



AMAZON.COM RELEASES 2001 SECOND QUARTER RESULTS

Pro Forma Operating Loss Improves to \$28 Million; Used Orders Approximately 10% of Total U.S. Orders; Expands Strategic Alliance with America Online

SEATTLE – (Business Wire) – July 23, 2001 – Amazon.com, Inc. (Nasdaq: AMZN) today announced financial results for its second quarter ended June 30, 2001. Net sales were within the range of the company's guidance, increasing 16 percent to \$668 million, compared with \$578 million in the second quarter of 2000. Pro forma loss from operations improved by 69 percent to \$28 million, or 4 percent of net sales, compared with \$89 million, or 15 percent of net sales in the second quarter of 2000.

Pro forma net loss, which includes net interest expense, improved by 50 percent to \$58 million, or \$0.16 per share, compared with \$116 million, or \$0.33 per share in the second quarter of 2000. Net loss (GAAP) for the quarter improved by 47 percent to \$168 million, or \$0.47 per share, from \$317 million, or \$0.91 per share. A detailed reconciliation of GAAP to pro forma is included with the attached financial statements.

"We continue to make progress toward reaching pro forma operating profitability in the fourth quarter of 2001," said Warren Jenson, Amazon.com's chief financial officer. "This quarter, the U.S. was profitable on a pro forma operating basis for the first time, and this is our sixth sequential quarter of improved absolute pro forma operating results."

"We thank our over 21 million customers who have purchased in the last year, more than 1 million of whom have purchased a used product from one of our more than 60,000 Amazon Marketplace sellers" said David Risher, Amazon.com's senior vice president of marketing and merchandising. "In fact, this quarter, roughly 10 percent of our U.S. orders were for a used product, and we're very pleased that so many of our customers have embraced this option."

Today the company also announced an expanded strategic alliance with America Online, Inc., a subsidiary of AOL Time Warner (NYSE: AOL). Amazon.com's e-commerce platform will power America Online's Shop@ destinations. America Online, Inc., also invested \$100 million in Amazon.com common stock, priced at the lower of \$15.282 per share or the average closing price of Amazon.com common stock from July 24 to July 30, 2001. The common stock was sold pursuant to a registration statement that Amazon.com previously filed with the Securities and Exchange Commission.

"We've worked hard to build the easiest-to-use, most customer-focused and technologically sophisticated e-commerce platform," said Jeff Bezos, founder and CEO of Amazon.com. "We are pleased that today's alliance with America Online will bring many of these same benefits to AOL's merchants and more than 30 million members."

Highlights of Second Quarter Results (comparisons are with the second quarter of 2000)

- Net sales rose 16% to \$668 million, from \$578 million.

- Net sales from international sites rose 75% to \$128 million, from \$73 million.
- Worldwide, 2.6 million new customers ordered, including 900,000 new International customers.
- Gross profit increased 32% to \$180 million, from \$136 million.
- Fulfillment costs improved to 13% of net sales, from 15% of net sales.
- Pro forma loss from operations improved by 69% to \$28 million, or 4% of net sales, compared with \$89 million, or 15% of net sales.
- U.S. (U.S. Retail and Services segments combined) pro forma operating results improved to a \$2 million profit, from a loss of \$55 million.
- Pro forma net loss, which includes net interest and other expense of \$30 million, improved by 50% to \$58 million, or \$0.16 per share, compared with \$116 million, or \$0.33 per share.
- Net loss (GAAP) narrowed to \$168 million, or \$0.47 per share, down from \$317 million, or \$0.91 per share, an improvement of 47%.
- Annualized inventory turns improved to 14, compared with 10.
- Cash and marketable securities were \$609 million at June 30, 2001.

Business Outlook

The following forward-looking statements reflect Amazon.com's expectations as of July 23, 2001. Given the potential changes in general economic conditions and consumer spending, the emerging nature of online retail and the various other risk factors discussed below, actual results may differ materially. The company intends to continue its practice of not updating forward-looking statements other than in publicly available statements.

Third Quarter 2001 Expectations

- Net sales are expected to be between \$625 million and \$675 million.
- Gross margin is expected to be between 24 and 27 percent of net sales.
- Absolute pro forma operating losses are expected to be approximately flat with to very slightly down from the second quarter of 2001.
- Cash and marketable securities, including the \$100 million investment from America Online, Inc., announced today, are expected to be over \$600 million at September 30, 2001.

Fourth Quarter 2001 Expectations

- Net sales are expected to increase between 10 percent and 20 percent over the fourth quarter of 2000.
- Pro forma operating profitability is expected for the quarter.
- Cash and marketable securities, including the \$100 million investment from America Online, Inc., announced today, are expected to be approximately \$900 million at December 31, 2001.

