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AMAZON.COM Inc. (NASDAQ: AMZN)

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KEY CONSIDERATIONS

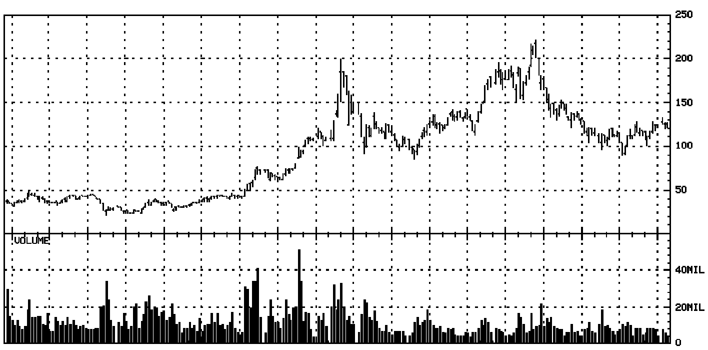
- Amazon.com continues to maintain a dominant position in the online book and music market with a pre-eminent brand name and successful entries into new markets.
- Recent partnership agreements with Drugstore.com, Pets.com and Sotheby's Holdings are part of the Company's evolution into a retail portal with numerous product lines.
- The Company is leveraging on its large customer base and has entered the highly profitable online auction market as part of its diversification strategy.
- The phenomenal growth of the Internet has led the Company to concentrate on building a massive loyal customer base and positioning itself as the leading online shopping experience. Amazon.com's goal is to achieve economies of scale for long term leadership. This has led the Company to sacrifice profits in the short term.

Recent Price	$111.
52WK High	$221.25
52WK Low	$19.69
P/E	N/A
P/Book	231.67
P/Sales	22.04
Market Capitalization	$17.98 Billion
Shares Outstanding	161.1 million
Float	63.0 million
Daily Volume (3-month Average)	8.20 million
Short Ratio (5/99)	1.13

EPS	**Reported**	**Operating**
1997	(.24)	(.24)
3Q98	(.30)	(.16)
4Q98	(.30)	(.14)
1Q99	(.39)	(.23)
2Q99E	(.46)	(.32)
1998	(.84)	(.50)
1999E	(1.75)	(1.17)
2000E	(1.55)	(1.17)

- Recent $1.25 billion convertible debt offering gives the Company a large supply of cash to build distribution centers and make future acquisitions.
- The Company faces difficulties to generate profits if the majority of its business remains in low margin categories. This factor will be alleviated if the Company grows the auction online and referral businesses substantially.

ONE-YEAR PRICE AND VOLUME GRAPH



Courtesy of Bloomberg, L.P.

COMPANY PROFILE

Based in Seattle, Washington, Amazon.com is the leading online seller of books and music with over 4.7 million titles. The Company also sells videos, DVDs, and selected toys and electronics. All of these products are sold though its Web site. Amazon.com was incorporated in July 1994 and began offering products for sale in July 1995. Currently, Amazon.com has approximately 90% of the online book market and captured 7.8% of all e-commerce sales for 1998. Amazon.com 's Web site can be reached at www.amazon.com.

This report was prepared by David R. Rivas, Ph.D., Frederic Fung and Kin Tam.

ONLINE RETAILING INDUSTRY

Since the creation of the Internet browser software five years ago, the Internet has grown from an information-sharing medium to an electronic commerce medium where users can obtain products, services and information more effectively than in traditional media. The viability of online retailing has just begun to become recognized as countless companies setup shop to sell their products and services over the Internet. In fact, the industry has grown so rapidly that even small startup companies are able to handle growth by securing financing through initial public offerings in order to expand their business capacities. Online sales are expected to reach $18 billion in 1999 and $33 billion in 2000, up from $2.4 billion in 1997. The U.S. online goods and services market will be worth $327 billion by 2002, according to Forrester Research.

The online industry will become main stream as more product offerings become available over the Internet. This will happen because of traditional retailers gaining online retailing capability and non-traditional players setting up shop online. In order to gain online access, these companies will either acquire smaller unprofitable companies or develop marketing partnerships. Other late comers will grow internally either by developing their own proprietary technologies or by buying off-the-shelf solutions. The companies that prevail will be those who were first in their respective markets, have a sustainable competitive advantage, have a loyal customer base, and will be able to adapt to the evolutionary developments of the Internet. However, most importantly, these online retailers should be able to provide a better and more secure shopping experience to the empowered online shoppers.

