

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 1998

Commission File No. 000-22513

AMAZON.COM, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF INCORPORATION  
OR ORGANIZATION)

91-1646860  
(I.R.S. EMPLOYER IDENTIFICATION NO.)

1516 SECOND AVENUE  
SEATTLE, WASHINGTON 98101  
(206) 622-2335  
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF  
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:  
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:  
Common Stock, par value \$.01 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Aggregate market value of voting stock held by non-affiliates of the registrant as of February 28, 1999.....	\$11,495,058,788
Number of shares of common stock outstanding as of February 28, 1999.....	161,096,869

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual 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 on May 20, 1999, 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 Annual Report relates.

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AMAZON.COM, INC.

FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 1998

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PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on current expectations, estimates and projections about the Company's industry, management's beliefs and certain assumptions made by management. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward-Looking Statements."

GENERAL

Amazon.com, Inc. ("Amazon.com" or the "Company"), the Internet's number one book, music and video retailer, opened its virtual doors on the Web in July 1995. Amazon.com, one of the most widely known, used and cited commerce sites on the Web, offers more than 4.7 million book, music CD, video, DVD, computer game and other titles. The Company offers its customers a superior shopping experience by providing value and a high level of customer service. Amazon.com is a proven technology leader; it has developed electronic commerce innovations such as 1-Click ordering, personalized shopping services and easy-to-use search and browse features. Shopping at Amazon.com is fast and safe, incorporating a simple ordering system, secure credit card transactions, e-mail communication with customers and direct shipping worldwide.

The Internet is an increasingly significant global medium for online commerce. According to Forrester Research, the total value of goods and services purchased over the Web was \$43 billion in 1998 and is expected to increase to \$1.3 trillion in 2003. Amazon.com believes it is well positioned to capitalize on this growth. According to Media Metrix, approximately 16% of Web users visited Amazon.com's stores in December 1998.

Amazon.com, Amazon.co.uk, Amazon.de, Internet Movie Database, Earth's Biggest Bookstore and 1-Click are either registered trademarks or trademarks of Amazon.com or its affiliates. All other names mentioned herein may be trademarks of their respective owners.

Information contained on the Company's Web sites is not deemed to be a part of this Annual Report on Form 10-K. As used herein, "titles" offered by the Company means the items offered in the Company's catalogs and includes books, CDs, videotapes, audiotapes and other products.

Amazon.com was incorporated in 1994 in the state of Washington and reincorporated in 1996 in Delaware. The Company's principal corporate offices are located in Seattle, Washington. Amazon.com completed its initial public offering in May 1997 and its common stock is listed on the Nasdaq National

Market under the symbol "AMZN."

## BUSINESS STRATEGY

The Company's objective is to become the best place to buy, find and discover any product or service available online. Amazon.com will continue to enhance and broaden its brand, customer base and electronic commerce expertise with the goal of creating customers' preferred online shopping destination, in the United States and around the world.

## AMAZON.COM WEB SITES

The Company believes that the sale of books, music and other products and services over the Web can offer attractive benefits to customers, including greater selection, convenience, ease-of-use, competitive pricing and personalization. Customers entering Amazon.com Web sites can, in addition to ordering books and other products, purchase gift certificates, conduct targeted searches, browse highlighted selections, view bestseller lists and other features, read and post reviews, register for personalized services, participate in promotions and check order status. The key components of Amazon.com's offerings include browsing, searching, reviews and content, recommendations and personalization, 1-Click technology, secure credit

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card payment and availability and fulfillment. The Company's Web sites promote brand loyalty and repeat purchases by providing an inviting experience that encourages customers to return frequently and to interact with other customers.

**Browsing.** The Amazon.com sites offer visitors a variety of highlighted subject areas, styles and special features arranged in a simple, easy-to-use fashion intended to enhance product search and selection. In addition, the Web sites present a variety of products and services and topical information. To enhance the customers' shopping experience and increase sales, the Company features a variety of products and services on a rotating basis throughout the stores.

**Searching.** A primary feature of Amazon.com Web sites is its interactive, searchable catalogs of more than 4.7 million books, music CD, video, DVD, computer game and other titles. The Company provides a selection of search tools to find books, music, video and other products based on keyword, title, subject, author, artist, musical instrument, label, actor, director, publication date or ISBN. Customers can also use more complex and precise search tools such as Boolean search queries. The Company licenses some of its catalog and other information from third parties.

**Reviews and Content.** The Amazon.com stores offer numerous forms of content to enhance the customer's shopping experience and encourage purchases. Various types of content are available for particular titles, including cover art, synopses, annotations, reviews by editorial staff and other customers, and interviews by authors and artists.

**Recommendations and Personalization.** Amazon.com personalizes its product and service offerings. These features include greeting customers by name, instant and personalized recommendations, bestseller and chart-topper listings, personal notification services, purchase pattern filtering and a number of other related features. The Company believes that personalization of a customer's shopping experience at the Company's Web sites is an important element of the value proposition it offers to customers and intends to continue to enhance its personalized services.

**1-Click Technology.** Amazon.com provides customers with a streamlined ordering process using 1-Click technology. If a customer has previously activated 1-Click functionality, a customer can place an order by clicking one button without having to fill out an order form. The customer's shipping and billing information is automatically referenced on the Company's secure server.

Secure Credit Card Payment. Amazon.com utilizes secure server software for secure commerce transactions. It encrypts all of the customer's personal information, including credit card number, name and address, so that it cannot be read as the information travels over the Internet.

Availability and Fulfillment. Many of the Company's products are available for shipment within 24 hours, others are available within two to three days and the remainder are generally available within four to six weeks, although some products may not be available at all. Out-of-print books generally are available in one to three months, although some books may not be available at all. Customers can select from a variety of delivery options, including overnight and various international shipping options, as well as gift-wrapping services. The Company uses e-mail to notify customers of order status under various conditions and provides links to shipping carriers so that the customers can track their shipments. The Company seeks to provide rapid and reliable fulfillment of customer orders and to continue to improve its speed of availability and fulfillment.

Return Policy. Within 30 days following the customer's receipt of their order, Amazon.com will provide a full refund for any book in its original condition, any Amazon.com recommended book in any condition, any unopened music CD, DVD, VHS tape or software, and any other merchandise item in new condition, with its original packaging and accessories.

#### PRODUCTS, SERVICES AND GEOGRAPHIC EXPANSION

Products. The Company has offered books for sale since July 1995. The Company expanded its product offerings beyond books with the June 1998 launch of its music store. In the third quarter of 1998,

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its first full quarter of online music sales, Amazon.com became the number one online music seller. In November 1998, Amazon.com launched its video store and an enhanced holiday gift store, offering a variety of products, including selected personal electronics and toy products. In the fourth quarter of 1998, its first quarter of online video sales, Amazon.com became the number one online video seller. The Company plans to continue to expand its product offerings.

Services. Amazon.com intends to broaden the scope of its business with the goal of becoming customers' preferred destination for online shopping. In August 1998, Amazon.com merged with Sage Enterprises, Inc. ("PlanetAll"), a Web-based address book, calendar and reminder service, and Junglee Corp. ("Junglee"), a leading provider of Web-based virtual database technology, which allows visitors to access a variety of products sold by other merchants. The Company plans to continue to expand its service offerings.

Geographic Expansion. In April 1998, Amazon.com acquired three Internet companies in the United Kingdom and Germany. In October 1998, the Company re-launched two of these businesses under the Amazon brand. The Company incorporated Amazon.com's technology and look-and-feel into the European sites, www.amazon.co.uk and www.amazon.de. During the fourth quarter of 1998, combined sales on the European sites significantly increased over the third quarter, establishing Amazon.com as the number one online bookseller in these markets. For discussion of segment and geographic information, see Note 1 of Notes to Consolidated Financial Statements.

#### MARKETING AND PROMOTION

Amazon.com's marketing strategy is designed to strengthen the Amazon brand name, increase customer traffic to the Amazon.com Web sites, build customer loyalty, encourage repeat purchases and develop incremental product and service revenue opportunities.

Amazon.com creatively applies technology to deliver personalized programs

and services, as well as flexible merchandising. The Company employs a variety of media, business development and promotional methods to achieve these goals. The Company also benefits from public relations activities as well as online and traditional advertising, including radio, television and print media.

Associates Program. The Company extends its market presence through its Associates Program, which enables associated Web sites to make products available to their audiences with order fulfillment by Amazon.com. Approximately 200,000 Web sites have enrolled in the Associates Program. Amazon.com associates include Yahoo! Inc. ("Yahoo!"), American Online, Inc. ("AOL"), Excite, Inc., Netscape Communications Corporation, GeoCities, Microsoft Corporation and AltaVista Company.

Advantage for Books and Music. The Advantage program is designed to increase the visibility and sales of titles from independent publishers, authors, artists and labels. This free program provides the tools and framework to ensure their books and music appear more often, more prominently, and with 24-hour availability throughout Amazon.com's catalogs of book, music and other titles.

#### CUSTOMER SERVICE

The Company believes that its ability to establish and maintain long-term relationships with its customers and to encourage repeat visits and purchases depends, in part, on the strength of its customer support and service operations and staff. Furthermore, the Company seeks to achieve frequent communication with and feedback from its customers to continually improve the Amazon.com stores and services. The Company offers a number of e-mail addresses to enable customers to request information and to encourage feedback and suggestions. Users can also contact customer service representatives via telephone 24 hours a day, 7 days a week. The Company has automated certain of the tools used by its customer support and service staff and has plans for further enhancements.