These forward-looking statements are inherently difficult to predict. Actual results could differ materially for a variety of reasons, including, among others, the rate of growth of the Internet and online commerce, customer spending patterns, the amount that Amazon.com invests in new business opportunities and the timing of those investments, the mix of products sold to customers, the mix of net sales derived from products as compared with services, risks of inventory management, the degree to which the company enters into service relationships and other strategic transactions, fluctuations in the value of securities and non-cash payments Amazon.com receives in connection with such transactions, foreign currency exchange risks, and risks of fulfillment throughput and productivity. Other risks and uncertainties include, among others, Amazon.com's anticipated losses, significant amount of indebtedness, competition, seasonality, potential fluctuations in operating results, management of

potential growth, system interruption, consumer trends, fulfillment center optimization, inventory, limited operating history, fraud and Amazon Payments, new business areas, international expansion, business combinations, strategic alliances and strategic partnerships. More information about factors that potentially could affect Amazon.com's financial results is included in Amazon.com's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2000, and all subsequent filings, including Quarterly Reports on Form 10-Q.

Pro Forma Results

Pro forma information regarding Amazon.com's results from operations is provided as a complement to results provided in accordance with accounting principles generally accepted in the United States (GAAP). Pro forma operating loss excludes stock-based compensation costs, amortization of goodwill and other intangibles, and restructuring-related and other costs. Management measures the progress of the business using this pro forma information.

Pro forma net loss excludes stock-based compensation costs, amortization of goodwill and other intangibles, restructuring-related and other costs, other gains, equity in losses of equity-method investees, and the cumulative effect of change in accounting principle.

Conference Call

A conference call to discuss second quarter 2001 financial results and 2001 business outlook will be Webcast live on Monday, July 23, 2001, at 5:00 p.m. EDT/2:00 p.m. PDT. This conference call will be available at www.amazon.com/ir through September 30, 2001, and will contain forward-looking statements and other material information.

About Amazon.com

Amazon.com (Nasdaq: AMZN) opened its virtual doors on the World Wide Web in July 1995 and today offers Earth's Biggest Selection, along with online auctions and free electronic greeting cards. Amazon.com seeks to be the world's most customer-centric company, where customers can find and discover anything they might want to buy online. Amazon.com and sellers list millions of unique new and used items in categories such as electronics, kitchen and housewares, books, music, DVDs, videos, camera and photo items, toys, software, computer and video games, cell phones and service, tools and hardware, and outdoor living products. Through Amazon Marketplace, zShops and Auctions, any business or individual can sell virtually anything to Amazon.com's over 35 million cumulative customer accounts, and with Amazon Payments, sellers can accept credit card transactions, avoiding the hassles of offline payments.

Amazon.com operates four international Web sites: www.amazon.co.uk, www.amazon.de, www.amazon.fr and www.amazon.co.jp. It also operates the Internet Movie Database (www.imdb.com), the Web's comprehensive and authoritative source of information on more than 275,000 movies and entertainment titles and 1 million cast and crew members dating from the birth of film.

Amazon.com Contacts

For Investors and Analysts-
Tim Halladay
Investor Relations
(206) 266-2171
ir@amazon.com

For Media-
Patty Smith
Public Relations
(206) 266-7180

AMAZON.COM, INC.
Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net sales	\$ 667,625	\$ 577,876	\$ 1,367,981	\$ 1,151,765
Cost of sales	487,905	441,812	1,005,664	887,567
Gross profit	179,720	136,064	362,317	264,198
Operating expenses:				
Fulfillment	85,583	87,597	183,831	187,060
Marketing	34,658	42,216	71,296	82,864
Technology and content	64,710	67,132	134,994	128,376
General and administrative	22,778	28,468	48,806	54,513
Stock-based compensation	2,351	8,166	5,267	21,818
Amortization of goodwill and other intangibles	50,830	80,413	101,661	163,368
Restructuring-related and other	58,650	2,449	172,910	4,468
Total operating expenses	319,560	316,441	718,765	642,467
Loss from operations	(139,840)	(180,377)	(356,448)	(378,269)
Interest income	6,807	10,314	16,757	20,440
Interest expense	(35,148)	(33,397)	(68,896)	(61,018)
Other expense, net	(1,178)	(3,272)	(5,062)	(8,046)
Other gains, net	11,315	--	45,172	--
Net interest expense and other	(18,204)	(26,355)	(12,029)	(48,624)
Loss before equity in losses of equity-method investees	(158,044)	(206,732)	(368,477)	(426,893)
Equity in losses of equity-method investees, net	(10,315)	(110,452)	(23,490)	(198,716)
Net loss before change in accounting principle	(168,359)	(317,184)	(391,967)	(625,609)
Cumulative effect of change in accounting principle	--	--	(10,523)	--
Net loss	<u>\$ (168,359)</u>	<u>\$ (317,184)</u>	<u>\$ (402,490)</u>	<u>\$ (625,609)</u>
Basic and diluted loss per share:				
Prior to cumulative effect of change in accounting principle	\$ (0.47)	\$ (0.91)	\$ (1.09)	\$ (1.80)
Cumulative effect of change in accounting principle	--	--	(0.03)	--
	<u>\$ (0.47)</u>	<u>\$ (0.91)</u>	<u>\$ (1.12)</u>	<u>\$ (1.80)</u>
Shares used in computation of basic and diluted loss per share	<u>359,752</u>	<u>349,886</u>	<u>358,595</u>	<u>346,680</u>

Note: The attached "Financial and Operational Highlights" are an integral part of the press release financial statements.