The online retail market is becoming an industry where marketing alliances are crucial to the success of the retailers. Countless Web sites with high visitor traffic have banners linked to various online retail offerings. There are marketing programs in which affiliates share revenue or receive commissions if customers are acquired through the Web sites of their partners.

BUSINESS MODEL

According to Media Metrix, Amazon.com attracted over 10 million unique visitors to its Web site in April 1999. This places the Company's Web site as the 11th most popular Internet destination. However, unlike portals and pure content providers, Amazon.com's visitors are customers and thus revenue generators.

Amazon.com's current success lies in maximizing the value of its pre-eminent brand name by building a massive, loyal customer base. Its early success as the first major online retailer was built on providing value-added services in addition to prices superior to traditional booksellers. This strategy has enabled the Company to capture a staggering 90% of the online book market, a dominant position in the online music market and more recently, surpassing Reel.com as the leader in the online video market.

Presently, the Company is transforming its core business of online retailing to include a "Shop-The-Web" retail portal (started early March 1999) and Big Click person-to-person auction service (started late March 1999). This evolving business model allows the Company to leverage its customer base of over 10 million and increase its revenue base to include transaction fees and cross-selling services.

Retail Portal. Rather than restricting itself, by slowly and methodically entering new markets, Amazon.com is positioning itself to become the 1st major retail portal through its "Shop-the-Web" portal. Unlike the more common popular informational portals of Yahoo!, Excite, Lycos etc., visitors can browse through Amazon.com's Web site as a point of entry in search of the items they are interested in purchasing. This retail portal concept is very powerful because it allows Amazon to offer hundreds of items by leading their customers to Web sites previewed by the Company, (providing an unofficial stamp of approval) thereby indirectly increasing the Company's offerings to customers. In addition, because the merchants are responsible for fulfillment, processing and shipping costs, Amazon.com's resources are not stretched, allowing it to concentrate on its core offerings. The Company will receive a referral fee for sales generated through its Web site and because the costs associated with listing a merchant's Web site are minimal, the Company's margins will improve significantly as these lead generation fees make up a greater portion of Amazon.com's revenue stream.

- **Online Auctions**. Amazon.com has entered the popular person-to-person online auction arena currently dominated by eBay Inc. Online auctions have become a popular line of business because they can attract a large number of visitors to a Company's Web site. Visitors are also enticed to stay longer at auction Web sites to look for bargains and update their bids. The key to successful auctions is attracting a critical mass of buyers and sellers. eBay has been successful because the Company offers over 1.9 million different auctions to their two million customers. Amazon.com has the potential to capture a significant share of the market by leveraging their 10 million customers to transact among themselves. The interaction between buyer and seller generates a minimal level of cost because all shipping and transfer details are left to the auctioneer and successful bidder. In keeping with the Retail Portal theme, the Company charges a listing fee and selling fee to auctioneers for completed auctions while there will be no fees for buyers.

  One problem with the auction format that eBay has experienced is fraud. In keeping with the Company's strategy of insuring customer satisfaction, Amazon.com will guarantee purchases of up to $250 in the event a buyer does not receive what a seller has promised. While there may be some liabilities issues associated with this unique guarantee, we feel that by maintaining customer trust, the auction business will allow the Company to reach its goal of becoming the final online shopping destination.

- **Centralized Distribution Centers**. Amazon.com has no physical retail stores. The Company has five domestic distribution centers located in Washington, Delaware, Nevada and two in Kentucky. In addition, the Company has two international distribution centers located in the United Kingdom and Germany. This setup enables quicker procurement and delivery to the Company's customers and provides better inventory turnover, lower fixed costs and overhead, and lower staffing costs than required by the traditional retail formats.

- **The Associate Program.** Currently, 200,000 associate Web sites carry the Amazon.com logo linking them to the Company's Web site. The associates earn up to 15% of sales generated from click-throughs of the Amazon.com banner. This is an essential competitive advantage in acquiring first time shoppers in addition to verbal referral. The banners also provide powerful alternative for the Company to expand its reach and brand name across the Internet without spending further on advertising.