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#### WAREHOUSING, FULFILLMENT AND DISTRIBUTION

The Company sources products from a network of distributors, publishers, labels and manufacturers. Although the Company carries its own inventory (some of which is purchased directly from manufacturers), it also relies on rapid fulfillment from major distributors and wholesalers that carry a broad selection of titles. The Company purchases a majority of its products from Ingram Book Group ("Ingram"), Baker & Taylor, Inc. ("B&T") and Valley Media, Inc. ("Valley Media"). Ingram is the Company's single largest supplier and accounted for approximately 40% and approximately 60% of the Company's inventory purchases in 1998 and 1997, respectively.

The Company utilizes automated interfaces for sorting and organizing its orders to enable it to achieve rapid and economic purchase and delivery terms. For orders that cannot be filled from the Company's inventory, the Company's proprietary software selects the orders that can be filled via electronic interfaces with vendors and forwards the remaining orders to its special orders group. Under the Company's arrangements with distributors, electronically ordered books often are shipped to the Company by the distributor within hours of a receipt of an order from Amazon.com. The Company has developed customized information systems and trained dedicated ordering personnel who specialize in sourcing out-of-print books and other hard-to-find products.

The Company intends to continue developing its distribution infrastructure to increase efficiency and to support greater customer demand. For example, in December 1998, Amazon.com leased a highly mechanized distribution facility in Fernley, Nevada. The new facility, which is expected to begin operations in 1999, should reduce standard shipping times to key markets in the western United States. The facility will allow the Company to increase significantly the number of products maintained in inventory for rapid shipment to customers.

## TECHNOLOGY

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

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

Systems administrators and network managers monitor and operate the Company's Web sites, network operations and transaction-processing systems. The continued uninterrupted operation of the Company's Web sites and transaction-processing systems is essential to its business and it is the job of the site operations staff to ensure their reliability. The Company uses the services of five Internet service providers to obtain connectivity to the Internet, both domestically and internationally, over multiple dedicated lines.

## COMPETITION

The online commerce market, particularly over the Web, is new, rapidly evolving and intensely competitive. In addition, the retail book, music and video industries are intensely competitive. The Company's current or potential competitors include (1) online booksellers and vendors of other products such as CDs, videotapes and DVDs, (2) a number of indirect competitors, including Web portals and

Web search engines such as Yahoo! and AOL, that are involved in online commerce either directly or in collaboration with other retailers, (3) publishers, distributors and retail vendors of books, music, video and other products, including Barnes & Noble, Inc. ("Barnes & Noble"), Bertelsmann AG ("Bertelsmann") and other large specialty booksellers and media corporations, many of which possess significant brand awareness, sales volume and customer bases, and (4) traditional retailers who currently sell, or who may sell, products or services through the Internet. The Company believes that the principal competitive factors in its market are brand recognition, selection, personalized services, convenience, price, accessibility, customer service, quality of search tools, quality of editorial and other site content, and reliability and speed of fulfillment.

As the online commerce market continues to grow, other companies may enter into business combinations or alliances that strengthen their competitive positions. For example, in late 1998, (1) Bertelsmann announced that it purchased a 50% interest in Barnes & Noble's online venture, barnesandnoble.com inc., and intends to launch online stores in several countries, (2) Barnes & Noble announced its pending acquisition of Ingram, currently the Company's largest single supplier, and (3) online music retailers CDnow, Inc. and N2K Inc. announced a merger. The Company may not be able to compete successfully against these and future competitors.

## INTELLECTUAL PROPERTY

The Company regards its patents, copyrights, service marks, trademarks,

trade dress, trade secrets, proprietary technology and similar intellectual property as critical to its success, and relies on trademark, copyright and patent law, trade secret protection and confidentiality and/or license agreements with its employees, customers, partners and others to protect its proprietary rights. The Company has applied for the registration of certain of its trademarks and service marks in the United States and internationally. In addition, the Company has filed U.S. and international patent applications covering certain of its proprietary technology. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which the Company's products and services are made available online. The Company has licensed in the past, and expects that it may license in the future, certain of its proprietary rights, such as trademarks, technology or copyrighted material, to third parties.

#### EMPLOYEES

As of December 31, 1998, the Company employed approximately 2,100 employees. The Company also employs independent contractors. None of the Company's employees are represented by a labor union, and the Company considers its employee relations to be good. Competition for qualified personnel in the Company's industry is intense, particularly for software development and other technical staff. The Company believes that its future success will depend in part on its continued ability to attract, hire and retain qualified personnel.

#### ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

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

We have a limited operating history. We incorporated in July 1994 and began offering products for sale on our Web site in July 1995. Accordingly, we have a relatively short operating history upon which you can evaluate our business and prospects. You should consider our prospects in light of the risks, expenses and difficulties frequently encountered by early stage online commerce companies. As an early-stage online commerce company, we have an evolving and unpredictable business model, we face intense competition, we must effectively manage our growth and we must respond quickly to rapid changes in customer demands and industry standards. We may not succeed in addressing these challenges and risks.

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We have an accumulated deficit and anticipate further losses. We have incurred significant losses since we began doing business. As of December 31, 1998, we had an accumulated deficit of \$162.1 million. To succeed we must invest heavily in marketing and promotion and in developing our product, technology and operating infrastructure. In addition, the expenses associated with our recent acquisitions and interest expense related to the February 1999 issuance of our 4 3/4% Convertible Subordinated Notes due 2009 (the "Convertible Notes") and the May 1998 issuance of our 10% Senior Discount Notes due 2008 (the "Senior Discount Notes") will adversely affect our operating results. Our aggressive pricing programs have resulted in relatively low product gross margins, so we need to generate and sustain substantially higher revenues in order to become profitable. Although our revenues have grown, we cannot sustain our current rate of growth. Our percentage growth rate will decrease in the future. For these reasons we believe that we will continue to incur substantial operating losses for the foreseeable future, and these losses may be significantly higher than our current losses.

Unpredictability of future revenues; potential fluctuations in quarterly operating results; seasonality. Due to our limited operating history and the unpredictability of our industry, we cannot accurately forecast our revenues. We

base our current and future expense levels on our investment plans and estimates of future revenues. Our expenses are to a large extent fixed. We may not be able to adjust our spending quickly if our revenues fall short of our expectations. Further, we may make pricing, purchasing, service, marketing, acquisition or financing decisions that could adversely affect our business results.

Our quarterly operating results will fluctuate for many reasons, including:

- our ability to retain existing customers, attract new customers and satisfy our customers' demand,
- our ability to acquire merchandise, manage our inventory and fulfill orders,
- changes in gross margins of our current and future products, services and markets,
- introduction of our new sites, services and products or those of competitors,
- changes in usage of the Internet and online services and consumer acceptance of the Internet and online commerce,
- timing of upgrades and developments in our systems and infrastructure,
- the level of traffic on our Web sites,
- the effects of acquisitions and other business combinations, and related integration,
- technical difficulties, system downtime or Internet brownouts,
- introductions of popular books, music selections and other products or services,
- our level of merchandise returns, and
- disruptions in service by common shipping carriers due to strikes or otherwise.

Both seasonal fluctuations in Internet usage and traditional retail seasonality may affect our business. Internet usage generally declines during the summer. Sales in the traditional retail book and music industries usually increase significantly in the fourth calendar quarter of each year.

For those reasons, you should not rely on period-to-period comparisons of our financial results to forecast our future performance. Our future operating results may fall below the expectations of securities analysts or investors, which would likely cause the trading price of our common stock to decline.

Intense competition. The online commerce market is new, rapidly evolving and intensely competitive. In addition, the retail book, music and video industries are intensely competitive. Our current or potential competitors include (1) online booksellers and vendors of other products such as CDs, videotapes and DVDs, (2) a number of indirect competitors, including Web portals and Web search engines, such as Yahoo! and AOL, that are involved in online commerce either directly or in collaboration with other retailers, (3) publishers, distributors and retail vendors of books, music, video and other products, including Barnes & Noble, Bertelsmann and other large specialty booksellers and media corporations, many of which possess significant brand awareness, sales volume and customer bases, and (4) traditional

retailers who currently sell, or who may sell, products or services through the Internet. We believe that the principal competitive factors in our market are

brand recognition, selection, personalized services, convenience, price, accessibility, customer service, quality of search tools, quality of editorial and other site content, and reliability and speed of fulfillment.

Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have. They may be able to secure merchandise from vendors on more favorable terms and may be able to adopt more aggressive pricing or inventory policies. They also can devote more resources to technology development and marketing than we can. We also expect to experience increased competition from online commerce sites that provide goods and services at or near cost, relying on advertising revenues to achieve profitability.

As the online commerce market continues to grow, other companies may enter into business combinations or alliances that strengthen their competitive positions. For example, in late 1998, (1) Bertelsmann announced that it purchased a 50% interest in Barnes & Noble's online venture, barnesandnoble.com inc., and intends to launch online stores in several countries, (2) Barnes & Noble announced its pending acquisition of Ingram, currently our largest single supplier, and (3) online music retailers CDnow, Inc. and N2K Inc. announced a merger. We may not be able to compete successfully against these and future competitors.

Competition in the Internet and online commerce markets probably will intensify. As various Internet market segments obtain large, loyal customer bases, participants in those segments may use their market power to expand into the markets in which we operate. In addition, new and expanded Web technologies may increase the competitive pressures on online retailers. For example, "shopping agent" technologies permit customers to quickly compare our prices with those of our competitors. This increased competition may reduce our operating margins, diminish our market share or impair the value of our brand.