AMAZON.COM, INC.
Pro Forma Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended					
	June 30, 2001			June 30, 2000		
	As Reported	Pro Forma Adjustments	Pro Forma	As Reported	Pro Forma Adjustments	Pro Forma
Net sales	\$ 667,625	--	\$ 667,625	\$ 577,876	--	\$ 577,876
Cost of sales	487,905	--	487,905	441,812	--	441,812
Gross profit	179,720	--	179,720	136,064	--	136,064
Operating expenses:						
Fulfillment	85,583	--	85,583	87,597	--	87,597
Marketing	34,658	--	34,658	42,216	--	42,216
Technology and content	64,710	--	64,710	67,132	--	67,132
General and administrative	22,778	--	22,778	28,468	--	28,468
Stock-based compensation	2,351	(2,351)	--	8,166	(8,166)	--
Amortization of goodwill and other intangibles	50,830	(50,830)	--	80,413	(80,413)	--
Restructuring-related and other	58,650	(58,650)	--	2,449	(2,449)	--
Total operating expenses	319,560	(111,831)	207,729	316,441	(91,028)	225,413
Loss from operations	(139,840)	111,831	(28,009)	(180,377)	91,028	(89,349)
Interest income	6,807	--	6,807	10,314	--	10,314
Interest expense	(35,148)	--	(35,148)	(33,397)	--	(33,397)
Other expense, net	(1,178)	--	(1,178)	(3,272)	--	(3,272)
Other gains, net	11,315	(11,315)	--	--	--	--
Net interest expense and other	(18,204)	(11,315)	(29,519)	(26,355)	--	(26,355)
Loss before equity in losses of equity-method investees	(158,044)	100,516	(57,528)	(206,732)	91,028	(115,704)
Equity in losses of equity-method investees, net	(10,315)	10,315	--	(110,452)	110,452	--
Net loss	\$ (168,359)	\$ 110,831	\$ (57,528)	\$ (317,184)	\$ 201,480	\$ (115,704)
Cash provided by (used in) operating activities	\$ 2,485		\$ 2,485	\$ (54,029)		\$ (54,029)
Basic and diluted loss per share:	\$ (0.47)		\$ (0.16)	\$ (0.91)		\$ (0.33)
Shares used in computation of basic and diluted loss per share	359,752		359,752	349,886		349,886

Note: The attached "Financial and Operational Highlights" are an integral part of the press release financial statements.

AMAZON.COM, INC.
Pro Forma Statements of Operations
(in thousands, except per share data)
(unaudited)

	Six Months Ended					
	June 30, 2001			June 30, 2000		
	As Reported	Pro Forma Adjustments	Pro Forma	As Reported	Pro Forma Adjustments	Pro Forma
Net sales	\$ 1,367,981	--	\$ 1,367,981	\$ 1,151,765	--	\$ 1,151,765
Cost of sales	1,005,664	--	1,005,664	887,567	--	887,567
Gross profit	362,317	--	362,317	264,198	--	264,198
Operating expenses:						
Fulfillment	183,831	--	183,831	187,060	--	187,060
Marketing	71,296	--	71,296	82,864	--	82,864
Technology and content	134,994	--	134,994	128,376	--	128,376
General and administrative	48,806	--	48,806	54,513	--	54,513
Stock-based compensation	5,267	(5,267)	--	21,818	(21,818)	--
Amortization of goodwill and other intangibles	101,661	(101,661)	--	163,368	(163,368)	--
Restructuring-related and other	172,910	(172,910)	--	4,468	(4,468)	--
Total operating expenses	718,765	(279,838)	438,927	642,467	(189,654)	452,813
Loss from operations	(356,448)	279,838	(76,610)	(378,269)	189,654	(188,615)
Interest income	16,757	--	16,757	20,440	--	20,440
Interest expense	(68,896)	--	(68,896)	(61,018)	--	(61,018)
Other expense, net	(5,062)	--	(5,062)	(8,046)	--	(8,046)
Other gains, net	45,172	(45,172)	--	--	--	--
Net interest expense and other	(12,029)	(45,172)	(57,201)	(48,624)	--	(48,624)
Loss before equity in losses of equity-method investees	(368,477)	234,666	(133,811)	(426,893)	189,654	(237,239)
Equity in losses of equity-method investees, net	(23,490)	23,490	--	(198,716)	198,716	--
Net loss before change in accounting principle	(391,967)	258,156	(133,811)	(625,609)	388,370	(237,239)
Cumulative effect of change in accounting principle	(10,523)	10,523	--	--	--	--
Net loss	\$ (402,490)	\$ 268,679	\$ (133,811)	\$ (625,609)	\$ 388,370	\$ (237,239)
Cash provided by (used in) operating activities	\$ (404,499)		\$ (404,499)	\$ (374,407)		\$ (374,407)
Basic and diluted loss per share:						
Prior to cumulative effect of change in accounting principle	\$ (1.09)		\$ (0.37)	\$ (1.80)		\$ (0.68)
Cumulative effect of change in accounting principle	(0.03)		--	--		--
	\$ (1.12)		\$ (0.37)	\$ (1.80)		\$ (0.68)
Shares used in computation of basic and diluted loss per share	358,595		358,595	346,680		346,680

Note: The attached "Financial and Operational Highlights" are an integral part of the press release financial statements.

AMAZON.COM, INC.