- **Micro-marketing.** To constantly innovate its business model to be able to maintain and extend its lead over its competitors, Amazon.com uses a micro-marketing concept to establish a purchase history profile for customers. The Company uses technology that analyzes customer purchase histories and makes suggestions based on what other customers with similar purchases have bought. This powerful idea increases the likelihood of repeat customer purchases. In addition, the vast network of information provided by the purchase history profiles would be a decisive factor for companies seeking alliances as the Company extends its product lines.

- **Efficient Cash Flow**. By operating without physical storefronts, the Company operates more efficiently without store personnel, with lower inventory and lower fixed costs. The actual sell-through allows the Company to first, receive cash from customers through the use of credit cards; second, pay its suppliers only when products reaches its customers; and third, pay its associates when commissions reach certain accumulated levels. Thus, accounts receivables are eliminated from the cash flow equation.

- **Services**. "Bots," price comparison search engines, have emerged as a standard tool for customers to scour the Internet for favorable prices. Consumers increasingly have an enormous amount of information at their fingertips before making purchase decisions. Therefore, Amazon strives to add value through an ultimate shopping experience for customers to distinguish it from competitors. In addition to offering customer gift certificates and discounted prices, the Company provides value-added content and reviews.

BUSINESS STRATEGY

The Company is the leading online retailer with 7.8% of all Internet sales for 1998 with product offerings of books, music, video, DVD, and selected toys and electronics. Recently, the Company has diversified its product line to include pharmaceutical, health and beauty aid products through its new alliance with Drugstore.com and pet supplies and services with Pets.com. The Company is pursuing a long-term growth strategy by putting all of the profits from the sale of its merchandise back into advertising to aggressively expand its presence in the rapidly growing Internet.

- **Customer Focus.** Amazon.com is focused on providing the best shopping experience to customers instead of specific product retailing. The Company has grown revenues by selling competitively priced products through its customer friendly Web site, providing value-added shopping experience through book and music recommendations, and customer gift certificates. Amazon.com's focus on customer satisfaction led to its phenomenal growth and enthusiastic following. Future business decisions will continue to revolve around satisfying customers.

- **Brand Name.** In addition to personal referrals from satisfied customers, the Company has over 200,000 associates in which visitors to the associates' Web sites can easily link to Amazon.com’s shopping Web site. The Amazon.com logo is virtually visible in most high traffic Web sites. The Company’s strong brand name will facilitate marketing alliances with partners over its competitors.

TECHNOLOGY

- **Ease of use.** Amazon.com provides a user friendly environment with browsing options, quick navigation and recommendation features through an internally developed system for its Web site, search engine and substantially all aspects of transaction processing, including order management, cash and credit card processing, purchasing inventory management and shipping.

- **Security.** A major reason for the average consumer's reticence to purchase on the Internet is security. Amazon.com uses the 1-Click secure server ordering system so customers can enter their credit card number directly during the order process. The Company also has an alternative method for customers to use their credit cards without ever sending the card number over the Internet. This involves submitting the last five digits of their credit card and then confirming the purchase and the remainder of the credit card number over the telephone with a customer service representative. All transactions made at Amazon.com on its secure server are covered by the Company's security guarantee.

STRENGTH OF MANAGEMENT

- **Mass Volume Retailing Expertise.** Amazon.com was able to hire top executives from Wal-Mart to fill the roles of Chief Information Officers in the Company and in Drugstore.com. The lawsuit between Wal-Mart and the Company has been settled, allowing Amazon.com to continue to hire much needed technology experts. However, for a period of one year, recruitment efforts will not be allowed at Wal-Mart although Amazon.com and Drugstore.com may only hire Wal-Mart employees who proactively expressed interest.

COMPETITION

Amazon.com's growth far outpaces the single digit growth of the book market. Since the Company has no physical retail stores, this growth is a result of the Company luring customers away from traditional retail outlets. As a result, while the Company is experiencing explosive growth, its primary competitors, Barnes &

Noble, Borders and Books-A- Million are suffering as they spend more to ramp up their online services which in turn further cannibalize sales from their stores.

As the Company expands its product lines, it faces competition from both the online and traditional retailers. The following are some notable players in the respective categories:

Table 1		PRIMARY COMPETITORS 6/15/99		
Books	**Music**	**Drugstores**	**Videos**	**Auction Services**
Barnes & Noble	CDNow	Walgreens	Reel.com	eBay
Borders Group	Ktel	Eckerd	Go Network	Onsale
Books-A-Million	Cyberian Outpost	Soma		Ubid
	BMG Club*	PlanetRX		Yahoo! Auctions

* Bertelsmann AG owns BMG Club.