Risks of system interruption. Customers' access to our Web sites directly affects the volume of orders we fulfill and thus affects our revenues. We experience occasional system interruptions that make our Web sites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. These interruptions will continue. We need to add additional software and hardware and upgrade our systems and network infrastructure to accommodate increased traffic on our Web sites and increased sales volume. Without these upgrades, we face additional system interruptions, slower response times, diminished customer service, impaired quality and speed of order fulfillment, and delays in our financial reporting. We cannot accurately project the rate or timing of any increases in traffic or sales volume on our Web sites and, therefore, the integration and timing of these upgrades are uncertain.

We maintain substantially all of our computer and communications hardware at a single leased facility in Seattle, Washington. Our systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, break-ins, earthquake and similar events. We do not have backup systems or a formal disaster recovery plan and we may not have sufficient business interruption insurance to compensate us for losses from a major interruption. Computer viruses, physical or electronic break-ins and similar disruptions could cause system interruptions, delays, and loss of critical data and could prevent us from providing services and accepting and fulfilling customer orders.

We may have difficulty managing our growth. We have rapidly and significantly expanded our operations and will further expand our operations to address potential growth of our product and service offerings and customer base. We will expand our product and service offerings and our international operations and will pursue other market opportunities. We need to significantly expand our distribution center network and improve our transaction-processing, operational and financial systems, procedures and controls. This expansion will continue to place a significant strain on our management, operational facilities and financial resources. Because it is difficult to predict sales increases, and lead times for developing distribution centers are long, we may over-expand our facilities, which may result in excess inventory, warehousing, fulfillment and

distribution capacity. We also need to expand, train and manage our

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employee base. Our current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage our future operations. We may not be able to hire, train, retain, motivate and manage required personnel or to successfully identify, manage and exploit market opportunities, which may limit our growth.

Risk of entering new business areas. We intend to expand our operations by promoting new or complementary products, services or sales formats and by expanding our product or service offerings. This will require significant additional expense and could strain our management, financial and operational resources. We cannot expect to benefit in these new markets from the first-to-market advantage that we experienced in the online book market. Our gross margins in these new business areas may be lower than our existing business activities. We may not be able to expand our operations in a cost-effective or timely manner. Any new business that our customers do not receive favorably could damage our reputation and the Amazon brand.

Risk of international expansion. We plan to expand our presence in foreign markets. We have relatively little experience in purchasing, marketing and distributing products or services for these markets and may not benefit from any first-to-market advantages. It will be costly to establish international facilities and operations, promote our brand internationally, and develop localized Web sites and stores and other systems. We may not succeed in our efforts in these countries. If revenues from international activities do not offset the expense of establishing and maintaining foreign operations, our business, prospects, financial condition and operating results will suffer.

As the international online commerce market continues to grow, competition in this market will likely intensify. In addition, governments in foreign jurisdictions may regulate Internet or other online services in such areas as content, privacy, network security, encryption or distribution. This may affect our ability to conduct business internationally.

Risks of business combinations and strategic alliances. We may expand our operations or market presence by entering into business combinations, investments, joint ventures or other strategic alliances with other companies. These transactions create risks such as:

- difficulty assimilating the operations, technology and personnel of the combined companies,
- disruption of our ongoing business,
- problems retaining key technical and managerial personnel,
- expenses associated with amortization of goodwill and other purchased intangible assets,
- additional operating losses and expenses of acquired businesses, and
- impairment of relationships with existing employees, customers and business partners.

We may not succeed in addressing these risks. In addition, the businesses we acquired in 1998 are incurring operating losses.

Rapid technological change. Technology in the online commerce industry changes rapidly. Customer functionality requirements and preferences also change. Competitors often introduce new products and services with new technologies. These changes and the emergence of new industry standards and practices could render our existing Web sites and proprietary technology obsolete. To succeed, we must enhance Web site responsiveness, functionality and features, acquire and license leading technologies, enhance our existing

services, develop new services and technology and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. We may not be able to adapt quickly enough to changing customer requirements and industry standards.

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

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We rely on a small number of suppliers. We purchase a majority of our products from three major vendors, Ingram, B&T and Valley Media. In late 1998, Barnes & Noble, one of our largest competitors, announced an agreement to purchase Ingram. Ingram is our single largest supplier and supplied approximately 40% of our inventory purchases in 1998 and approximately 60% of our inventory purchases in 1997. Although we increased our direct purchasing from manufacturers during 1998, we continue to purchase a majority of our products from these three suppliers. We do not have long-term contracts or arrangements with most of our vendors to guarantee the availability of merchandise, particular payment terms or the extension of credit limits. Our current vendors may stop selling merchandise to us on acceptable terms. We may not be able to acquire merchandise from other suppliers in a timely and efficient manner and on acceptable terms.

We are highly leveraged. We have significant indebtedness. As of December 31, 1998, we were indebted under our Senior Discount Notes, capitalized lease obligations and other asset financing. With the sale of the Convertible Notes in February 1999, we incurred \$1.25 billion of additional indebtedness. We may incur substantial additional debt in the future. Our indebtedness could:

- make it difficult to make principal and interest payments on the Senior Discount Notes and the Convertible Notes,
- make it difficult to obtain necessary financing for working capital, capital expenditures, debt service requirements or other purposes,
- limit our flexibility in planning for, or reacting to, changes in our business and competition, and
- make it more difficult for us to react in the event of an economic downturn.

We may not be able to meet our debt service obligations. If our cash flow is inadequate to meet our obligations, we may face substantial liquidity problems. If we are unable to generate sufficient cash flow or obtain funds for required payments, or if we fail to comply with other covenants in our indebtedness, we will be in default. This would permit our creditors to accelerate the maturity of our indebtedness.

Risks associated with domain names. We hold rights to various Web domain names, including "Amazon.com," "Amazon.co.uk" and "Amazon.de." Governmental agencies typically regulate domain names. These regulations are subject to change. We may not be able to acquire or maintain appropriate domain names in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or diminish the value of our trademarks and other proprietary rights.

Governmental regulation and legal uncertainties. At this time, we face general business regulations and laws or regulations regarding taxation and access to online commerce. For example, expanding our distribution center

network may result in additional sales and other tax obligations. Regulatory authorities may adopt specific laws and regulations governing the Internet or online commerce. These regulations may cover taxation, user privacy, pricing, content, copyrights, distribution and characteristics and quality of products and services. Changes in consumer protection laws also may impose additional burdens on companies conducting business online. These laws or regulations may impede the growth of the Internet or other online services. This could, in turn, diminish the demand for our products and services and increase our cost of doing business. Moreover, it is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the Internet and online commerce. Unfavorable resolution of these issues may harm our business.

Risks of uncertain protection of intellectual property. Third parties that license our proprietary rights, such as trademarks, patented technology or copyrighted material, may take actions that diminish the value of our proprietary rights or reputation. In addition, the steps we take to protect our proprietary rights may not be adequate and third parties may infringe or misappropriate our copyrights, trademarks, trade dress, patents and similar proprietary rights. Other parties may claim that we infringed their proprietary rights. We have been subject to claims, and expect to be subject to legal proceedings and claims, regarding alleged infringement by us and our licensees of the trademarks and other intellectual property rights of

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third parties. Such claims, even if not meritorious, may result in the expenditure of significant financial and managerial resources.

Risks of Year 2000 non-compliance. We have developed a plan to modify our information technology to recognize the year 2000 and have begun converting our critical data processing systems. We have initiated formal communications with our significant suppliers and service providers to determine the extent to which our systems may be vulnerable if they fail to address and correct their own Year 2000 issues. We cannot guarantee that the systems of suppliers or other companies on which we rely will be Year 2000 compliant. Their failure to convert their systems could disrupt our systems. In addition, the computer systems necessary to maintain the viability of the Internet or any of the Web sites that direct consumers to our online stores may not be Year 2000 compliant. Finally, computers used by our customers to access our online stores may not be Year 2000 compliant, delaying our customers' purchases of our products. We are in the process of developing a formal contingency plan. We cannot guarantee that our systems will be Year 2000 compliant or that the Year 2000 problem will not adversely affect our business, which includes limiting or precluding customer purchases.

Our stock price is highly volatile. The trading price of our common stock fluctuates significantly. For example, during the 52-week period ended February 28, 1999 (as adjusted for our 2-for-1 split of our common stock effected June 1, 1998 and 3-for-1 split of our common stock effected January 4, 1999), the reported closing price of the common stock on the Nasdaq National Market was as high as \$184 5/8 and as low as \$9 1/2 per share. Trading prices of our common stock may fluctuate in response to a number of events and factors, such as:

- quarterly variations in operating results,
- announcements of innovations,
- new products, services and strategic developments by us or our competitors,
- business combinations and investments by us or our competitors,
- changes in our operating expense levels or losses,
- changes in financial estimates and recommendations by securities

analysts,

- performance by other online commerce companies, and
- news reports relating to trends in the Internet, book, music, video or other product or service industries.

Any of these events may cause our stock price to fall, which may adversely affect our business and financing opportunities. In addition, the stock market in general and the market prices for Internet-related companies in particular have experienced significant volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the trading price of the common stock, regardless of our operating performance.