Segment Information

(in thousands)

(unaudited)

Three Months Ended June 30, 2001

	U.S. Retail						Consolidated
	Books, Music and DVD/Video	Electronics, Tools and Kitchen	Total	Services	International		
Net sales	\$ 389,723	\$ 110,957	\$ 500,680	\$ 38,599	\$ 128,346	\$	667,625
Gross profit	110,844	13,159	124,003	26,352	29,365		179,720
Pro forma income (loss) from operations	38,967	(41,322)	(2,355)	4,339	(29,993)		(28,009)
Other non-cash and restructuring-related operating expenses							(111,831)
Net interest expense and other							(18,204)
Equity in losses of equity-method investees, net							(10,315)
Net loss						\$	<u>(168,359)</u>

Segment highlights:

Y / Y net sales growth	1%	21%	5%	41%	75%	16%
Y / Y gross profit growth	28%	111%	33%	(1%)	80%	32%
Gross margin	28%	12%	25%	68%	23%	27%
Pro forma operating margin	10%	(37%)	0%	11%	(23%)	(4%)

Three Months Ended June 30, 2000

	U.S. Retail						Consolidated
	Books, Music and DVD/Video	Electronics, Tools and Kitchen	Total	Services	International		
Net sales	\$ 385,275	\$ 91,755	\$ 477,030	\$ 27,453	\$ 73,393	\$	577,876
Gross profit	86,862	6,249	93,111	26,667	16,286		136,064
Pro forma income (loss) from operations	10,056	(69,077)	(59,021)	4,175	(34,503)		(89,349)
Other non-cash and restructuring-related operating expenses							(91,028)
Net interest expense and other							(26,355)
Equity in losses of equity-method investees, net							(110,452)
Net loss						\$	<u>(317,184)</u>

Segment highlights:

Y / Y net sales growth	38%	N/A	70%	N/A	134%	84%
Y / Y gross profit growth	41%	N/A	56%	N/A	148%	101%
Gross margin	23%	7%	20%	97%	22%	24%
Pro forma operating margin	3%	(75%)	(12%)	15%	(47%)	(15%)

Note: The attached "Financial and Operational Highlights" are an integral part of the press release financial statements.

Six Months Ended June 30, 2001

	U.S. Retail					
	Books, Music and DVD/Video	Electronics, Tools and Kitchen	Total	Services	International	Consolidated
Net sales	\$ 799,309	\$ 227,464	\$ 1,026,773	\$ 80,757	\$ 260,451	\$ 1,367,981
Gross profit	219,963	30,379	250,342	54,560	57,415	362,317
Pro forma income (loss) from operations	66,592	(87,155)	(20,563)	8,515	(64,562)	(76,610)
Other non-cash and restructuring-related operating expenses						(279,838)
Net interest expense and other						(12,029)
Equity in losses of equity-method investees, net						(23,490)
Cumulative effect of change in accounting principle						(10,523)
Net loss						<u>\$ (402,490)</u>

Segment highlights:

Y / Y net sales growth	2%	37%	8%	61%	75%	19%
Y / Y gross profit growth	30%	128%	37%	12%	78%	37%
Gross margin	28%	13%	24%	68%	22%	26%
Pro forma operating margin	8%	(38%)	(2%)	11%	(25%)	(6%)

Six Months Ended June 30, 2000

	U.S. Retail					
	Books, Music and DVD/Video	Electronics, Tools and Kitchen	Total	Services	International	Consolidated
Net sales	\$ 786,690	\$ 166,351	\$ 953,041	\$ 50,199	\$ 148,525	\$ 1,151,765
Gross profit	169,717	13,308	183,025	48,851	32,322	264,198
Pro forma income (loss) from operations	7,631	(136,326)	(128,695)	2,031	(61,951)	(188,615)
Other non-cash and restructuring-related operating expenses						(189,654)
Net interest expense and other						(48,624)
Equity in losses of equity-method investees, net						(198,716)
Net loss						<u>\$ (625,609)</u>

Segment highlights:

Y / Y net sales growth	44%	N/A	74%	N/A	160%	89%
Y / Y gross profit growth	40%	N/A	53%	N/A	176%	100%
Gross margin	22%	8%	19%	97%	22%	23%
Pro forma operating margin	1%	(82%)	(14%)	4%	(42%)	(16%)

Note: The attached "Financial and Operational Highlights" are an integral part of the press release financial statements.

Supplemental geographical segment information is as follows (in thousands):

