portion of the Company's investment in an equity-method investee that exceeds its claim of the net assets of the investee, if any, is assigned to goodwill and amortized over a period of three years. The goodwill amount, which was $24.8 million as of December 31, 1999, is included in "Investments in equity-method investees" in the accompanying consolidated balance sheets, and the amortization of the goodwill is included in "Equity in losses of equity-method investees" in the accompanying consolidated statements of operations.

All other 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 of accounting. Dividends and other distributions of earnings from other investees, if any, are included in income when declared. The Company periodically evaluates the carrying value of its investments accounted for under the cost method of accounting and as of December 31, 1999 and 1998, such investments were recorded at the lower of cost or estimated net realizable value.

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 generally accepted accounting principles 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

Effective April 1, 2000, the Company changed its policy for determining which investments are treated as cash equivalents. Effective April 1, 2000, the Company now classifies all highly liquid instruments with an original maturity of three months or less as cash equivalents. Prior to April 1, 2000, such investments 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/A have been restated to reflect this change.

Marketable Securities

The Company's marketable securities, which consist primarily of high-quality short- to intermediate-term fixed income securities, are classified as available-for-sale and are reported at fair value. Unrealized gains and losses are reported, net of taxes, as a component of stockholders' equity within accumulated other comprehensive income. Unrealized losses are charged against income when a decline in fair value is determined to be other than temporary. The specific identification method is used to determine the cost of securities sold.

Inventories

Inventories, consisting of products available for sale, are valued at the lower of cost (specific identification) or market.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and amortization, 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 in connection with 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, Net

Goodwill, net, represents the excess of the purchase price over the fair value of assets acquired in business acquisitions accounted for under the purchase method. Goodwill is presented net of related accumulated amortization and is being amortized over lives ranging from two to four years.

Other Purchased Intangibles, Net

Other purchased intangibles, net, include identifiable intangible assets purchased by the Company, primarily in connection with business acquisitions. Other purchased intangibles are presented net of related accumulated amortization and are being amortized over lives ranging from two to four years.

Long-Lived Assets

The carrying values of intangible assets and other long-lived assets, including equity-method investments, are reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. To date, no such impairment has been indicated.

Fair Value of Financial Instruments

The carrying amounts for the Company's cash, accounts payable and other liabilities approximate fair value. The fair market value for long-term debt and marketable securities is based on quoted market prices where available.

Deferred Charges

Deferred charges consist of fees associated with the issuance of the Company's debt. The fees are being amortized and included in interest expense over the life of the related debt.

Deferred Revenue

Deferred revenue consists of advertising fees to be earned in the future under agreements existing at the balance sheet date.

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 to customers, which is also when title passes to customers. Outbound shipping charges are included in net sales and amounted to $239.0 million, $94.1 million and $24.8 million in 1999, 1998 and 1997, respectively. Revenue from gift certificates is recognized upon product shipment following redemption. The Company provides an allowance for sales returns based on historical experience. Revenues from services are recorded at the time the related service is performed.

During 1999, the Company recorded approximately $5.8 million of revenue associated with noncash transactions whereby the Company received equity securities of other companies in exchange for advertising and promotional services to be provided for a fixed period of time. The Company recorded the fair value of the consideration on the date received, $54.4 million, and is recognizing revenue ratably over the term of the agreements as the advertising and promotional services are provided.

Cost of Sales

Cost of sales consists of the actual cost of products purchased for resale and related in-bound shipping charges, out-bound shipping charges, and the actual cost of tangible supplies used to package products for shipment to customers. Outbound shipping charges and the cost of tangible supplies used to package products for shipment to customers totaled $227.3 million, $75.9 million and $20.4 million in 1999, 1998 and 1997, respectively.

Fulfillment Costs

Included in marketing and sales expense are fulfillment costs, which consist of the cost of operating and staffing distribution and customer service centers. Such costs include those attributable to receiving, inspecting and warehousing inventories; picking, packaging and preparing customers' orders for shipment; and responding to inquiries from customers. Fulfillment costs amounted to $188.4 million, $50.3 million and $12.1 million in 1999, 1998 and 1997, respectively.

Advertising Costs

The cost of advertising is expensed as incurred. For the years ended December 31, 1999, 1998 and 1997, the Company incurred advertising expense of $140.9 million, $60.2 million and $21.2 million, 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.

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 the Company's Web sites, that are capitalized and depreciated over estimated useful lives.

Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related interpretations, in accounting for its employee stock options rather than the alternative fair value accounting allowed by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. APB No. 25 provides that the compensation expense relative to the Company's employee stock options is measured based on the intrinsic value of the stock option. SFAS No. 123 requires companies that continue to follow APB No. 25 to provide a pro forma disclosure of the impact of applying the fair value method of SFAS No. 123.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the local currency. Assets and liabilities of foreign subsidiaries are translated into US 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 income, a separate component of stockholders' equity. 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 the consolidated statements of operations. To date, the Company has entered into no foreign currency exchange contracts.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of its holdings of cash and marketable securities. The Company's credit risk is managed by investing its cash and marketable securities in high-quality money market instruments and securities of the US government and its agencies, foreign governments and high-quality corporate issuers. At December 31, 1999 and 1998, the Company had no significant concentrations of credit risk.

Earnings (Loss) 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 equivalent shares are excluded from the computation if their effect is antidilutive.

As a result of the Company's initial public offering in May 1997, all preferred stock automatically converted into common stock. Accordingly, the 1997 net loss per share is a pro forma loss per share based on the weighted average number of shares of common stock outstanding and preferred stock on an "as if" converted basis outstanding during each period. The Company believes that this is a more meaningful presentation of earnings per share for periods prior to its initial public offering.

New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB No. 101), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB No. 101 did not impact the Company's revenue recognition policies.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As amended by SFAS No. 137, SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. 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 designed as part of a hedge transaction and, if it is, the type of hedge transaction. The Company has not yet determined the impact of the adoption of SFAS No. 133 on its consolidated financial statements or business practices.

Reclassifications

Certain prior year balances 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 (Accept.com), Alexa Internet (Alexa), LiveBid.com, Inc. (LiveBid) the catalog and online commerce assets of Acme Electric Motor Co. (Tool Crib) and Back to Basics Toys, Inc. (Back to Basics). Each acquisition was recorded using the purchase method of accounting under APB Opinion No. 16. 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.

In accordance with APB Opinion No. 16, all identifiable assets were assigned a portion of the cost of the acquired companies (purchase price) on the basis of their respective fair values. Intangible assets were identified and valued by considering the Company's intended use of acquired assets and analysis of data concerning products, technologies, markets, historical financial performance, and underlying assumptions of future performance. The economic and competitive environment in which the Company and the acquired companies operate was also considered in the valuation analysis.

Approximately $2.8 million of the purchase price of the Accept.com and Alexa transactions attributable to in-process research and development efforts has been expensed because, at the time of acquisition, technological feasibility had not been established and no alternative future uses existed. Purchased in-process research and development was identified and valued by independent valuation through discussions with the acquired companies' management and the analysis of data concerning developmental products, their respective stage of development, the time and resources needed to complete them, their expected income generating ability, target markets and associated risks.

On May 14, 1999, the Company completed its acquisition of Exchange.com, a developer of Internet marketplaces and related online communities that bring together buyers and sellers of rare and hard-to-find items. In connection with the acquisition, the Company assumed all outstanding Exchange.com stock options and issued 1,893,944 shares of Amazon.com common stock to acquire all of the outstanding common shares of Exchange.com. Substantially all of the approximately $145 million purchase price was allocated to goodwill and other purchased intangibles. The goodwill and substantially all other purchased intangible assets are being amortized on a straight-line basis over lives averaging approximately three years. Pursuant to the terms of the agreement, the Company may be required to issue additional shares with a value of up to $27.5 million one year after the acquisition date dependent on certain performance goals, which would increase the purchase price by this amount.

On May 14, 1999, the Company completed its acquisition of LiveBid, a technology provider for live, event-based auctions on the Internet. In connection with the acquisition, the Company assumed all outstanding LiveBid stock options and issued 553,770 shares to acquire all of the outstanding common shares of LiveBid. Substantially all of the approximately $40 million purchase price was allocated to goodwill and other purchased intangibles. The goodwill and other purchased intangible assets are being amortized on a straight-line basis over lives averaging approximately three years.

On June 9, 1999, the Company completed its acquisition of Accept.com, an e-commerce company developing technology to simplify person-to-person and business-to-consumer transactions on the Internet. In connection with the acquisition, the Company assumed all outstanding Accept.com stock options and issued 1,755,356 shares of Amazon.com common stock to acquire all of the outstanding common shares of Accept.com. Substantially all of the approximately $189 million purchase price was allocated to goodwill and other purchased intangibles. The goodwill and substantially all other purchased intangible assets are being amortized on a straight-line basis over lives averaging approximately three years.

On June 10, 1999, the Company completed its acquisition of Alexa, a developer of a Web navigation service that works with Internet browsers to provide useful information about the sites being viewed and suggests related sites. In connection with the acquisition, the Company assumed all outstanding Alexa stock options and issued 4,369,884 shares of Amazon.com common stock to acquire all of the outstanding common shares of Alexa. Substantially all of the approximately $250 million purchase price was allocated to goodwill and other purchased intangibles. The goodwill and substantially all other purchased intangible assets are being amortized on a straight-line basis over lives averaging approximately three years.