EXECUTIVE OFFICERS AND DIRECTORS

The following tables set forth certain information regarding the executive officers and Directors of the Company as of February 28, 1999:

EXECUTIVE OFFICERS

NAME ----	AGE ---	POSITION -----
Jeffrey P. Bezos.....	35	President, Chief Executive Officer and Chairman of the Board
Joy D. Covey.....	35	Chief Financial Officer and Vice President of Finance and Administration
Richard L. Dalzell.....	41	Vice President and Chief Information Officer
Sheldon J. Kaphan.....	46	Vice President and Chief Technology Officer
John D. Risher.....	33	Senior Vice President of Product Development
Kavitark R. Shriram.....	42	Vice President of Business Development
Jimmy M. Wright.....	45	Vice President and Chief Logistics Officer

JEFFREY P. BEZOS. Mr. Bezos has been President and Chairman of the Board of the Company since founding it in 1994, and Chief Executive Officer since May 1996, and served as Treasurer and Secretary from May 1996 to March 1997. From December 1990 to June 1994, Mr. Bezos was employed by D.E. Shaw & Co., a Wall Street investment firm, becoming Senior Vice President in 1992. From April 1988 to December 1990, Mr. Bezos was employed by Bankers Trust Company, becoming Vice President in February 1990. Mr. Bezos received his B.S. in Electrical Engineering and Computer Science, Summa Cum Laude, from Princeton University.

JOY D. COVEY. Ms. Covey joined the Company in December 1996 as Chief Financial Officer and Vice President of Finance and Administration, and served as Secretary from March 1997 to February 1999. Ms. Covey also served as Treasurer of the Company from March 1997 to February 1998. From June 1995 to February 1996, Ms. Covey served as Vice President, Operations of the Broadcast Division of Avid Technology, Inc. ("Avid"), a developer of digital media systems, and from January 1995 to June 1995, Ms. Covey served as Vice President of Business Development for Avid. From July 1991 to January 1995, Ms. Covey served as Chief Financial Officer of Digidesign, Inc., a developer of random access digital audio systems and software. Prior to that, she was an associate at Wasserstein Perella & Co., and a certified public accountant at Ernst & Young LLP. Ms. Covey received her B.S. in Business Administration, Summa Cum Laude, from California State University, Fresno, her M.B.A., With High Distinction, from Harvard Business School and her J.D., Magna Cum Laude, from Harvard Law School. She is a Certified Public Accountant and a member of the California State Bar.

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

SHELDON J. KAPHAN. Mr. Kaphan has served as the Company's Vice President and Chief Technology Officer since March 1997. From October 1994 to March 1997, Mr. Kaphan served as Vice President of Research and Development of the Company. From October 1992 to July 1994, Mr. Kaphan served as senior engineer at Kaleida Labs Inc., a multimedia joint venture between Apple Computer Inc. and International Business Machines Corporation. Mr. Kaphan received his B.A. in Mathematics from the University of California, Santa Cruz.

JOHN D. RISHER. Mr. Risher joined the Company in February 1997 as Vice President of Product Development. Mr. Risher was promoted to Senior Vice President of Product Development in November

1997. From July 1991 to February 1997, Mr. Risher held a variety of marketing and project management positions at Microsoft Corporation, including Team Manager for Microsoft Access and Founder and Product Unit Manager for MS Investor, Microsoft's Web site for personal investment. Mr. Risher received his B.A. in Comparative Literature, Magna Cum Laude, from Princeton University and his M.B.A. from Harvard Business School.

KAVITARK R. SHRIRAM. Mr. Shriram joined the Company in August 1998 and was named Vice President of Business Development in October 1998. From May 1998 to August 1998, Mr. Shriram served as President and Chief Operating Officer of Junglee Corp. From November 1994 to July 1997, Mr. Shriram held several positions at Netscape Communications Corporation, most recently Vice President of OEM and WebSite Sales. From 1990 to 1994, Mr. Shriram served as director of global channel sales at Network Computing Devices, Inc. Mr. Shriram holds a B.S. from the University of Madras, India and an M.B.A. from the University of Michigan.

JIMMY M. WRIGHT. Mr. Wright joined the Company in July 1998 as Vice President and Chief Logistics Officer. From 1985 to 1998, Mr. Wright held a variety of logistics management positions with Wal-Mart Stores, Inc., most recently as Vice President of Distribution. Additionally, during 1998, Mr. Wright served as managing partner of Diversified Retail Solutions, L.L.C., a retail consulting firm. From 1972 to 1985, Mr. Wright held a variety of positions at Fina Oil and Chemical Company, a branch of Petrofina S.A. based in Brussels, most recently as General Manager of Distribution. Mr. Wright received his B.B.A. in personnel management from the University of Texas.

BOARD OF DIRECTORS

NAME ----	AGE ---	
Jeffrey P. Bezos.....	35	Chairman of the Board, President and Chief Executive Officer of the Company
Tom A. Alberg.....	59	Principal in Madrona Investment Group, L.L.C.
Scott D. Cook.....	46	Founder and Chairman of the Executive Committee of Intuit, Inc.
L. John Doerr.....	47	General Partner, Kleiner Perkins Caufield & Byers
Patricia Q. Stonesifer.....	42	Chairman of the Gates Learning Foundation

## ITEM 2. PROPERTIES

The Company's principal office facilities located in the United States currently total approximately 150,000 square feet and are located in Seattle, Washington under leases that expire in June 1999 through April 2003. The Company also recently leased an office building of approximately 184,000 square feet in Seattle, Washington under a lease that expires in 2009. The Company will occupy the office building in 1999. The Company's warehousing and fulfillment operations are housed in an approximately 93,000-square-foot facility in Seattle, Washington under a lease that expires in October 1999, and in an approximately 200,000-square-foot facility located in New Castle, Delaware under a lease that expires in October 2002. In December 1998, the Company leased an approximately 323,000-square-foot distribution facility in Fernley, Nevada under a lease that expires in 2009. The facility is expected to begin operations in 1999.

The Company has additional properties in Europe. The German subsidiary's headquarters and distribution center, located in Regensburg, Germany, total approximately 32,000 square feet, under leases that expire in December 1999 and 2000. The editorial and marketing offices in Germany are approximately 9,000 square feet and are located in Munich under a lease that expires in 2001. The headquarter offices and distribution center of the U.K. subsidiary total approximately 41,000 square feet and are located in Slough, England under a lease that expires in 2008.

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The Company does not own any real estate as of December 31, 1998. Additionally, the Company anticipates that it will require additional office space within the next 12 months. There can be no assurance that suitable additional space will be available on commercially reasonable terms.

The Company intends to establish one or more additional distribution centers within the next 12 months, which would require it to commit to lease obligations, stock inventories, purchase fixed assets, hire and train employees and install leasehold improvements. In addition, the Company has announced plans to continue developing distribution infrastructure to increase efficiency and support greater customer demand, as well as to increase its inventory to provide better availability to customers and achieve purchasing efficiencies.

## ITEM 3. LEGAL PROCEEDINGS

Intimate Bookshop. In August 1998, The Intimate Bookshop and Wallace Kuralt filed a lawsuit in the United States District Court for the Southern District of New York against the Company, Barnes & Noble, Borders Group, Inc. and others alleging antitrust, unfair competition and related claims under the Robinson-Patman Act, the Clayton Act, the Donnelly Act and certain New York state statutes and common law. The complaint was thereafter amended to drop the class action allegations and certain claims. A claim for unfair competition was added. The plaintiffs requested the following relief: actual damages of approximately \$11.25 million, treble damages, injunctive relief, punitive damages, pre- and postjudgment interest, attorneys' fees and costs. Amazon.com understands that the plaintiffs filed a voluntary dismissal of this action, with prejudice, on March 4, 1999.

Wal-Mart Stores, Inc. In October 1998, Wal-Mart Stores, Inc. ("Wal-Mart") filed a lawsuit in Bentonville, Arkansas against the Company and other defendants alleging actual and threatened misappropriation of trade secrets and ancillary common-law claims. Wal-Mart subsequently requested a temporary restraining order preventing the defendants from misappropriating Wal-Mart's alleged trade secrets, from placing employees in positions in which they would "inevitably disclose" Wal-Mart's alleged trade secrets and from soliciting,

inducing or recruiting Wal-Mart employees. In January 1999, Wal-Mart filed an identical action in Seattle, Washington, and the Arkansas court dismissed Wal-Mart's action on jurisdictional grounds before deciding the temporary restraining order. The dismissal is pending appeal. Wal-Mart has advised the Company that it will file a preliminary injunction motion. In addition to injunctive relief, Wal-Mart has requested compensatory damages, pre- and postjudgment interest and attorneys' fees and costs. The Company believes that Wal-Mart's claims are without merit and intends to vigorously defend against the plaintiffs' claims. Amazon.com has filed a counterclaim based in part on unfair competition and intentional interference. Litigation is inherently uncertain, and there can be no assurance that the Company will prevail in the lawsuit.

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 and other intellectual property rights. The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, prospects, financial condition and operating results.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted for a vote of stockholders of the Company during the fourth quarter of the year ended December 31, 1998.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market Information

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

	HIGH -----	LOW -----
Year ended December 31, 1997		
Second Quarter (from May 15).....	\$ 3.92	\$ 2.79
Third Quarter.....	9.25	3.03
Fourth Quarter.....	10.78	7.25
Year ended December 31, 1998		
First Quarter.....	14.31	8.52
Second Quarter.....	33.27	13.50
Third Quarter.....	46.50	24.33
Fourth Quarter.....	117.31	28.73

The prices in this table have been adjusted to reflect the 2-for-1 stock split effected June 1, 1998 and the 3-for-1 stock split effected January 4, 1999.