	Three Months Ended		Three Months Ended	
	June 30, 2001		June 30, 2000	
	Net Sales	Pro Forma Income (Loss) from Operations	Net Sales	Pro Forma Income (Loss) from Operations
U.S.				
Books, Music and DVD/Video	\$ 389,723	\$ 38,967	\$ 385,275	\$ 10,056
Electronics, Tools and Kitchen	110,957	(41,322)	91,755	(69,077)
U.S. Retail	500,680	(2,355)	477,030	(59,021)
Services	38,599	4,339	27,453	4,175
Total U.S.	539,279	1,984	504,483	(54,846)
International	128,346	(29,993)	73,393	(34,503)
Total Consolidated	\$ 667,625	\$ (28,009)	\$ 577,876	\$ (89,349)
	Six Months Ended		Six Months Ended	
	June 30, 2001		June 30, 2000	
	Net Sales	Pro Forma Income (Loss) from Operations	Net Sales	Pro Forma Income (Loss) from Operations
U.S.				
Books, Music and DVD/Video	\$ 799,309	\$ 66,592	\$ 786,690	\$ 7,631
Electronics, Tools and Kitchen	227,464	(87,155)	166,351	(136,326)
U.S. Retail	1,026,773	(20,563)	953,041	(128,695)
Services	80,757	8,515	50,199	2,031
Total U.S.	1,107,530	(12,048)	1,003,240	(126,664)
International	260,451	(64,562)	148,525	(61,951)
Total Consolidated	\$ 1,367,981	\$ (76,610)	\$ 1,151,765	\$ (188,615)

Note: The attached "Financial and Operational Highlights" are an integral part of the press release financial statements.

AMAZON.COM, INC.
Balance Sheets
(in thousands, except per share data)
(unaudited)

	June 30, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 462,949	\$ 822,435
Marketable securities	146,020	278,087
Inventories	129,035	174,563
Prepaid expenses and other current assets	71,353	86,044
Total current assets	809,357	1,361,129
Fixed assets, net	292,422	366,416
Goodwill, net	89,002	158,990
Other intangibles, net	63,893	96,335
Investments in equity-method investees	12,223	52,073
Other equity investments	24,729	40,177
Other assets	53,410	60,049
Total assets	<u>\$ 1,345,036</u>	<u>\$ 2,135,169</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 257,976	\$ 485,383
Accrued expenses and other current liabilities	241,149	272,683
Unearned revenue	86,945	131,117
Interest payable	43,833	69,196
Current portion of long-term debt and other	18,337	16,577
Total current liabilities	648,240	974,956
Long-term debt and other	2,126,727	2,127,464
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.01 par value:		
Authorized shares -- 500,000		
Issued and outstanding shares -- none	--	--
Common stock, \$0.01 par value:		
Authorized shares -- 5,000,000		
Issued and outstanding shares -- 362,191 and 357,140 shares at June 30, 2001 and December 31, 2000, respectively	3,622	3,571
Additional paid-in capital	1,356,216	1,338,303
Deferred stock-based compensation	(10,132)	(13,448)
Accumulated other comprehensive loss	(83,846)	(2,376)
Accumulated deficit	(2,695,791)	(2,293,301)
Total stockholders' deficit	(1,429,931)	(967,251)
Total liabilities and stockholders' deficit	<u>\$ 1,345,036</u>	<u>\$ 2,135,169</u>

Note: The attached "Financial and Operational Highlights" are an integral part of the press release financial statements.

AMAZON.COM, INC.
Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 446,944	\$ 755,133	\$ 822,435	\$ 133,309
OPERATING ACTIVITIES:				
Net loss	(168,359)	(317,184)	(402,490)	(625,609)
Adjustments to reconcile net loss to net cash provided by (used in)				
operating activities:				
Depreciation of fixed assets and other amortization	20,794	20,682	43,867	38,862
Stock-based compensation	2,351	8,166	5,267	21,818
Equity in losses of equity-method investees, net	10,315	110,452	23,490	198,716
Amortization of goodwill and other intangibles	50,830	80,413	101,661	163,368
Non-cash restructuring-related and other costs	6,525	2,449	68,529	4,468
Amortization of previously unearned revenue	(31,908)	(20,203)	(65,300)	(38,688)
Loss (gain) on sale of marketable securities	187	1,648	214	(952)
Other gains, net	(11,315)	--	(45,172)	--
Non-cash interest expense and other	6,713	6,208	13,285	12,089
Cumulative effect of change in accounting principle	--	--	10,523	--
Changes in operating assets and liabilities:				
Inventories	25,277	(103)	45,100	48,286
Prepaid expenses and other current assets	(12,203)	4,104	15,131	1,037
Accounts payable	(1,632)	30,442	(231,390)	(176,787)
Accrued expenses and other current liabilities	52,271	(756)	(5,491)	(32,294)
Unearned revenue	25,192	1,011	43,197	1,625
Interest payable	27,447	18,642	(24,920)	9,654
Net cash provided by (used in) operating activities	2,485	(54,029)	(404,499)	(374,407)
INVESTING ACTIVITIES:				
Sales and maturities of marketable securities	66,971	68,949	161,337	449,294
Purchases of marketable securities	(26,743)	(21,930)	(57,121)	(50,786)
Purchases of fixed assets, including internal-use software and web-site development	(10,425)	(28,878)	(29,862)	(55,479)
Investments in equity-method investees and other investments	--	(8,595)	--	(56,082)
Net cash provided by investing activities	29,803	9,546	74,354	286,947
FINANCING ACTIVITIES:				
Proceeds from exercise of stock options	7,644	13,794	13,477	35,153
Proceeds from long-term debt and other	--	1,625	10,000	680,999
Repayment of long-term debt and other	(4,094)	(5,197)	(8,669)	(9,220)
Financing costs	--	(227)	--	(16,122)
Net cash provided by financing activities	3,550	9,995	14,808	690,810
Effect of exchange rate changes on cash and cash equivalents	(19,833)	(268)	(44,149)	(16,282)
Net increase (decrease) in cash and cash equivalents	16,005	(34,756)	(359,486)	587,068
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 462,949</u>	<u>\$ 720,377</u>	<u>\$ 462,949</u>	<u>\$ 720,377</u>
SUPPLEMENTAL CASH FLOW INFORMATION:				
Fixed assets acquired under capital leases	\$ 171	\$ 844	\$ 2,469	\$ 4,346
Fixed assets acquired under financing agreements	--	293	--	4,844
Stock issued in connection with business acquisitions	--	30,000	--	30,000
Equity securities received for commercial agreements	--	--	331	97,839
Cash paid for interest	1,198	7,996	87,422	43,831