On October 1, 1999 and November 8, 1999, respectively, the Company completed its acquisition of the catalog and online commerce assets of Tool Crib, a retailer of home improvement products, and its acquisition of Back to Basics, a catalog retailer of toys. In connection with these acquisitions, the Company issued a total of 1,514,612 shares of Amazon.com common stock. Of the approximately $112 million aggregate purchase price, approximately $105 million was allocated to goodwill and other purchased intangibles. The goodwill and substantially all other purchased intangible assets are being amortized on a straight-line basis over lives averaging approximately four years.

The Company made additional immaterial acquisitions during 1999 totaling $44.1 million. The Company issued 200,370 shares of common stock to effect these acquisitions.

In connection with certain acquisitions, the Company has conditioned a portion of the overall consideration on the continued tenure of key employees. Under generally accepted accounting principles, a portion of this amount is accounted for as compensation rather than as a component of purchase price. Consequently, a maximum of $85.4 million in additional consideration relating to the Company's acquisitions for 1999 may be recorded as compensation expense and classified between stock-based compensation and merger, acquisition and investment-related costs in the results of operations. Amounts will be "earned" based on tenure of certain employees and will be recognized as expense over a period of 12-36 months.

In April 1998, the Company acquired all of the outstanding capital stock of three international Internet companies. The aggregate purchase price of the three acquisitions, plus related charges, was approximately $55 million. The consideration for the acquisitions was comprised of common stock and cash. The Company issued an aggregate of approximately 6.4 million shares of common stock to effect the transactions. The goodwill and other purchased intangibles are being amortized on a straight-line basis over two years.

In August 1998, the Company acquired all the outstanding capital stock of Junglee Corp. (Junglee). Junglee was a leading provider of advanced Web-based virtual database technology to help shoppers find and discover products on the Internet. The Company issued approximately 9.4 million shares of common stock and assumed all outstanding options and warrants in connection with the acquisition of Junglee. The Junglee acquisition was accounted for under the purchase method of accounting, with substantially all of the approximately $180 million purchase price allocated to goodwill and other purchased intangibles. The goodwill and substantially all other purchased intangible assets are being amortized on a straight-line basis over lives averaging approximately three years.

The pro forma consolidated financial information for years ended December 31, 1999 and 1998, determined as if all acquisitions had occurred on January 1 of each year, would have resulted in net sales of $1.7 billion and $685.0 million, net loss of $864.5 million and $416.6 million, and basic and diluted loss per share of $2.65 and $1.41, respectively. This unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the results of operations in future periods or results that would have been achieved had Amazon.com and the acquired companies been combined during the specified periods.

In August 1998, the Company exchanged common stock and options for all of the outstanding capital stock of Sage Enterprises, Inc. (PlanetAll). The Company issued approximately 4.8 million shares of common stock and assumed all outstanding options in connection with the merger. The PlanetAll merger was accounted for as a pooling of interests and, as a result, the Company's consolidated financial statements have been restated for all periods presented. PlanetAll issued approximately 167,000 shares of capital stock for proceeds of approximately $1.0 million and approximately 896,000 shares of capital stock for proceeds of approximately $7.4 million in January 1998 and April 1998, respectively.

Net sales for PlanetAll were not significant and net loss was $4.1 million and $3.4 million for the nine months ended September 30, 1998 and the year ended December 31, 1997, respectively, which represent separate results of the combined entity through the periods preceding the merger. There were no significant intercompany transactions between the two companies and no significant conforming accounting adjustments.

Note 3 — MARKETABLE SECURITIES

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

	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

	December 31, 1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Commercial paper and short-term obligations	$ 68,136	$ 22	$ —	$ 68,158
Corporate notes and bonds	51,242	112	(3)	51,351
Asset-backed and agency securities	83,611	98	(140)	83,569
Treasury notes and bonds	88,952	230	(169)	89,013
Equity securities	8,080	1,691	—	9,771
	$ 300,021	$ 2,153	$ (312)	$ 301,862

At December 31, 1999, the Company also had investments in noncurrent available-for-sale equity securities included in "Other investments" (Note 6).

The following table summarizes contractual maturities of the Company's marketable securities as of December 31, 1999:

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due within one year	$ 35,984	$ 35,596
Due after one year through five years	296,175	289,616
Asset-backed and agency securities with various maturities	252,874	247,667
	$ 585,033	$ 572,879

The gross realized gains and losses on sales of available-for-sale securities were $6.7 million and $15.4 million, respectively, for the year ended December 31, 1999. Gross realized gains and losses on sales of available-for-sale securities were not significant for the years ended December 31, 1998 or 1997.