Holders

As of February 28, 1999 there were 2,304 stockholders of record of the common stock, although there are a larger number of beneficial owners.

Dividends

The Company has never declared or paid cash dividends on its common stock. The Company intends to retain all future earnings to finance future growth and, therefore, does not anticipate paying any cash dividends in the foreseeable future. In addition, the Company is restricted from paying cash dividends under the Senior Discount Notes.

Changes in Securities

None.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto and the information contained herein in Item 7, "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,				PERIOD FROM
	1998	1997	1996	1995	JULY 5, 1994 (INCEPTION) TO DECEMBER 31, 1994
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA (1):					
Net sales.....	\$ 609,996	\$147,787	\$ 15,746	\$ 511	\$ --
Cost of sales.....	476,155	118,969	12,287	409	--
Gross profit.....	133,841	28,818	3,459	102	--
Operating expenses:					
Marketing and sales.....	133,023	40,486	6,090	200	--
Product development.....	46,807	13,916	2,401	171	38
General and administrative.....	15,799	7,011	1,411	35	14
Merger and acquisition related costs, including amortization of goodwill and other purchased intangibles.....	50,172	--	--	--	--
Total operating expenses.....	245,801	61,413	9,902	406	52
Loss from operations.....	(111,960)	(32,595)	(6,443)	(304)	(52)
Interest income.....	14,053	1,901	202	1	--
Interest expense.....	(26,639)	(326)	(5)	--	--
Net interest income (expense).....	(12,586)	1,575	197	1	--
Net loss.....	\$ (124,546)	\$ (31,020)	\$ (6,246)	\$ (303)	\$ (52)
Basic and diluted loss per share (2).....	\$ (0.84)	\$ (0.24)	\$ (0.06)	\$ (0.00)	\$ (0.00)
Shares used in computation of basic and diluted loss per share (2).....	148,172	130,341	111,271	86,364	79,146

	DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS)				
BALANCE SHEET DATA (1):					
Cash.....	\$ 25,561	\$ 1,876	\$ 864	\$ 804	\$ 52
Marketable securities.....	347,884	123,499	5,425	192	--

Working capital (deficiency).....	262,679	93,158	1,698	920	(16)
Total assets.....	648,460	149,844	8,434	1,084	76
Long-term debt.....	348,140	76,702	--	--	--
Stockholders' equity.....	138,745	28,591	2,943	977	8

(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 8 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 made in this Annual Report on Form 10-K are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are 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. The following discussion and the section entitled "Business -- Additional Factors That May Affect Future Results" describes some, but not all, of the factors that could cause these differences.

RESULTS OF OPERATIONS

Net Sales

	1998	% CHANGE	1997	% CHANGE	1996
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
Net sales.....	\$609,996	313%	\$147,787	839%	\$15,746

Net sales are composed of the selling price of books, music and other products and services sold by the Company, net of returns, as well as outbound shipping and handling charges. Growth in net sales in 1998 and 1997 reflects a significant increase in units sold due to the growth of the Company's customer base and repeat purchases from the Company's existing customers. The Company had approximately 6.2 million and 1.5 million cumulative customer accounts as of December 31, 1998 and 1997, respectively. Repeat customer orders accounted for over 60% of orders placed on the Amazon.com Web site during the fiscal year ended December 31, 1998. Additionally, the increase in net sales in 1998 was partially due to the opening of the music store in June 1998, the United Kingdom and German stores in October 1998 and the video store in November 1998.

International sales, including export sales from the United States, represented approximately 20%, 25% and 33% of net sales for the years ended December 31, 1998, 1997 and 1996, respectively. Although there can be no assurances, the Company does not expect the introduction of the Euro resulting from the European Monetary Union to significantly impact our competitive position or operations.

## Gross Profit

	1998	% CHANGE	1997	% CHANGE	1996
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
Gross profit.....	\$133,841	364%	\$28,818	733%	\$3,459
Gross margin.....	21.9%		19.5%		22.0%

Gross profit consists of sales less the cost of sales, which consists of the cost of merchandise sold to customers, as well as outbound and inbound shipping costs. Gross profit increased in 1998 and 1997 in absolute dollars, reflecting the Company's increased sales volume. Gross margin increased in 1998 as a result of improvements in product costs through improved supply chain management, including increased direct purchasing from publishers, which together more than offset the impact of aggressive product pricing and lower music and video margins. Gross margin decreased in 1997 due to a combination of lower prices and lower overall shipping margins, partially offset by improvements in product cost.

The Company believes that offering its customers attractive prices is an essential component of its business strategy. Accordingly, the Company offers everyday discounts of up to 40% on hundreds of

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thousands of titles and certain "special value" editions discounted up to 85%. The Company may in the future expand or increase the discounts it offers to its customers and may otherwise alter its pricing structure and policies.

The Company over time intends to expand its operations by promoting new or complementary products or sales formats and by expanding the breadth and depth of its product and service offerings. Gross margins attributable to new business areas may be lower than those associated with the Company's existing business activities. In particular, in June 1998 the Company launched its new music store and in November 1998 launched a video store. Music and video gross margins are lower than book gross margins. To the extent music and video become a larger portion of the Company's product mix, it is expected to have a proportionate impact on overall product gross margin.

## Marketing and Sales

	1998	% CHANGE	1997	% CHANGE	1996
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
Marketing and sales.....	\$133,023	229%	\$40,486	565%	\$6,090
Percentage of net sales.....	21.8%		27.4%		38.7%

Marketing and sales expenses consist primarily of advertising, promotional and public relations expenditures, as well as payroll and related expenses for personnel engaged in marketing, selling and fulfillment activities. All fulfillment costs not included in cost of sales, including the cost of operating and staffing distribution centers and customer service, are included in marketing and sales. The Company expects its costs of fulfillment to increase based primarily on anticipated sales growth and its planned distribution network expansion. Marketing and sales expenses increased in 1998 and 1997 primarily due to increases in the Company's advertising and promotional expenditures, increased payroll and related costs associated with fulfilling customer demand and increased credit card fees resulting from higher sales. The increase in 1998

was also attributable to the entry into music and video sales and the launch of new stores in Germany and the United Kingdom. Marketing and sales expenses decreased as a percentage of net sales due to the significant increase in net sales. The Company intends to continue to pursue its aggressive branding and marketing campaign, which includes radio, television and print advertising and significant expenditures for online promotion and advertising relationships. In addition, the Company intends to increase investments in marketing, promotion and fulfillment activities related to its product, service and international expansion. As a result of the foregoing, the Company expects marketing and sales expenses to increase significantly in absolute dollars.

#### Product Development

	1998 -----	% CHANGE -----	1997 -----	% CHANGE -----	1996 -----
	(IN THOUSANDS)				
Product development.....	\$46,807	236%	\$13,916	480%	\$2,401
Percentage of net sales.....	7.7%		9.4%		15.2%

Product development 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 product development expenses in 1998 and 1997 were primarily attributable to increased staffing and costs related to continual feature, content and functionality enhancements to the Company's Web sites and transaction-processing systems, as well as increased investment in systems and telecommunications infrastructure. Such increases in 1998 included investments associated with the entry into music and video sales, the launch of an enhanced holiday gift store, new stores in Germany and the United Kingdom and operating expenses associated with the acquired entities. Product development expenses decreased as a percentage of net sales due to the significant increase in net sales. To date, product development costs have been expensed as incurred. The Company believes that continued investment in product development is critical to attaining its strategic objectives. In addition to ongoing investments in its Web stores and infrastructure,

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the Company intends to increase investments in products, services and international expansion. As a result, the Company expects product development expenses to increase significantly in absolute dollars.

#### General and Administrative

	1998 -----	% CHANGE -----	1997 -----	% CHANGE -----	1996 -----
	(IN THOUSANDS)				
General and administrative.....	\$15,799	125%	\$7,011	397%	\$1,411
Percentage of net sales.....	2.6%		4.7%		9.0%

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 1998 and 1997 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 the Company's growth. In 1998, additional expenses were incurred associated with the acquired entities and the related international expansion and expanded activities. Beginning in 1997,

general and administrative costs have included costs attributable to being a public company. General and administrative expenses decreased as a percentage of net sales due to the significant increase in net sales. The Company expects general and administrative expenses to increase in absolute dollars as the Company expands its staff and incurs additional costs related to the growth of its business, including investments associated with products, services and international expansion.

Merger and Acquisition Related Costs, Including Amortization of Goodwill and Other Purchased Intangibles

Merger and acquisition related costs, including amortization of goodwill and other purchased intangibles, were approximately \$50.2 million or 8.2% of net sales in 1998. These costs were recorded in connection with the Company's April 1998 acquisitions of three Internet companies and its August 1998 acquisition of Junglee. These acquisitions were accounted for under the purchase method of accounting. Additionally, certain transaction costs were incurred in connection with the August 1998 merger with PlanetAll, which was accounted for under the pooling of interests method of accounting. Merger and acquisition related costs consist of amortization of goodwill and other purchased intangibles of approximately \$42.6 million, as well as approximately \$7.6 million, composed primarily of equity in loss of investee and other merger and acquisition related costs. The Company anticipates that future amortization of goodwill and other purchased intangibles associated with its 1998 acquisitions will continue to be amortized on a straight-line basis over lives of up to approximately three years, and will amount to approximately \$22 million per quarter until March 2000 and approximately \$15 million per quarter thereafter until the related goodwill and other purchased intangibles are fully amortized. It is likely that the Company will continue to expand its business through acquisitions and internal development. Any additional acquisitions or impairment of goodwill and other purchased intangibles, as well as equity in losses of equity investees, could result in additional merger and acquisition related costs.