Note: The attached "Financial and Operational Highlights" are an integral part of the press release financial statements.

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(unaudited)
(in millions, except per share data)

	2000				Y / Y	
	Q2	Q3	Q4	Q1 2001	Q2 2001	Growth %
Results of Operations						
Net sales	\$ 578	\$ 638	\$ 972	\$ 700	\$ 668	16%
Net sales -- trailing twelve months (TTM)	\$ 2,184	\$ 2,466	\$ 2,762	\$ 2,888	\$ 2,978	36%
Net sales outside the U.S. (including .com export sales) -- % of net sales	23%	23%	21%	26%	28%	N/A
Gross profit	\$ 136	\$ 167	\$ 224	\$ 183	\$ 180	32%
Gross margin -- % of net sales	23.5%	26.2%	23.1%	26.1%	26.9%	N/A
Fulfillment costs -- % of net sales	15.2%	15.1%	13.5%	14.0%	12.8%	N/A
Pro forma operating expenses	\$ 225	\$ 236	\$ 284	\$ 231	\$ 208	(8%)
Pro forma operating loss	\$ (89)	\$ (68)	\$ (60)	\$ (49)	\$ (28)	(69%)
Pro forma operating loss -- % of net sales	(15.5%)	(10.7%)	(6.2%)	(6.9%)	(4.2%)	N/A
Pro forma net loss	\$ (116)	\$ (89)	\$ (90)	\$ (76)	\$ (58)	(50%)
Pro forma net loss per share	\$ (0.33)	\$ (0.25)	\$ (0.25)	\$ (0.21)	\$ (0.16)	(52%)
GAAP net loss	\$ (317)	\$ (241)	\$ (545)	\$ (234)	\$ (168)	(47%)
GAAP net loss per share	\$ (0.91)	\$ (0.68)	\$ (1.53)	\$ (0.66)	\$ (0.47)	(48%)
U.S. books, music and DVD/video (US BMVD) segment:						
US BMVD net sales	\$ 385	\$ 400	\$ 512	\$ 410	\$ 390	1%
US BMVD gross profit	\$ 87	\$ 109	\$ 139	\$ 109	\$ 111	28%
US BMVD pro forma operating income -- % of US BMVD net sales	3%	6%	8%	7%	10%	N/A
U.S. electronics, tools and kitchen (US ETK) segment:						
US ETK net sales	\$ 92	\$ 98	\$ 220	\$ 117	\$ 111	21%
US ETK gross profit	\$ 6	\$ 9	\$ 22	\$ 17	\$ 13	117%
US ETK pro forma operating loss -- % of US ETK net sales	(75%)	(62%)	(33%)	(39%)	(37%)	N/A
Services segment:						
Services net sales	\$ 27	\$ 53	\$ 96	\$ 42	\$ 39	44%
Services gross profit	\$ 27	\$ 31	\$ 37	\$ 28	\$ 26	(4%)
Services pro forma operating income -- % of services net sales	15%	14%	18%	10%	11%	N/A
U.S. Retail and Services combined pro forma operating income (loss) -- % of U.S. Retail and Services net sales	(11%)	(5%)	(2%)	(2%)	0%	N/A
International segment:						
International net sales	\$ 73	\$ 88	\$ 145	\$ 132	\$ 128	75%
International gross profit	\$ 16	\$ 19	\$ 26	\$ 28	\$ 29	81%
International pro forma operating loss -- % of international net sales	(47%)	(45%)	(30%)	(26%)	(23%)	N/A

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(unaudited)

(in millions, except cost per new customer account, net sales per active customer account, inventory turnover, accounts payable days, and employee data)