Activity in unrealized gains (losses) on available-for-sale securities was as follows:

	For the Years Ended December 31,		
	1999	1998	1997
	(in thousands)		
Unrealized holding gains (losses) arising during period	$ (12,698)	$ 1,841	$ —
Less: reclassification adjustment for losses included in net loss	8,693	—	—
Net unrealized gains (losses) on available-for-sale securities	$ (4,005)	$ 1,841	$ —

Note 4 — FIXED ASSETS

Fixed assets, at cost, consist of the following:

	December 31, 1999	December 31, 1998
	(in thousands)	
Computers, equipment and software	$ 187,345	$ 35,848
Leasehold improvements	43,968	5,535
Leased assets	52,374	442
Construction in progress	83,290	1,760
	366,977	43,585
Less accumulated depreciation and amortization	(49,364)	(13,794)
Fixed assets, net	$ 317,613	$ 29,791

The Company capitalized approximately $3.4 million of interest during the year ended December 31, 1999.

Note 5 — GOODWILL AND OTHER PURCHASED INTANGIBLES

Goodwill and other purchased intangibles are stated net of related accumulated amortization, as follows:

	December 31, 1999	December 31, 1998
	(in thousands)	
Goodwill	$ 747,720	$ 215,637
Less accumulated amortization	(213,021)	(41,585)
Goodwill, net	534,699	174,052
Other purchased intangibles	239,717	5,600
Less accumulated amortization	(44,272)	(1,014)
Other purchased intangibles, net	$ 195,445	$ 4,586

Note 6 — INVESTMENTS

The Company has several equity-method investments included in "Investments in equity-method investees" in the accompanying consolidated balance sheets. At December 31, 1998, the Company's only equity-method investment was a 46% ownership interest in drugstore.com, inc. (drugstore.com). In no cases does the Company have the ability to control these investees. At December 31, 1999, 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
Della.com	21.9%
drugstore.com	26.7%
Gear.com	49.0%
HomeGrocer.com	28.0%
Kozmo.com	21.7%
Naxon Corporation	61.0%
Pets.com	48.4%

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

	December 31, 1999	December 31, 1998
	(in thousands)	
Current assets	$ 353,182	$ 19,245
Noncurrent assets	316,720	3,272
Current liabilities	47,062	2,195
Noncurrent liabilities	67,692	975

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,		
	1999	1998	1997
		(in thousands)	
Net sales	$ 27,996	$ —	$ —
Gross profit (loss)	(3,072)	—	—
Net loss	(152,541)	(6,008)	—

In July 1999, drugstore.com completed the initial public offering (IPO) of its common stock. drugstore.com operates an online retail store and information site for health, beauty, wellness, personal care and pharmacy products. Prior to the IPO, the Company owned 10,733,523 shares of drugstore.com common stock, which represented 29.2% of the outstanding shares. drugstore.com sold 5,000,000 shares of common stock in its IPO at a price of $18 per share, including 555,555 shares purchased by the Company. This reduced the Company's ownership percentage to 26.7% after the IPO. In connection with this transaction, the Company recorded a contribution to additional paid-in capital of $13.8 million, representing the difference between the carrying value of the Company's investment and the proportionate underlying net book value of drugstore.com after the IPO. As of December 31, 1999, drugstore.com was the only publicly held equity-method investee of the Company. The market value of the Company's drugstore.com common stock was $408.5 million as of December 31, 1999.

At December 31, 1999, "Other investments" includes $87.7 million of investments accounted for under the cost method and $57.0 million of cost method investments in securities with ready markets recorded at fair value pursuant to SFAS No. 115. The cost of such noncurrent available-for-sale equity securities at December 31, 1999 was $47.0 million. Gross unrealized gains were $15.4 million and gross unrealized losses were $5.4 million at December 31, 1999.

Note 7 — LONG-TERM DEBT

Convertible Subordinated Notes

On February 3, 1999, the Company completed an offering of $1.25 billion of 4 ¾% 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.

The fair value of the Convertible Subordinated Notes as of December 31, 1999 was $1,416,750,000.

Senior Discount Notes

In May 1998, the Company completed the offering of approximately $326 million gross proceeds 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 $178.4 million. The Company recorded an immaterial loss on extinguishment of this debt. As of December 31, 1999, the remaining principal amount outstanding was $190.7 million.

The Senior Discount Notes are senior unsecured indebtedness of the Company ranking pari passu 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, 1999 and 1998.

The fair value of the outstanding Senior Discount Notes as of December 31, 1999 was $174.2 million. As of December 31, 1998, the carrying amount of the Senior Discount Notes approximated fair value.

Note 8 — COMMITMENTS AND CONTINGENCIES

Leases and Marketing Agreements

The Company currently leases office and distribution center facilities and fixed assets under noncancelable operating and capital leases. Rental expense under operating lease agreements for 1999, 1998 and 1997 was $43.0 million, $8.5 million and $2.1 million, respectively.