Although Amazon.com still maintains a dominant position in its categories of offerings up to May 1999, there are possibilities that increasing competition from both traditional and online retailers could deteriorate the Company's leading position. However, much like the other blue-chip Internet firms of America Online and Yahoo!, Amazon.com's dominance as an online retailer will be a significant obstacle for competitors to overcome.

ANALYSIS OF RISK FACTORS

Pricing Pressures and Profitability

- Since Amazon.com is basically an intermediary between manufacturers/suppliers and customers, the Company may suffer from potential pricing pressures from both the supply side and the distribution side. Presently, Amazon.com operates in an environment in which there are many competitors, in both traditional and online media that sell low margin products such as books, CDs, and videotapes. In addition, the Internet puts tremendous pressure on companies to compete on price. Therefore, while the ultimate beneficiary will be the consumer, the risks faced by online/traditional retailers as they begin their push on to the Internet may be substantial.

  Buy.com, another online retailer has entered the fray by selling a wide range of merchandise at the lowest price available. This company's business strategy is to sell at-cost, thus sacrificing most if not all margins on the products they sell. Instead, they hope to attract a large audience and generate their profits by selling ad space to advertisers. Buy.com is not alone in developing this strategy of selling zero-margin products in hopes of generating substantial advertising revenues. However, as this strategy is largely built on price customer service tends to be sacrificed whereas customer service is an essential ingredient in Amazon.com's success. We believe a company built on this strategy, like Buy.com, will be less able to succeed in the long-term due to finite advertising dollars.

- As more users of the Internet shop online, loyalty may ultimately be based on good customer service as well as lowest price. Presently, there are a growing number of online shopping services, "bots," in which potential shoppers can key in requested retail items such as books and CDs and receive listings of price and availability for the use to compare without having to visit each Web site separately. In the future, however, it is uncertain whether online purchases will be predicated on lowest price.

- One barrier of entry to developing a viable online retailing business is obtaining the necessary technology to execute transactions efficiently with customers. As more affordable software and hardware become available, this barrier will diminish. In fact, the increasing number of companies that raise capital through initial public offerings only strengthens this argument. However, we feel that despite this, late entrants to this market face the daunting task of displacing the top companies in their respective industries. Many new companies have avoided direct competition with Amazon.com by becoming niche players.

Maintaining Growth and Becoming Profitable

- Amazon.com has built its brand identity through word-of-mouth, superior customer service, heavy advertising, and the Associate programs. While the Company has a two-year lead, other competitors can duplicate Amazon.com's strategy. In addition, because the Associate program requires the Company to pay commissions of up to 15% of sales, expansion through this program will put a further drain on its already low margins.

- The Company has expanded to two distribution centers in Europe and the growth opportunities are vast internationally. However, if Amazon.com chooses to expand further it faces more competition on geographical levels that may already have a loyal following. The deciding factor would depend on how Amazon will execute its international expansion. Bertelsmann A.G. has formed an alliance with BarnesandNoble.com in which each can direct potential buyers to the other company's Web site and offerings.

- In the near term, traditional retailers with a highly developed distribution network and strong balance sheet will be able to obtain the essential transactional technology and the transition costs decrease. One easy strategy for the traditional retailers would be to acquire the companies that have the requisite technologies. As traditional retailers go online, they may use the Internet as an additional medium to satisfy customers' shopping convenience. In order to be successful, these retailers have to fundamentally change their business models to incorporate the higher efficiencies of the online medium.

Lightning Evolution of the Internet

- The recent merger between Broadcast.com and Yahoo indicates that the Internet industry is evolving to prepare for the convergence of video, data, and telephony. This combination shows that the leaders are on the cutting edge when acquiring new customers and visitors.

- A joint venture between Seagrams and BMG shows that traditional retailers are attempting to utilize the Internet to control distribution channels. Although this may not materially affect Amazon.com in the short term, this does signal that traditional retailers are moving as quickly as possible to catch up.

RECENT PARTNERSHIPS

- **Drugstore.com**. Amazon.com announced a partnership agreement with Drugstore.com in which the Company will own 46% (40% on a diluted basis) of the privately held company. This cross-promotional effort will allow the Company to broaden its revenue stream with higher margin lead generation fees. Amazon.com will provide links from its Web site to that of Drugstore.com while Drugstore.com will reciprocate Amazon.com customers with added incentives.