	2000				Y / Y	
	Q2	Q3	Q4	Q1 2001	Q2 2001	Growth %
Customer Data						
New customer accounts	2.5	2.9	4.1	3.0	2.6	4%
Cumulative customer accounts	22.5	25.4	29.5	32.5	35.1	56%
Active customer accounts – TTM	17.0	18.2	19.8	20.5	21.1	24%
New customer accounts – international	0.6	0.9	1.1	1.0	0.9	50%
Cumulative customer accounts -- international	3.0	3.9	5.0	6.0	6.9	130%
Active customer accounts -- international -- TTM	2.7	3.3	4.2	4.9	5.4	100%
Cost per new customer account	\$ 17	\$ 15	\$ 13	\$ 12	\$ 14	(18%)
Net sales (excluding catalog sales and inventory sales to Toysrus.com) per active customer account – TTM	\$ 125	\$ 130	\$ 134	\$ 135	\$ 136	9%
U.S. customers purchasing from non-US BMVD stores	13%	14%	36%	19%	21%	N/A
Balance Sheet						
Cash and marketable securities	\$ 908	\$ 900	\$ 1,101	\$ 643	\$ 609	(33%)
Inventory, net	\$ 172	\$ 164	\$ 175	\$ 156	\$ 129	(25%)
Inventory -- % of net sales	30%	26%	18%	22%	19%	N/A
Inventory turnover – annualized	10.3	11.2	17.7	12.6	13.7	33%
Fixed assets, net	\$ 344	\$ 352	\$ 366	\$ 304	\$ 292	(15%)
Accounts payable days -- ending	59	60	60	45	48	(19%)
Cash Flows						
Cash generated by (used in) operations	\$ (54)	\$ (4)	\$ 248	\$ (407)	\$ 2	104%
Cash used in operations – TTM	\$ (418)	\$ (347)	\$ (130)	\$ (217)	\$ (161)	(61%)
Purchases of fixed assets	\$ (29)	\$ (42)	\$ (37)	\$ (19)	\$ (10)	(66%)
Other						
Employees (full-time and part-time)	7,700	8,500	9,000	8,600	7,800	1%

AMAZON.COM, INC.
Financial and Operational Highlights
Second Quarter Ended June 30, 2001
(unaudited)

Results of Operations (all comparisons are with the second quarter of 2000)

Net Sales

- Orders from repeat customers represented 80% of total, up from 78%.
- Shipping revenue across all segments was approximately \$76 million, up from \$73 million.
- Cash-based portion of Services revenues was approximately 80%, up from 27%; non-cash Services revenues were approximately 20%, down from 73%.

Gross Profit

- Gross margin, excluding the results of our Services segment, would have been 24%, up from 20%.
- Shipping gross loss was approximately \$2 million, down from gross profit of \$7 million. We will from time to time continue to offer shipping promotions to our customers and may continue to experience fluctuating shipping margins.

Fulfillment

- Fulfillment costs represent those costs incurred in operating and staffing our fulfillment and customer service centers, including costs attributable to receiving, inspecting and warehousing inventories; picking, packaging and preparing customers' orders for shipment; credit card fees and bad debt costs; and responding to inquiries from customers.
- Fulfillment costs amounted to approximately 13% of net sales, down from 15% of net sales; excluding net sales from our Services segment, fulfillment costs would have been approximately 14%, down from 16%.

Stock-Based Compensation

- During the first quarter of 2001, we offered a limited non-compulsory exchange of employee stock options. This option exchange offer results in variable accounting treatment for approximately 13 million stock options at June 30, 2001, which includes approximately 12 million options granted under the exchange offer with an exercise price of \$13.375, and options that were subject to the exchange offer but were not exchanged. Variable accounting treatment will result in unpredictable charges or credits, recorded to "Stock-based compensation," dependent on fluctuations in quoted prices for our common stock.

- Stock-based compensation includes stock-based charges resulting from variable accounting treatment, option-related deferred compensation recorded at our initial public offering and certain other compensation and severance arrangements. Stock-based compensation also includes the portion of acquisition-related consideration conditioned on the continued tenure of key employees of certain of our acquired businesses. During the quarter, stock-based compensation related to variable accounting treatment was \$4 million, and the termination of certain acquisition-related employees prior to vesting in stock-based compensation awards had the effect of reducing stock-based compensation to \$2 million.

Amortization of Goodwill and Other Intangibles

- The Financial Accounting Standards Board issued SFAS No. 142 “Goodwill and Other Intangible Assets” which requires use of a non-amortization approach to account for purchased goodwill and certain intangibles, effective January 1, 2002. We expect the adoption of this accounting standard will have the impact, commencing January 1, 2002, of reducing to zero our amortization of goodwill and significantly reducing our amortization of intangibles.

Restructuring-Related and Other

- We continued the implementation of our operational restructuring plan to reduce our operating costs, streamline our organizational structure and consolidate certain of our fulfillment and customer service operations. As a result of this initiative, we recorded restructuring and other charges of approximately \$114 million during the first quarter and \$59 million during the second quarter of 2001. This initiative involved the reduction of employee staff by approximately 1,300 positions throughout the Company in managerial, professional, clerical, technical and fulfillment roles; consolidation of our Seattle corporate office locations; closure of our McDonough, Georgia, fulfillment center; seasonal operation of our Seattle fulfillment center; closure of our customer service centers in Seattle and The Hague, Netherlands; and migration of a large portion of our technology infrastructure to a Linux-based operating platform, which entails ongoing lease obligations for equipment no longer utilized. Each component of the restructuring plan has been substantially completed as of June 30, 2001.
- Costs that relate to ongoing operations are not part of restructuring and other charges. All inventory adjustments that may result from the closure or seasonal operation of our fulfillment centers are classified in “Cost of goods sold” on the consolidated statements of operations. There were no significant inventory write-downs resulting from the restructuring.
- For the quarter ended June 30, 2001, the charges associated with our restructuring were as follows (in thousands):

Asset impairments	\$7,225
Continuing lease obligations	49,713
Termination benefits.....	(327)
Broker commissions, professional fees and other miscellaneous restructuring costs	2,039
	<u>\$58,650</u>

- Continuing lease obligations primarily relate to technology infrastructure no longer being utilized. Where possible, we are actively seeking third parties to sublease abandoned equipment. Amounts expensed represent estimates of undiscounted future cash outflows, offset by anticipated third-party subleases.