The Company has also entered into certain marketing agreements, which include fixed fees through 2000. The costs associated with these agreements are recognized on a systematic basis over the term of the related agreements as services are received.

Future minimum commitments are as follows:

	Capital Leases	Operating Leases and Marketing Agreements
	(in thousands)	
Year Ending December 31,		
2000	$ 12,807	$ 68,321
2001	12,734	39,640
2002	8,400	20,466
2003	5,011	6
2004	1	—
Thereafter	—	—
Total minimum lease payments	$ 38,953	$ 128,433
Less imputed interest	7,687	
Present value of net minimum lease payments	31,266	
Less current portion	9,802	
Long-term capital lease obligation	$ 21,464	

Legal Proceedings

Subsequent to December 31, 1999, 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, as well as 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. 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 or operating results.

Letters of Credit

The Company is contingently liable under unused letters of credit in the amount of $58.3 million as of December 31, 1999.

Note 9 — STOCKHOLDERS' EQUITY

Preferred Stock

In June 1996, the Company issued 569,396 shares of Series A convertible preferred stock at a price of $14.05 per share. In January and February 1997, the Company sold an additional 5,000 shares of Series A preferred stock at $40 per share. The preferred stock was convertible into common stock at the option of the holder, at any time, at an effective rate of 36 shares of common stock for one share of preferred stock. As of the closing of the Company's initial public offering, all of the preferred stock outstanding was converted into an aggregate of 20,678,256 shares of common stock.

Common Stock

On April 18, 1997, the Company effected a 3-for-2 common stock split. On May 15, 1997, the Company completed an initial public offering of 18 million shares of its common stock. Net proceeds to the Company aggregated $49.1 million. 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 have been restated to 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 Option Plan and the 1994 Stock Option Plan. Shares reserved under the Plans consist of 40.0 million shares in the 1999 Nonofficer Employee Stock Option Plan, 72.0 million shares in the 1997 Stock Option Plan and 57.6 million shares in the 1994 Stock Option Plan. Any shares of common stock available for issuance under the 1994 Stock Option Plan that are not issued under that plan may be added to the aggregate number of shares available for issuance under the 1997 Stock Option 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 options 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 with terms of 15 and 20 years. Subject to Internal Revenue Service limitations, options granted under the Plans prior to April 1999 and granted under certain assumed plans generally become 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. 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, 1999, approximately 3.8 million shares of restricted common stock 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, 1997	40,034	$ 0.038
Options granted and assumed	36,120	1.148
Options canceled	(5,104)	0.270
Options exercised	(16,386)	0.032
Balance December 31, 1997	54,664	0.751
Options granted and assumed	39,548	12.734
Options canceled	(7,537)	4.099
Options exercised	(10,666)	0.554
Balance December 31, 1998	76,009	6.688
Options granted and assumed	31,739	63.602
Options canceled	(11,281)	19.703
Options exercised	(16,125)	3.998
Balance December 31, 1999	80,342	$ 27.755

At December 31, 1999, 44.8 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, 1999:

	Shares Underlying Options Outstanding			Shares Underlying Options Exercisable	
Range of Exercise Prices	Shares Underlying Options Outstanding (in thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable (in thousands)	Weighted Average Exercise Price
$ 0.014 — $ .083	9,965	5.0 years	$ 0.049	3,743	$ 0.039
0.111 — 1.000	11,655	7.2 years	0.554	2,807	0.511
1.167 — 5.372	9,440	7.9 years	3.823	1,355	3.083
6.135 — 12.833	9,242	8.3 years	7.644	516	7.794
12.865 — 21.297	8,207	8.7 years	18.426	821	18.998
21.328 — 57.953	12,388	12.5 years	50.778	479	39.346
58.094 — 64.875	9,294	12.4 years	62.425	51	60.926
64.938 — 87.750	8,670	9.4 years	72.564	47	74.973
87.781 — 104.063	1,338	9.5 years	91.654	20	94.328
104.969 — 104.969	143	9.3 years	104.969	1	104.969
$ 0.014 — $104.969	80,342	9.0 years	$ 27.755	9,840	$ 5.358

Deferred Compensation

The Company recorded aggregate deferred compensation of $72.1 million, $2.1 million, and $2.7 million in 1999, 1998 and 1997, respectively. In 1999, deferred 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 amounts recorded in 1998 and 1997 represent 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 and 1997. Shares underlying options granted below fair market value and the associated weighted average exercise price were 1,072,000 and $2.048, and 16.6 million and $0.237 during the years ended

December 31, 1998 and 1997, respectively. The amortization of deferred compensation is charged to operations over the vesting period of the options, which is typically five years. Total amortization expense recognized in 1999, 1998 and 1997 related to deferred compensation was $25.9 million, $2.4 million and $1.4 million, respectively.