- **Pets.com**. Amazon.com has agreed to obtain an ownership stake of approximately 54% in Pets.com, the largest pet company on the Internet. The financing will be used to fund Pets.com's growth, develop the Pets.com brand, expand e-commerce and advertising revenue streams, and build distribution through partnerships and alliances. In 1998, the pet products and services market was $23 billion in the United States.

- **HomeGrocer.com**. The Company has announced that it will pay $42.5 million to obtain a 35% ownership stake in the online grocery store that makes home delivery services to customers. HomeGrocer.com sells over 11,000 grocery products in the Pacific Northwest. This partnership is a bit more problematic because unlike books, CDs, videos or even pet supplies, groceries are perishable goods and tend to have a short shelf life. This would subject Amazon.com to a different distribution model than the one the Company currently has.

- **Sotheby's Holdings**. In a move to further develop the Company's auction services, Amazon.com has announced a deal to buy a $45 million stake in Sotheby's Holdings. As part of the deal, the two companies will be forming a ten-year alliance to auction the finest authenticated products and provide a global network of certified sellers. The partnership combines the highly regarded certification services of Sotheby's and the strong technical and customer support services of Amazon.com. In addition, this allows Amazon.com to enter the premium auction market and allay customers' fears of fraud by having prestigious items back by Sotheby's 255-year history of authenticating premium products. We also believe the Amazon.com/Sotheby's combination will have greater credibility and market exposure over eBay/Butterfield & Butterfield combination.

- **Dell Computer Corp**. The Company and Dell Computer Corp. have developed a joint marketing pact to provide links from their Web sites to new home pages advertising their products. Amazon.com, which is diversifying out of its core music, video and book product lines, gets a direct link to a blue-chip computer product as well as a powerful partner. These partnerships will benefit Amazon.com and enable it to use its large brand identity to draw customers to its marketing partners. We feel that this is a strong move considering that Amazon.com will be capitalizing on its high traffic Web site.

- **GeoWorks**. Amazon.com has invested $5 million a 7% stake in GeoWorks, which focuses on delivering Internet access via wireless devices. This investment allows the Company to expand its reach to include wireless capacity. Although the convergence of telephony, cable, and video is a few years away, we believe that Amazon.com is carefully building its capacity for long term market leadership and is in good position once shopping expands to wireless media such as palm pilots or personal digital assistants.

EXPLANATION OF FINANCIALS

Revenues. Amazon.com derives its revenues primarily from the sale of books through E-Commerce. A smaller portion comes from a recent entry into the CD and video markets. The latter business is expected to increase as a percentage of total sales. The Company has just entered the online drug and pet services market. Future growth of revenues will result from an increase in the Company's customer base, further diversification of its product lines, lead generation referral fees, and listing fees from its auction site.

Margins. The greatest concern to the viability of the online retail model and Amazon.com's valuations is the low margins associated with books and the even lower margins with CDs and videos. We expect a short term ceiling associated with the Company's margins due to the high concentration of its business in these three product lines. Diversification through partnerships and auctions are outlets in Amazon.com's evolution into a retail portal. As the Company further diversifies its product lines and expands its partnerships with key industry leaders to develop lead generation fees, we expect Amazon.com's margins to improve significantly. In addition as the fulfillment costs associated with straight retailing mandates low margins, Amazon.com can direct customers to the used items in the auctions, thereby reducing the Company's procurement costs, while receiving fees for listing and matching services. While this process may cannibalize the revenues of the companies involved, it ultimately serves in the best interest of Amazon.com's customers.

Operating Expenses. Operating expenses represent a large portion of Amazon.com's cash outflows as the Company spends heavily on marketing, and product development. We believe with the introduction of its new product lines via investments into online industry niche leaders, the Company will continue to spend heavily to increase its reach in E-Commerce. Presently, the Company is utilizing television and radio advertising to generate further brand recognition. We expect the Company will also aggressively push its auction site through a large-scale promotional campaign.