Interest Income and Expense

	1998	% CHANGE	1997	% CHANGE	1996
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
Interest income.....	\$14,053	639%	\$1,901	841%	\$202
Interest expense.....	(26,639)	N/M	(326)	N/M	(5)

Interest income on cash and marketable securities increased in 1998 due to higher investment balances resulting from the proceeds from the Senior Discount Notes issued in May 1998, and in 1997 due to higher investment balances resulting from the proceeds of the Company's initial public offering in May 1997. Interest expense in 1998 includes interest and amortization of deferred charges related to the Senior Discount Notes.

Interest expense in 1998 and 1997 consists of interest and amortization of deferred charges related to the Company's \$75 million three-year senior secured term loan (the "Senior Loan") entered into in

December 1997, as well as asset acquisitions financed through loans and capital leases. In 1998, interest expense also includes the write-off of \$2.0 million of unamortized loan fees following prepayment of the Senior Loan in May 1998.

The Company expects interest expense to increase in the future as a result of the Senior Discount Notes, the Convertible Notes and potentially increased financing of asset acquisitions through loans and capital leases. The Company also expects interest income to increase because of higher cash balances resulting from the net proceeds of the Convertible Notes.

## Income Taxes

The Company did not provide any current or deferred U.S. federal, state or foreign income tax provision or benefit for any of the periods presented because it has experienced operating losses since inception. Utilization of the Company's net operating loss carryforwards, which begin to expire in 2011, may be subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended. The Company has provided a full valuation allowance on the deferred tax asset, consisting primarily of net operating loss carryforwards, because of uncertainty regarding its realizability.

## PRO FORMA INFORMATION

In April 1998, the Company acquired all of the outstanding capital stock of three Internet companies. Each of the acquisitions was accounted for under the purchase method of accounting. 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 3.2 million shares of common stock to affect the transactions. The Company is amortizing the goodwill resulting from the acquisitions on a straight-line basis over approximately two years.

In August 1998, the Company acquired all of the outstanding capital stock of Junglee. The Company issued approximately 4.7 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.

In August 1998, the Company exchanged common stock and options for all of the outstanding capital stock of PlanetAll. The Company issued approximately 2.4 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.

As of December 31, 1998, the Company has an investment of approximately 46% in drugstore.com, inc., an online drugstore, that is accounted for under the equity method of accounting. Under the equity method of accounting, the Company's share of the investee's earnings or loss is included in consolidated operating results. The Company's basis in its equity investment is classified within other purchased intangibles in the accompanying consolidated balance sheet and the Company's share of the investee's loss is classified in merger and acquisition related costs, including amortization of goodwill and other purchased intangibles. To date, this investment has not materially impacted the Company's results of operations or its financial position.

Pro forma information regarding the Company's results, excluding approximately \$50.2 million of merger and acquisition related costs, which include amortization of goodwill and other purchased

intangibles, for the business combinations discussed above, as well as the Company's share of losses from its investee, is as follows:

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(IN THOUSANDS)

Pro forma loss from operations.....	\$ (61,788)
Pro forma net loss.....	\$ (74,374)
Pro forma basic and diluted loss per share.....	\$ (0.50)
Shares used in computation of basic and diluted loss per share.....	148,172

The pro forma results for the year ended December 31, 1998 are presented for informational purposes only and are not prepared in accordance with generally accepted accounting principles.

#### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998, the Company's cash was \$25.6 million, compared to \$1.9 million at December 31, 1997. Marketable securities balances, which include highly liquid investments with maturities of three months or less, were \$347.9 million and \$123.5 million at December 31, 1998 and 1997, respectively.

Net cash provided by operating activities of \$31.0 million and \$687,000 for the years ended December 31, 1998 and 1997, respectively, was primarily attributable to increases in accounts payable, other liabilities and accrued expenses, accrued advertising and non-cash expenses, largely offset by the net loss and increases in inventories and prepaid expenses and other.

Net cash used in investing activities was \$261.8 million for the year ended December 31, 1998 and consisted of net purchases of marketable securities, purchases of fixed assets, and acquisitions, dispositions and investments in businesses. For the year ended December 31, 1997, net cash used in investing activities was \$125.7 million and consisted of net purchases of marketable securities and purchases of fixed assets.

Net cash provided by financing activities of \$254.5 million for the year ended December 31, 1998 resulted from net proceeds of approximately \$318.2 million from the Senior Discount Notes offering, net proceeds of approximately \$8.4 million from PlanetAll's issuance of capital stock, and proceeds from the exercise of stock options of \$6.0 million, partially offset by the repayment of the Senior Loan. Net cash provided by financing activities of \$126.0 million for the year ended December 31, 1997 resulted primarily from net proceeds from the Senior Loan, the Company's initial public offering and PlanetAll's issuance of capital stock.

As of December 31, 1998, the Company's principal sources of liquidity consisted of \$373.4 million of cash and marketable securities. As of that date, the Company's principal commitments consisted of obligations outstanding under its Senior Discount Notes, obligations in connection with the acquisition of fixed assets, operating leases and commitments for advertising and promotional arrangements. The Company anticipates a substantial increase in its capital expenditures and lease commitments consistent with anticipated growth in operations, infrastructure and personnel, including growth associated with product and service offerings, geographic expansion and integration of business combinations. For example, in August 1998, the Company entered into a long-term office lease, which will result in increased lease obligations commencing in 1999, and, in December 1998, the Company leased a highly mechanized distribution facility in Fernley, Nevada, which is expected to begin operations in 1999. Bringing these facilities to operational readiness will require significant leasehold improvement and capital expenditures, and require the Company to stock inventories, purchase fixed assets and hire and train employees.

The Company intends to establish one or more additional distribution centers within the next 12 months, which would require it to commit to lease obligations, stock inventories, purchase fixed assets, hire and train employees and install leasehold improvements. In addition, the Company has announced plans to continue developing distribution infrastructure to increase efficiency and support greater customer

demand and to increase its inventory to provide better availability to customers and achieve purchasing efficiencies.

#### Senior Discount Notes

In May 1998, the Company completed the offering of approximately \$326 million gross proceeds of 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 were registered under the Securities Act of 1933, as amended (the "Securities Act"), 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 this Annual Report interchangeably with the Senior Discount Notes). The Exchange Notes were issued under the indenture governing the original Senior Discount Notes (the "Senior Notes 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 \$530 million aggregate principal amount at maturity. From and after May 1, 2003, the Senior Discount Notes will bear interest at the 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 Senior Notes Indenture, plus accrued interest, if any, to the date of redemption.

Upon a Change of Control (as defined in the Senior Notes Indenture), the Company would be required to make an offer to purchase the Senior Discount Notes at a purchase price equal to 101% of their Accreted Value on the date of purchase, plus accrued interest, if any. There can be no assurance that the Company would have sufficient funds available at the time of any Change of Control to make any required debt repayment (including repurchases of the Senior Discount Notes).

The Senior Notes Indenture contains certain covenants that, among other things, limit the ability of the Company and its Restricted Subsidiaries (as defined in the Senior Notes 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, 1998.

#### Convertible Subordinated Notes

In February 1999, the Company completed an offering of approximately \$1.25 billion of the Convertible Notes. Interest payments on the Convertible Notes of 4 3/4% per annum are due and payable semiannually in arrears in cash on February 1 and August 1 of each year, commencing August 1, 1999. The Convertible Notes are unsecured and are subordinated to all existing and future Senior Indebtedness as defined in the indenture governing the Convertible Notes (the "Convertible Notes Indenture"). The Convertible Notes are generally convertible into common stock of the Company, unless redeemed or repaid prior to maturity, at a conversion price of \$156.055 per share. The Convertible Notes may be redeemed by the Company (the "Provisional Redemption"), in whole or in part, at any time prior to February 6, 2002, at a redemption price equal to \$1,000 per Convertible Note to be redeemed plus accrued and unpaid interest, if any, to the date of redemption (the "Provisional Redemption Date") if (1) the closing price of the common stock shall have exceeded 150% of the conversion price then in effect for at least 20 trading days in any consecutive 30-trading day period and (2) the shelf registration statement covering resales of the Convertible Notes and the common stock issuable upon conversion of the Convertible Notes is effective and available for use and is expected to remain effective and available for use for the 30 days following the Provisional Redemption Date.

Upon any Provisional Redemption, the Company will make an additional payment in cash with respect to the Convertible Notes called for redemption in an amount equal to \$212.60 per \$1,000 Convertible Note, less the amount of any interest actually paid on such Convertible Note prior to the call for redemption. The Company must make these

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payments on all of the Convertible Notes called for redemption, including Convertible Notes called after the date of the call for redemption. After February 6, 2002, the Convertible Notes will be redeemable on at least 30 days' notice at the option of the Company, in whole or in part, at any time, at the redemption prices set forth in the Convertible Notes Indenture.

Upon occurrence of any Fundamental Change (as defined in the Convertible Notes Indenture) prior to the maturity of the Convertible Notes, each holder of the Convertible Notes has the right to require the Company to redeem all or any part of the holder's Convertible Notes at a price equal to 100% of the principal amount, plus any accrued interest, of the Convertible Notes being redeemed.