Pro Forma Disclosure

The Company follows the intrinsic value method in accounting for its stock options. Had compensation cost been recognized based on the fair value at the date of grant for options granted in 1999, 1998 and 1997, the pro forma amounts of the Company's net loss and net loss per share for the years ended December 31, 1999, 1998 and 1997 would have been as follows:

	For the Years Ended December 31,		
	1999	1998	1997
	(in thousands, except per share data)		
Net loss — as reported	$ (719,968)	$ (124,546)	$ (31,020)
Net loss — pro forma	(1,031,925)	(194,269)	(35,983)
Basic and diluted loss per share — as reported	$ (2.20)	$ (0.84)	$ (0.24)
Basic and diluted loss per share — pro forma	(3.16)	(1.31)	(0.28)

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,		
	1999	1998	1997
Average risk-free interest rates	5.5%	4.7%	6.3%
Average expected life (in years)	3.5	3.0	3.0
Volatility(1)	84.9%	81.6%	50.0%

(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 1999, 1998 and 1997 was $43.36, $19.07 and $2.07, respectively, for options granted with exercise prices at the current fair value of the underlying stock. During 1998 and 1997, 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 and 1997 was $4.61 and $0.55, respectively. 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 does not apply to stock option grants made prior to 1995.

Common Stock Reserved for Future Issuance

At December 31, 1999, common stock reserved for future issuance is as follows (in thousands):

Stock options	125,186
Shares issuable upon conversion of Convertible Subordinated Notes	16,018
Shares issuable associated with acquisitions	657
Total	141,861

Note 10 — EARNINGS (LOSS) PER SHARE

The following represents the calculations for net loss per share:

	For the Years Ended December 31,		
	1999	1998	1997
	(in thousands, except per share data)		
Net loss — as reported	$ (719,968)	$ (124,546)	$ (31,020)
Weighted average shares outstanding	332,409	304,938	253,118
Pro forma adjustment for preferred stock	—	—	18,956
Weighted average common shares issued subject to repurchase agreements	(5,656)	(8,594)	(11,392)
Shares used in computation of basic and diluted loss per share	326,753	296,344	260,682
Basic and diluted loss per share	$ (2.20)	$ (0.42)	$ (0.12)

All of the Company's stock options (see Note 9) are excluded from diluted loss per share since their effect is antidilutive.

Note 11 — 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.

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,		
	1999	1998	1997
		(in thousands)	
Marketing and sales	$ 3,975	$ 1,276	$ 409
Technology and content	25,490	384	532
General and administrative	1,153	229	270
	$ 30,618	$ 1,889	$ 1,211

Note 12 — INCOME TAXES

The Company did not provide any current or deferred US federal, state or foreign income tax provision or benefit for any of the periods presented because it has experienced operating losses since inception. The Company has provided a full valuation allowance on the deferred tax asset, consisting primarily of net operating loss, because of uncertainty regarding its realizability.

At December 31, 1999, the Company had net operating loss of approximately $1.18 billion related to US federal, foreign and state jurisdictions. Utilization of net operating loss, which begin to expire at various times starting in 2010, may be subject to certain limitations under Section 382 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 $768 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 approximately as follows:

	December 31,	
	1999	1998
	(in thousands)	
Net operating loss	$ 423,200	$ 73,100
Depreciation and amortization	(900)	7,400
Accrued expenses and valuation allowances	19,500	—
Other	9,000	5,400
Total deferred tax assets	450,800	85,900
Valuation allowance for deferred tax assets	(450,800)	(85,900)
Net deferred tax assets	$ —	$ —

Note 13 — 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 14 — 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: US Books; Music; DVD/video; International; and Early-Stage Businesses and Other. The results for US 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 other operating expenses, including stock-based compensation, amortization of goodwill and other intangibles, and merger, acquisition and investment-related costs. 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 a reconciliation to consolidated net income is as follows:

	US Books, Music and DVD/video	International	Early-Stage Businesses And Other	Consolidated
	(in thousands)			
1999:				
Revenues from external customers	$ 1,308,292	$ 167,743	$ 163,804	$ 1,639,839
Gross profit (loss)	262,871	35,575	(7,801)	290,645
Segment loss	(31,000)	(79,223)	(242,148)	(352,371)
Other operating expenses	—	—	—	(253,384)
Net interest expense and other	—	—	—	(37,444)
Equity in losses of equity-method investees	—	—	—	(76,769)
Net loss	—	—	—	(719,968)
1998:				
Revenues from external customers	588,013	21,806	—	609,819
Gross profit	128,710	4,954	—	133,664
Segment loss	(35,534)	(25,498)	—	(61,032)
Other operating expenses	—	—	—	(48,023)
Interest expense, net	—	—	—	(12,586)
Equity in losses of equity-method investees	—	—	—	(2,905)
Net loss	—	—	—	(124,546)
1997:				
Revenues from external customers	147,787	—	—	147,787
Gross profit	28,818	—	—	28,818
Segment loss	(31,384)	—	—	(31,384)
Other operating expenses	(1,211)	—	—	(1,211)
Interest income, net	1,575	—	—	1,575
Equity in losses of equity-method investees	—	—	—	—
Net loss	$ (31,020)			$ (31,020)

Sales to customers outside of the US represented approximately 22%, 20% and 25% of net sales for the years ended December 31, 1999, 1998 and 1997, 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, 1999, 1998 or 1997. Long-lived assets, which are comprised primarily of fixed assets, held in foreign countries totaled $9.4 million and $2.8 million as of December 31, 1999 and 1998, respectively.

Depreciation expense for the US Books, Music and DVD/video segment was $15.0 million, $6.7 million and $3.4 million in 1999, 1998 and 1997, respectively. Depreciation expense for the International segment was $6.5 million and $2.9 million in 1999 and 1998, respectively. Depreciation expense for the Early-Stage Business and other segment was $13.1 million in 1999.

Note 15 — SUBSEQUENT EVENTS

On February 16, 2000, the Company completed an offering of €690,000,000 ($680,685,000 as of February 11, 2000) of 6.875% Convertible Subordinated Notes due 2010, also known as PEACS. The PEACS are convertible into the Company's common stock at an initial conversion price of €104.947 per share. Interest on the PEACS is payable annually in arrears on February 16 of each year, commencing on February 16, 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 Convertible Subordinated Notes. The conversion price will be reset on February 16, 2001 and February 16, 2002 to the lesser of (1) the then effective conversion price and (2) the euro equivalent average of the daily closing prices of the Company's common stock for the 20 consecutive trading days immediately preceding such date. However, in no event will the conversion price be reset lower than €84.883 per share. The exchange ratio between the dollar and the euro is not fixed by the indenture governing the PEACS, and, therefore, fluctuations in that ratio may impact whether the conversion price will be reset.

Subject to certain conditions, the PEACS may be redeemed at the Company's option prior to February 20, 2003, 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 160% of the initial 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 20, 2003, the Company will make an additional cash payment with respect to the PEACS called for redemption in an amount equal to €206.25 per €1,000 note redeemed, less the amount of any interest actually paid on such PEACS prior to the call for redemption. At any time on and after February 20, 2003, the Company may redeem the notes, in whole or in part, at their principal amount plus any accrued but unpaid interest.

Upon the occurrence of a "fundamental change" (as defined in the indenture governing the PEACS) prior to the maturity of the notes, each holder thereof shall have the right to require the Company to redeem all or any part of such holder's PEACS at a price of 100% of the principal amount of the notes being redeemed, together with accrued interest.

Note 16 — QUARTERLY RESULTS (unaudited)

The following tables contain selected unaudited Statement of Operations information for each quarter of 1999, 1998 and 1997. 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, 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	$ (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

	Year Ended December 31, 1997			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)			
Net sales	$ 66,040	$ 37,887	$ 27,855	$ 16,005
Gross profit	12,913	7,170	5,214	3,521
Net loss	(10,808)	(9,647)	(7,345)	(3,220)
Basic and diluted loss per share	$ (0.04)	$ (0.04)	$ (0.03)	$ (0.01)
Shares used in computation of basic and diluted loss per share	278,826	275,190	255,840	232,860

(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.

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, 1999 and 1998

Consolidated Statements of Operations for each of the three years ended December 31, 1999

Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 1999

Consolidated Statements of Cash Flows for each of the three years ended December 31, 1999

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
2.3	Agreement and Plan of Merger dated as of April 24, 1999 by and among Amazon.com, Inc., AI Acquisition, Inc., Alexa Internet and Brewster Kahle (incorporated by reference to the Company's Current Report on Form 8-K dated June 10, 1999)
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form S-3 (Registration No. 333-78797) filed June 8, 1999).
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 4 ¾% 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).