Cash Flows. Beginning in 1997, Amazon.com's cash flow has turned positive. Operating cash flows were $687,000 and $31 million for years ending 1997 and 1998 respectively. The Company has announced that it will continue to spend heavily to maintain its dominance and bring new products into the market. This will result in a temporary return to negative operating cash flow, as evidenced by the 17.2 million operating cash outflow for 1st quarter 1999. The higher debt payments due to the convertible offering will be largely offset by a large cash position in marketable securities due to the relatively low 4.75% interest rate. We expect cash flows to continue to be positive and to increase in absolute amounts and as a percentage of revenues.

Convertible Debt Offering. Amazon.com has issued a $1.25 billion 4.75% convertible subordinated note due 2009. The notes can be converted into the Company's common stock at the option of the holder at a price of $156.05 per share. The Company has the right to redeem the bond within 3 years if its stock trades higher than $234. Moody's has assigned a rating of Caa3 to the $1.25 billion convertible subordinated notes due 2009 and upgraded the existing senior discount notes due 2008 to Caa1 from Caa2. The notes were sold to institutions in a private offering. We feel that because institutions are generally risk averse, this is the best way for Amazon.com to obtaining a large amount of financing at favorable rates and allow institutions to partake in the upside potential of Amazon.com's stock appreciation while limiting the downside risk.

Debt. Amazon.com currently maintains an extremely high debt-to-equity ratio of over 90 percent including the convertible note recently issued. Even without the inclusion of the note because of its equity-based features, debt still makes up 72 percent of the Company's total financing. The semiannual debt payments on the 4.75% convertible notes are to commence on August 1, 1999. The 10% senior discount notes were sold at a discount to their principle value of $530 million. No cash payments are required for the senior notes until November 1, 2003. Unless the convertible and senior notes are redeemed, we expect a significant amortization of interest expense in the coming years and the Company to experience a severe cash drain from the interest payments the Company will be making in a couple of years.

Authorization of new shares. The Company has filed with the Security and Exchange Commission to increase the authorization of shares from 300 million to 1.5 billion. Amazon.com has stated that the new share increase will be used for acquisition purposes and to fend off possible hostile takeover attempts.

Valuation

E-Commerce Sector. The Internet sector has been volatile relative to the rest of the stock market. The recent movements in the industry can be traced to the high expectations by investors of the future prospects of the Internet and news releases relating to mergers within the industry. A comparison to The Street.com's E-Commerce Index (ICX) shows that Amazon.com's stock is highly correlated to the rest of the online E-commerce industry. The recent volatility and depreciation in share prices can be attributed to investor unwillingness to delay earnings for brand and infrastructure development.

Revenue Growth. Revenue growth rates from Amazon.com have increased on average 30% sequentially over the past several quarters. We expect revenues to continue to increase substantially in a seasonal pattern, although at a slower pace, as the Company brings new products into the market. In just three short years, Amazon.com is already the third largest bookseller in the United States. That being said we project revenue growth to decline sequentially to average roughly 12-14% in fiscal 1999 and 10% in year 2000 as the Company's revenues explode in absolute amounts.

Amazon vs. ICX (The Street.com's E-Commerce Index)

Courtesy of BigCharts

Price-to-Sales. As the leading online retailer, Amazon.com commands a higher price to sales ratio than its closest competitors. Since most of the emerging Internet companies have yet to turn a profit, this is an essential ratio in determining relative value within the industry. The emergence of Amazon.com from a bookseller to a retail portal creates difficulty in straight comparisons with other companies in view that Amazon.com is one of the few companies in existence that has business lines that branches across many of the sectors in the Internet industry.

Table 2			**Value Comparison 6/18/99**				
	$ Price	Market Cap in Millions	Trailing 12 Month Sales in Millions	P/S	Gross Margin % (TTM)	Customer Base	Unique Visitors (000s)
Amazon.com	111.31	17,984	816	22.04	21.94	10,000,000	10,430
Barnes & Noble	18.00	2,520	85	29.65	26.45	1,500,000	3,954
CDnow	15.38	463	69	6.71	19.76	1,600,000	3,801
eBay	146.19	18,309	75	244.12	85.52	3,800,000	7,184
America Online	112.00	121,200	4190	28.93	23.27	*17,000,000	46,440
Yahoo!	144.44	29,519	259	113.97	88.10	0	31,199

Unique visitor numbers are courtesy of Media Metrix
* Does not include 2 million CompuServe members

Gross Margins. Gross margins for Amazon.com have held constant in the 21-23% range for the last few quarters. With the addition of CDs and videos to the Company's product mix, we expect gross margins for these revenue streams to remain within the same range over fiscal 1999. As the Company continues to grow through acquisitions and partnerships following its retail portal strategy, we expect margins to improve significantly. A comparison with Yahoo! and eBay shows that we can expect referral fees from "Shop the Web" added with listing and matching fees from Amazon.com's auction site will carry margins of over 80%, far superior to the Company's previous retailing model.