The Company will, for the benefit of the holders, file with the Securities and Exchange Commission as soon as practicable, but in any event within 90 days after the first date of original issuance of the Convertible Notes, a shelf registration statement covering resales of the Convertible Notes and the common stock issuable upon conversion of the Convertible Notes.

The Company has or may use the net proceeds from the offering of the Convertible Notes for general corporate purposes, including working capital to fund anticipated operating losses, the expansion of the Company's core business, investments in new business segments and markets, capital expenditures, acquisitions or investments in complementary businesses, products and technologies and repurchases and retirement of debt.

The Company believes that current cash and marketable securities balances, together with net proceeds from the Convertible Notes, will be sufficient to meet its anticipated 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, marketable securities and cash that may be generated from operations are insufficient to satisfy the Company's liquidity requirements, the Company may seek to sell additional equity or debt securities or to obtain a line of credit. The sale of additional equity or convertible debt securities could result in additional dilution to the Company's stockholders. In addition, the Company 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 the Company's liquidity requirements or cause the Company to issue additional equity or debt securities. There can be no assurance that financing will be available in amounts or on terms acceptable to the Company, if at all.

#### YEAR 2000 IMPLICATIONS

Many current installed computer systems and software may be coded to accept only two-digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. As a result, many software and computer systems may need to be upgraded or replaced. The Company is in the process of assessing the Year 2000 issue and expects to complete the program in the second quarter of 1999. The Company has not incurred material costs to date in the process, and does not believe that the cost of additional actions will have a material effect on its operating results or financial condition. However, the Company has established a budget totaling approximately \$1 million for the acquisition of contract software services that will assist in the Year 2000 assessment and remediation activities to be completed no later than the third quarter of 1999. Amazon.com's current systems and products may contain undetected errors or defects with Year 2000 date functions that may result in material costs. In addition, the Company utilizes third-party equipment, software and content, including non-information technology systems, such as security systems, building equipment and embedded micro-controllers that may not

be Year 2000 compliant. The Company is in the process of developing a plan to assess whether its internally developed software, third-party systems and non-information technology systems are adequately addressing the Year 2000 issue. Failure of third-party equipment, software or content to operate properly with regard to the Year 2000 issue could require the Company to incur unanticipated expenses to remedy problems, which could have a material adverse effect on its business, operating results and financial condition.

Amazon.com is assessing whether third parties in its supply and distribution chain are adequately addressing their Year 2000 compliance issues. The Company has initiated formal communications with its significant suppliers and service providers to determine the extent to which its systems may be vulnerable

if such suppliers and providers fail to address and correct their own Year 2000 issues. The Company cannot guarantee that the systems of suppliers or other companies on which the Company relies will be Year 2000 compliant. The Company is in the process of developing a contingency plan that will address situations that may result should Year 2000 compliance for critical operations not be fully achieved in 1999.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company does not have any derivative financial instruments as of December 31, 1998. However, the Company is exposed to interest rate risk. The Company employs established policies and procedures to manage its exposure to changes in the market risk of its marketable securities, which are classified as available-for-sale as of December 31, 1998. The Company's Senior Discount Notes, Convertible Notes and other long-term debt have fixed interest rates and the fair value of these instruments is affected by changes in market interest rates. The Company believes that the market risk arising from holdings of its financial instruments is not material.

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 the Company's marketable securities, including principal cash flows for 1999 through 2003 and the related weighted average interest rates.

Principal (notional) amounts by expected maturity in U.S. dollars (in thousands):

	1999	2000	2001	2002	2003	THEREAFTER	TOTAL	ESTIMATED FAIR VALUE AT DECEMBER 31, 1998
Commercial paper and short-term obligations.....	\$114,579	\$ --	\$ --	\$ --	\$ --	\$ --	\$114,579	\$114,180
Weighted average interest rate.....	5.34%						5.34%	
Corporate notes and bonds.....	4,250	46,500	--	--	--	--	50,750	51,351
Weighted average interest rate.....	5.90%	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.....	\$127,529	\$95,400	\$50,921	\$15,087	\$10,086	\$35,497	\$334,520	\$338,113

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, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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.

ERNST & YOUNG LLP

Seattle, Washington  
January 22, 1999, except for Note 11  
as to which the date is February 10, 1999

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AMAZON.COM, INC.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS

	DECEMBER 31,	
	1998	1997
Current assets:		
Cash.....	\$ 25,561	\$ 1,876
Marketable securities.....	347,884	123,499
Inventories.....	29,501	8,971
Prepaid expenses and other.....	21,308	3,363
	-----	-----
Total current assets.....	424,254	137,709
Fixed assets, net.....	29,791	9,726
Deposits and other.....	626	169
Goodwill and other purchased intangibles, net.....	186,377	--
Deferred charges.....	7,412	2,240
	-----	-----
Total assets.....	\$648,460	\$149,844
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$113,273	\$ 33,027
Accrued advertising.....	13,071	3,454
Other liabilities and accrued expenses.....	34,547	6,570
Current portion of long-term debt.....	684	1,500
	-----	-----
Total current liabilities.....	161,575	44,551
Long-term debt.....	348,077	76,521
Long-term portion of capital lease obligation.....	63	181
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value:		
Authorized shares -- 10,000		
Issued and outstanding shares -- none.....	--	--
Common stock, \$0.01 par value:		
Authorized shares -- 300,000		
Issued and outstanding shares -- 159,267 and 144,909 shares in 1998 and 1997, respectively.....	1,593	1,449
Additional paid-in capital.....	300,130	66,586
Note receivable from officer for common stock.....	(1,099)	--
Deferred compensation.....	(1,625)	(1,930)
Accumulated other comprehensive income.....	1,806	--
Accumulated deficit.....	(162,060)	(37,514)
	-----	-----
Total stockholders' equity.....	138,745	28,591
	-----	-----
Total liabilities and stockholders' equity.....	\$648,460	\$149,844
	=====	=====

See accompanying notes to consolidated financial statements.

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Net sales.....	\$ 609,996	\$147,787	\$ 15,746
Cost of sales.....	476,155	118,969	12,287
Gross profit.....	133,841	28,818	3,459
Operating expenses:			
Marketing and sales.....	133,023	40,486	6,090
Product development.....	46,807	13,916	2,401
General and administrative.....	15,799	7,011	1,411
Merger and acquisition related costs, including amortization of goodwill and other purchased intangibles.....	50,172	--	--
Total operating expenses.....	245,801	61,413	9,902
Loss from operations.....	(111,960)	(32,595)	(6,443)
Interest income.....	14,053	1,901	202
Interest expense.....	(26,639)	(326)	(5)
Net interest income (expense).....	(12,586)	1,575	197
Net loss.....	\$ (124,546)	\$ (31,020)	\$ (6,246)
Basic and diluted loss per share.....	\$ (0.84)	\$ (0.24)	\$ (0.06)
Shares used in computation of basic and diluted loss per share.....	148,172	130,341	111,271

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS)

	PREFERRED STOCK		COMMON STOCK		ADVANCES RECEIVED FOR COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	NOTE RECEIVABLE FROM OFFICER FOR COMMON STOCK	DEFERRED COMPENSATION
	SHARES	AMOUNT	SHARES	AMOUNT				
Balance at January 1, 1996.....	--	\$--	87,331	\$1,075	\$150	\$ --	\$ --	\$ --
Net loss.....	--	--	--	--	--	--	--	--
Reincorporation in Delaware.....	--	--	--	(201)	--	201	--	--
Sale of preferred stock, net of \$30 issuance costs.....	569	6	--	--	--	7,964	--	--
Sale of common stock....	--	--	5,043	50	(150)	136	--	--
Issuance of capital stock.....	--	--	17	--	--	11	--	--
Exercise of common stock options.....	--	--	3,027	30	--	165	--	--
Deferred compensation related to stock options.....	--	--	--	--	--	612	--	(612)
Balance at December 31, 1996.....	569	6	95,418	954	--	9,089	--	(612)
Net loss.....	--	--	--	--	--	--	--	--
Sale of preferred stock.....	5	--	--	--	--	200	--	--
Public stock offering, net of \$4,897 issuance costs.....	--	--	18,000	180	--	48,923	--	--
Conversion of preferred stock into common stock.....	(574)	(6)	20,678	207	--	(201)	--	--
Issuance of common stock for fixed assets and accrued product development.....	--	--	1,350	13	--	1,487	--	--

Issuance of capital stock.....	--	--	1,270	13	--	3,989	--	--
Exercise of common stock options.....	--	--	8,193	82	--	427	--	--
Deferred compensation related to stock options.....	--	--	--	--	--	2,741	--	(2,741)
Amortization of deferred compensation related to stock options.....	--	--	--	--	--	(69)	--	1,423
Balance at December 31, 1997.....	--	--	144,909	1,449	--	66,586	--	(1,930)
Net loss.....	--	--	--	--	--	--	--	--
Foreign currency translation losses....	--	--	--	--	--	--	--	--
Unrealized gain on marketable securities.....	--	--	--	--	--	--	--	--
Comprehensive loss.....	--	--	--	--	--	--	--	--
Issuance of capital stock.....	--	--	9,025	90	--	225,534	--	--
Exercise of common stock options.....	--	--	5,333	54	--	5,929	--	--
Note receivable from officer for common stock.....	--	--	--	--	--	--	(1,099)	--
Deferred compensation related to stock options.....	--	--	--	--	--	2,081	--	(2,081)
Amortization of deferred compensation related to stock options.....	--	--	--	--	--	--	--	2,386
Balance at December 31, 1998.....	--	\$--	159,267	\$1,593	\$--	\$300,130	\$ (1,099)	\$ (1,625)
	====	==	=====	=====	=====	=====	=====	=====