Exhibit Number	Description
4.7	Form of 6 7/8% Convertible Subordinated Notes due 2010 (incorporated by reference to the Company's Current Report on Form 8-K dated February 28, 2000).
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†	Amended and Restated 1997 Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).
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 Joseph Galli, Jr. dated June 23, 1999, as amended and restated September 30, 1999 filed with the Company's Annual Report on Form 10-K on March 29, 2000).
10.10†	Offer Letter of Employment to Warren C. Jenson dated September 4, 1999, as amended and restated September 30, 1999 filed with the Company's Annual Report on Form 10-K on March 29, 2000).
10.11†	Offer Letter of Employment to Jeff Wilke, dated September 2, 1999 filed with the Company's Annual Report on Form 10-K on March 29, 2000).
10.12†	Offer Letter of Employment to Richard Dalzell, dated August 13, 1997 filed with the Company's Annual Report on Form 10-K on March 29, 2000).
12.1	Computation of Ratio of Earnings to Fixed Charges filed with the Company's Annual Report on Form 10-K on March 29, 2000).
21.1	List of Subsidiaries filed with the Company's Annual Report on Form 10-K on March 29, 2000).
23.1	Consent of Ernst & Young LLP, Independent Auditors.
27.1	Financial Data Schedule.

† Executive Compensation Plan or Agreement

(b) Reports on Form 8-K:

On October 28, 1999, the Company filed a Form 8-K under Item 5 announcing its financial results for the third quarter of 1999.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, as of September 8, 2000.

AMAZON.COM, INC.

By: /s/ WARREN C. JENSON

Warren C. Jenson
Senior Vice President and Chief Financial Officer

AMAZON.COM, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Inventory Valuation Allowance

Year Ended	Balance at Beginning of Period	Charged/ (Credited) to Costs and Expenses	Inventory Disposed or Written Off	Balance at End of Period
		(in thousands)		
December 31, 1999	$ 4,600	$ 38,152	$ (13,169)	$ 29,583
December 31, 1998	$ 800	$ 4,420	$ (620)	$ 4,600
December 31, 1997	$ —	$ 800	$ —	$ 800

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the: (a) Registration Statement (Form S-4 No. 333-56723) pertaining to the registration of the 10% Senior Discount Notes, (b) Registration Statement (Form S-8 No. 333-63311) pertaining to the Junglee Corp. 1996 Stock Plan, the Junglee Corp. 1998 Equity Incentive Plan, the Sage Enterprises, Inc. 1997 Amended Stock Option Plan and the Sage Enterprises, Inc. MVP Stock Option Plan, (c) Registration Statement (Form S-4 No. 333-55943), as amended, pertaining to the acquisition shelf-registration of up to 30 million shares of common stock, (d) Registration Statement (Form S-8 No. 333-28763) pertaining to the 1997 Stock Option Plan of Amazon.com, Inc. and the Amended and Restated 1994 Stock Option Plan of Amazon.com, Inc., (e) Registration Statement (Form S-8 No. 333-88825) pertaining to the Convergence Corporation Stock Option Plan, (f) Registration Statement (Form S-8 No. 333-80491) pertaining to the Alexa Internet Amended and Restated 1997 Stock Option Plan, (g) Registration Statement (Form S-8 No. 333-80495) pertaining to the Accept.com Financial Services Corporation 1998 Stock Option Plan, (h) Registration Statement (Form S-3 No. 333-78797), as amended, pertaining to shelf registration of up to $2,000,000,000 of certain securities, (i) Registration Statement (Form S-8 No. 333-78651) pertaining to the LiveBid.com 1997 Stock Option Plan and Innerlinx Technologies, Incorporated 1997 Stock Option Plan, (j) Registration Statement (Form S-8 No. 333-78653) pertaining to the e-Niche Incorporated Amended and Restated 1998 Stock Option and Grant Plan, (k) Registration Statement (Form S-3 No. 333-74435) pertaining to the registration of the 4 3/4% Convertible Subordinated Notes due 2009, and (l) Registration Statement (Form S-8 No. 333-74419) pertaining to the Amazon.com, Inc. 1999 Non-officer Employee Stock Option Plan, of our report dated February 2, 2000, except for Note 15 as to which the date is February 16, 2000, and paragraph 8 of Note 1 for which the date is September 8, 2000, with respect to the consolidated financial statements and schedule of Amazon.com, Inc. included in this Annual Report (Form 10-K/A) of Amazon.com, Inc. for the year ended December 31, 1999.

/s/ ERNST & YOUNG LLP

Seattle, Washington
September 8, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
AMAZON.COM, INC. FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS
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<F2>ON JANUARY 4, 1999, THE COMPANY EFFECTED A THREE-FOR-ONE STOCK SPLIT IN THE
FORM OF A STOCK DIVIDEND AND ON SEPTEMBER 1, 1999, THE COMPANY EFFECTED A
2-FOR-1 STOCK SPLIT IN THE FORM OF A STOCK DIVIDEND. IN ACCORDANCE WITH
REGULATION S-K ITEM 601, PRIOR PERIOD FINANCIAL DATA SCHEDULES HAVE NOT BEEN
RESTATED FOR THE STOCK SPLITS.
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