Cash. Amazon.com has a substantial $1.44 billion reserve in the form of cash and marketable securities. Of that, $1.25 billion resulted from the issuance of subordinated debt completed at the end of January 1999. We expect that the cash on hand will be sufficient to fund future acquisitions, develop the Company's infrastructure and make interest payments.

Customer Base. At the end of 1998, Amazon.com had a customer base of over 6.2 million accounts. For the 1st quarter of 1999, a net increase of 2.2 million customers were added to the Company's accounts totaling 8.4 million customers, a 35% increase and on June 7th, 1999, the Company served its 10 millionth customer. Repeat customer orders represented 66% of total orders placed in the 1st quarter of 1999. As Amazon.com continues to add new product lines and aggressively push its auction site, we expect customer growth to remain strong as visitors gravitate towards its increasingly popular array of Web sites. High customer traffic will most likely lead to increases in revenue-generating transactions.

Investment Opinion

The Company has been very successful in the business-to-consumer market, and its entry into the consumer-to-consumer market via auctions, in spite of eBay's huge lead, will most likely be successful. We believe at present, the consumer-to-consumer auction market can support multiple players because the United States and worldwide auction market is still under-developed. By leveraging its customer base, the Company can capture a huge segment of the population as auctioneers naturally will want to sell where the number of buyers are the greatest and buyers will want the widest range of available items.

The Company is richly priced relative to its immediate competitors, but as we have stressed, Amazon.com is evolving into an Internet conglomerate capable of supporting a diverse product mix and is not confined to a few product lines. We believe the addition of the highly profitable referral fees makes the Company attractive relative to the other portal competitors like Yahoo! and America Online.

We believe that Amazon.com's brand name value, along with its customer focus strategy and innovative business model discussed in this report, will help the Company maintain its leading position in the Internet E-Commerce sector. We feel that the current valuation of the stock is reasonable and we expect the stock to appreciate in line with the Internet sector. We thus give Amazon.com an accumulate recommendation as we expect the stock to be a long-term play.