- We anticipate the restructuring charges will result in the following net cash outflows:

(in thousands)	<u>Leases</u>	<u>Termination Benefits</u>	<u>Other</u>	<u>Total</u>
Year Ending December 31,				
2001	\$35,678	\$12,108	\$4,630	\$52,416
2002	34,059	78	3,538	37,675
2003	4,643	—	—	4,643
2004	1,589	—	—	1,589
2005	1,563	—	—	1,563
Thereafter.....	<u>6,473</u>	<u>—</u>	<u>—</u>	<u>6,473</u>
Total estimated cash outflows	<u>\$84,005</u>	<u>\$12,186</u>	<u>\$8,168</u>	<u>\$104,359</u>

First and second quarter 2001 cash payments resulting from the restructuring, which are included in the above amounts, were \$10 million and \$11 million, respectively.

Net Interest Expense and Other

- Other expense primarily relates to net realized gains and losses on sales of marketable securities, miscellaneous operating taxes and foreign currency transaction losses.

Other Gains

- Other gains, net were \$11 million for the three months ended June 30, 2001, consisting of the following (in thousands):

Foreign currency gain on PEACS	\$22,876
Foreign currency losses on conversion of Euro-denominated investments	(6,216)
Other than temporary impairment losses, equity investments...	(4,858)
Warrant remeasurements and other	<u>(487)</u>
	<u>\$11,315</u>

- As of June 30, 2001, our recorded basis in our investment in Webvan Group, Inc., was reduced to zero as Webvan Group, Inc. ceased operations and announced their intentions to file for bankruptcy. We do not expect to recover any portion of our investment in Webvan Group, Inc.

Equity in Losses of Equity-Method Investees

- Equity in losses of equity-method investees represents our share of losses of companies in which we have investments that give us the ability to exercise significant influence, but not control, over an investee. Equity-method losses reduce our underlying investment balances until the recorded basis is reduced to zero.

Loss Per Share

- The effect of stock options is antidilutive and, accordingly, is excluded from diluted loss per share. If the effect of stock options was included, the number of shares used in computation of diluted loss per share would have been approximately 376 million, compared with 360 million shares used in computation of basic and diluted loss per share for the three months ended June 30, 2001.
- Common stock subject to vested and unvested employee stock options was approximately 42 million shares, or 12% of our outstanding common stock as of June 30, 2001.

Financial Condition

Cash and Marketable Securities

- Cash and marketable securities are impacted by the effect of quarterly fluctuations in foreign currency exchange rates, particularly the Euro.
- Our marketable securities, at fair value, consist of the following, as of June 30, 2001 (in thousands):

Corporate notes and bonds	\$ 14,898
Asset-backed and agency securities	34,346
Treasury notes and bonds	83,950
Equity securities	<u>12,826</u>
	<u>\$146,020</u>

Certain Definitions and Other

- Our segment reporting includes four segments: U.S. Books, Music and DVD/Video; U.S. Electronics, Tools and Kitchen; International; and Services. Allocation methodologies are consistent with past presentations.
- The U.S. Books, Music and DVD/Video segment includes revenues, direct costs and cost allocations associated with retail sales from www.amazon.com for books, music and DVD/video products, and includes amounts earned on sales of similar products sold through Amazon Marketplace.
- The U.S. Electronics, Tools and Kitchen segment includes revenues, direct costs and cost allocations associated with www.amazon.com retail sales of Electronics (consumer electronics products, camera and photo items, software, computer and video games, and cell phones and related service), Tools (tools and hardware) and Kitchen (kitchen and housewares products and outdoor living items) products, toys and video games sold other than through our Toysrus.com strategic alliance, and new initiatives, and includes amounts earned on sales of similar products sold through Amazon Marketplace.
- U.S. Retail represents the combination of the U.S. Books, Music and DVD/Video segment and the U.S. Electronics, Tools and Kitchen segment.
- The Services segment includes revenues, direct costs and cost allocations associated with the Company's business-to-business strategic relationships, including our strategic alliance with Toysrus.com, and miscellaneous advertising revenues, as well as amounts from Amazon Auctions, zShops and Payments. Amounts earned from the Services segment are attributed to the U.S.
- U.S. represents the combination of U.S. Retail and the Services segment.

- The International segment includes all revenues, direct costs and cost allocations associated with the retail sales of the Company's four internationally focused sites: www.amazon.de, www.amazon.fr, www.amazon.co.jp and www.amazon.co.uk.
- Trailing twelve-month sales per active customer account figures include all amounts earned through Internet sales, including revenue earned from our strategic relationships with selected companies, but exclude catalog sales and sales of inventory to Toysrus.com.
- All references to customers mean customer accounts. Customer accounts exclude the customers of selected companies with whom we have strategic relationships, and customer accounts of our catalog businesses, but include customer accounts shared with Toysrus.com and customers of Amazon Auctions, zShops and Marketplace services.