Amazon.com
Statements of Operations

($000, except per share data)	1Q98	2Q98	3Q98	4Q98	FY98	1Q99	2Q99E	3Q99E	4Q99E.	FY99E	1Q00E	2Q00E	3Q00E	4Q00E	FY00E
Net Sales	$87,395	$116,010	$153,698	$252,893	$609,996	$293,643	$323,854	$363,591	$467,906	$1,448,994	$473,085	$508,867	$538,603	$648,039	$2,168,594
Cost of Sales	68,062	89,794	118,823	199,476	476,155	228,852	252,282	279,601	357,948	1,118,684	358,598	381,650	401,259	480,197	1,621,705
Gross Profit	19,333	26,216	34,875	53,417	133,841	64,791	71,572	83,990	109,958	330,310	114,487	127,217	137,344	167,842	546,889
Operating Expenses:															
Marketing and Sales	19,949	27,056	37,517	48,501	133,023	60,744	74,958	85,087	96,141	316,930	98,831	105,106	112,518	129,451	$445,906
Product Development	7,320	8,832	13,374	17,281	46,807	23,477	32,201	34,166	38,312	128,156	39,715	41,856	45,098	51,613	$178,282
General and Admin	2,049	3,315	4,978	5,457	15,799	11,165	14,072	16,451	19,976	61,664	18,889	19,648	20,728	21,906	$81,171
M&A Related Costs	-	5,413	20,512	24,247	50,172	25,309	22,500	22,500	22,500	92,809	22,000	15,000	15,000	15,000	$67,000
Total Operating Expenses:	29,318	44,616	76,381	95,486	245,801	120,695	143,731	158,204	176,929	599,559	179,435	181,610	193,344	217,970	772,359
Loss from Operations:	(9,985)	(18,400)	(41,506)	(42,069)	(111,960)	(55,904)	(72,159)	(74,214)	(66,971)	(269,249)	(64,948)	(54,393)	(56,000)	(50,128)	(225,470)
Interest Income	1,645	3,390	4,754	4,264	14,053	10,925	15,300	14,535	13,808	54,568	13,118	12,462	11,839	11,247	48,666
Interest Expense	(2,029)	(7,569)	(8,419)	(8,622)	(26,639)	(16,688)	(16,867)	(17,045)	(17,226)	(67,826)	(23,343)	(23,533)	(23,727)	(23,925)	(94,527)
Net Interest Income (expense)	(384)	(4,179)	(3,665)	(4,358)	(12,586)	(5,763)	(1,567)	(2,510)	(3,418)	(13,258)	(10,225)	(11,071)	(11,888)	(12,678)	(45,861)
Net Loss	(10,369)	(22,579)	(45,171)	(46,427)	(124,546)	(61,667)	(73,726)	(76,724)	(70,389)	(282,506)	(75,173)	(65,464)	(67,888)	(62,806)	(271,331)
Operating Loss Per Share	-0.07	-0.12	-0.16	-0.14	-0.50	-0.23	-0.32	-0.33	-0.29	-1.17	-0.31	-0.29	-0.30	-0.27	-1.17
Basic and Diluted Loss Per Share	-0.07	-0.15	-0.30	-0.30	-0.84	-0.39	-0.46	-0.47	-0.42	-1.75	-0.44	-0.38	-0.39	-0.35	-1.55
Diluted shares outstanding	141,318	146,277	150,702	154,389	148,172	156,897	160,098	163,107	167,077	161,795	171,055	173,419	175,782	179,146	174,851
Margin Analysis (% of Sales)															
Gross Margin	22.1%	22.6%	22.7%	21.1%	21.9%	22.1%	22.1%	23.1%	23.5%	22.8%	24.2%	25.0%	25.5%	25.9%	25.2%
Sales, Marketing Expense	22.8%	23.3%	24.4%	19.2%	21.8%	20.7%	23.1%	23.4%	20.5%	21.9%	20.9%	20.7%	20.9%	20.0%	20.6%
Product Development	8.4%	7.6%	8.7%	6.8%	7.7%	8.0%	9.9%	9.4%	8.2%	8.8%	8.4%	8.2%	8.4%	8.0%	8.2%
General and Admin	2.3%	2.9%	3.2%	2.2%	2.6%	3.8%	4.3%	4.5%	4.3%	4.3%	4.0%	3.9%	3.8%	3.4%	3.7%
Operating Losses															
Profit (Loss)	-11.9%	-19.5%	-29.4%	-18.4%	-20.4%	-21.0%	-22.8%	-21.1%	-15.0%	-19.5%	-15.9%	-12.9%	-12.6%	-9.7%	-12.5%
Growth (sequential)															
Net Sales (sequential)	32%	33%	32%	65%	-	16%	10%	12%	29%	-	1%	8%	6%	20%	-
Net Sales (yr. over yr.)	446%	316%	306%	283%	313%	236%	179%	137%	85%	138%	61%	57%	48%	38%	50%
Cost of Sales	28%	32%	32%	68%	300%	15%	10%	11%	28%	135%	0%	6%	5%	20%	45%
Gross Profit	50%	36%	33%	53%	364%	21%	10%	17%	31%	147%	4%	11%	8%	22%	66%
Marketing and Sales	18%	36%	39%	29%	229%	25%	23%	14%	13%	138%	3%	6%	7%	15%	41%
Product Development	39%	21%	51%	29%	236%	36%	37%	6%	12%	174%	4%	5%	8%	14%	39%
General and Admin	-2%	62%	50%	10%	125%	105%	26%	17%	21%	290%	-5%	4%	5%	6%	32%
Total Operating Expenses:	21%	52%	71%	25%	300%	26%	19%	10%	12%	144%	1%	1%	6%	13%	29%
Loss from Operations:	-12%	84%	126%	1%	243%	33%	29%	3%	-10%	140%	-3%	-16%	3%	-10%	-16%
Interest Income	110%	106%	40%	-10%	639%	156%	40%	-5%	-5%	288%	-5%	-5%	-5%	-5%	-11%
Net Loss	-4%	118%	100%	3%	302%	33%	20%	4%	-8%	127%	7%	-13%	4%	-7%	-4%
Ending Customers	2260	3280	4500	6200	6200	8000	10400	11800	14000	14000	15300	16700	17200	19000	19000