	ACCUMULATED OTHER COMPREHENSIVE INCOME	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	-----	-----	-----
Balance at January 1, 1996.....	\$ --	\$ (248)	\$ 977
Net loss.....	--	(6,246)	(6,246)
Reincorporation in Delaware.....	--	--	--
Sale of preferred stock, net of \$30 issuance costs.....	--	--	7,970
Sale of common stock....	--	--	36
Issuance of capital stock.....	--	--	11
Exercise of common stock options.....	--	--	195
Deferred compensation related to stock options.....	--	--	--
Balance at December 31, 1996.....	--	(6,494)	2,943
Net loss.....	--	(31,020)	(31,020)
Sale of preferred stock.....	--	--	200
Public stock offering, net of \$4,897 issuance costs.....	--	--	49,103
Conversion of preferred stock into common stock.....	--	--	--
Issuance of common stock for fixed assets and accrued product development.....	--	--	1,500
Issuance of capital stock.....	--	--	4,002
Exercise of common stock options.....	--	--	509
Deferred compensation related to stock options.....	--	--	--
Amortization of deferred compensation related to stock options.....	--	--	1,354
Balance at December 31, 1997.....	--	(37,514)	28,591
Net loss.....	--	(124,546)	(124,546)
Foreign currency translation losses....	(35)	--	(35)
Unrealized gain on marketable securities.....	1,841	--	1,841
Comprehensive loss.....			(122,740)
Issuance of capital stock.....	--	--	225,624
Exercise of common stock options.....	--	--	5,983
Note receivable from officer for common			

stock.....	--	--	(1,099)
Deferred compensation related to stock options.....	--	--	--
Amortization of deferred compensation related to stock options.....	--	--	2,386
Balance at December 31, 1998.....	\$1,806	\$(162,060)	\$ 138,745

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
OPERATING ACTIVITIES			
Net loss.....	\$(124,546)	\$ (31,020)	\$(6,246)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	9,692	3,442	296
Amortization of deferred compensation related to stock options.....	2,386	1,354	--
Non-cash merger and acquisition related costs, including amortization of goodwill and other purchased intangibles.....	47,065	--	--
Non-cash interest expense.....	23,970	64	--
Changes in operating assets and liabilities:			
Inventories.....	(20,513)	(8,400)	(554)
Prepaid expenses and other.....	(16,465)	(3,034)	(315)
Deposits and other.....	(293)	(21)	(148)
Accounts payable.....	78,674	30,172	2,756
Accrued advertising.....	9,617	2,856	598
Other liabilities and accrued expenses.....	21,448	5,274	1,603
Net cash provided by (used in) operating activities.....	31,035	687	(2,010)
INVESTING ACTIVITIES			
Maturities of marketable securities.....	332,084	4,311	--
Purchases of marketable securities.....	(546,509)	(122,385)	(5,233)
Purchases of fixed assets.....	(28,333)	(7,603)	(1,335)
Acquisitions, dispositions, and investments in businesses.....	(19,019)	--	--
Net cash used in investing activities.....	(261,777)	(125,677)	(6,568)
FINANCING ACTIVITIES			
Net proceeds from initial public offering.....	--	49,103	--
Proceeds from exercise of stock options.....	5,983	509	195
Proceeds from issuance of capital stock.....	8,383	3,746	8,443
Proceeds from long-term debt.....	325,987	75,000	--
Repayment of long-term debt.....	(78,108)	(47)	--
Financing costs.....	(7,783)	(2,309)	--
Net cash provided by financing activities.....	254,462	126,002	8,638
Effect of exchange rate changes.....	(35)	--	--
Net increase in cash.....	23,685	1,012	60
Cash at beginning of period.....	1,876	864	804
Cash at end of period.....	\$ 25,561	\$ 1,876	\$ 864
SUPPLEMENTAL CASH FLOW INFORMATION			
Common stock issued in connection with acquisitions.....	\$ 217,241	\$ --	\$ --
Common stock issued for fixed assets and accrued product development.....	\$ --	\$ 1,500	\$ --
Fixed assets acquired under capital lease.....	\$ --	\$ 442	\$ --

Fixed assets acquired under financing agreement..... \$ -- \$ 3,021 \$ --

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- ACCOUNTING POLICIES

Description of Business

Amazon.com, Inc. ("Amazon.com" or the "Company"), an Internet retailer, was incorporated in July 1994 and opened its virtual doors on the Web in July 1995. Amazon.com offers book, music CD, video, DVD, computer game and other titles on its Web sites.

Business Combinations and Investments

For business combinations which 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 net assets acquired is included in goodwill and other purchased intangibles in the accompanying consolidated balance sheets.

Other business combinations are accounted for under the pooling of interests method of accounting. In such cases, the assets, liabilities and stockholders' equity of the acquired entities are 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 merged entities accounted for under the pooling of interests method of accounting. The historical results of the pooled entities reflect each of their 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 of an investee, generally a 20% or greater ownership interest of the voting stock, are accounted for under the equity method of accounting. Under the equity method of accounting, the Company's share of the investee's earnings or loss is included in consolidated operating results.

All other 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, 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.

#### Marketable Securities

The Company's marketable securities consist primarily of high-quality short- to intermediate-term fixed income securities and money market mutual funds, 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

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AMAZON.COM, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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. The Company classifies all investments of cash as marketable securities, including highly liquid investments with maturities of three months or less, and reflects the related cash flows as investing cash flows. As a result of the classification of highly liquid investments within marketable securities, a significant portion of the Company's gross marketable securities purchases and maturities disclosed as investing cash flows is related to highly liquid investments.

#### Inventories

Inventories are valued at the lower of cost or market. The Company purchases a majority of its products from three major vendors, Ingram Book Group ("Ingram"), Baker & Taylor, Inc. and Valley Media Inc. In late 1998, Barnes & Noble announced an agreement to purchase Ingram. Ingram is the Company's single largest supplier and accounted for approximately 40% and approximately 60% of the Company's inventory purchases in 1998 and 1997, respectively. The Company does not have long-term contracts or arrangements with most of its vendors to guarantee the availability of merchandise, particular payment terms or the extension of credit limits. The Company's current vendors may stop selling merchandise to the Company on acceptable terms. The Company may not be able to acquire merchandise from other suppliers in a timely and efficient manner and on acceptable terms.

#### 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 one 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.

#### Goodwill and Other Purchased Intangibles

Goodwill and other purchased intangibles represent the excess of the purchase price over the fair value of assets acquired. Total goodwill of approximately \$215.7 million and other purchased intangibles of approximately \$13.3 million are stated net of total accumulated amortization of \$42.6 million at December 31, 1998 in the accompanying balance sheet. Goodwill and substantially all other purchased intangibles are being amortized on a straight-line basis over lives ranging from two to three years.

#### Long-Lived Assets

In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, the carrying value of intangible assets and other long-lived assets is 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. Should there be an impairment in the future, the Company will measure the amount of the impairment based on undiscounted expected future cash flows from the impaired assets. The cash flow estimates that will be used will contain management's best estimates, using appropriate and customary assumptions and projections at the time.

#### Fair Value of Financial Instruments

The carrying amounts for the Company's cash, prepaid expenses and other, deposits and other, accounts payable, accrued advertising, and other liabilities and accrued expenses approximate fair value.

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AMAZON.COM, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The fair market value for long-term debt and marketable securities is based on quoted market prices where available.

#### Deferred Charges

In May 1998, the Company issued approximately \$326 million gross proceeds of 10% Senior Discount Notes due 2008 (the "Senior Discount Notes"). At December 31, 1998, deferred charges consisted of fees associated with the issuance of the Senior Discount Notes. The fees are being amortized into interest expense over the life of the Senior Discount Notes.

#### 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.

#### Revenue Recognition

The Company recognizes revenue from product sales, net of any discounts, when the products are shipped to customers. Outbound shipping and handling charges are included in net sales. Revenue from gift certificates is recognized upon product shipment following redemption. The Company provides an allowance for sales returns, which has been insignificant, based on historical experience.

#### Advertising Costs

The cost of advertising is expensed as incurred. For the years ended December 31, 1998, 1997 and 1996, the Company incurred advertising expense of \$60.2 million, \$21.2 million and \$3.4 million, respectively.

#### Product Development

Product development 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. To date, all product development costs have been expensed as incurred.

#### Merger and Acquisition Related Costs

Merger and acquisition related costs consist primarily of amortization of goodwill and other purchased intangibles of approximately \$42.6 million, as well as approximately \$7.6 million, composed primarily of equity in loss of investee and other merger and acquisition related costs.

## 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 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.

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AMAZON.COM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the local currency. Assets and liabilities of the foreign subsidiaries are translated into U.S. dollars at year end exchange rates, and revenues and expenses are translated at average rates prevailing during the year. Translation adjustments are included in accumulated other comprehensive 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 or other such derivative instruments.

### Segment and Geographic Information

The Company operates in one principal business segment across domestic and international markets. International sales, including export sales from the United States, represented approximately 20%, 25%, and 33% of net sales for the years ended December 31, 1998, 1997 and 1996, respectively. No foreign country or geographic area 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, 1998 and 1997. Substantially all of the domestic operating results and identifiable assets are in the United States.

### Concentrations of Credit Risk

Financial instruments, which 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 U.S. government and its agencies, foreign governments and high-quality corporate issuers. At December 31, 1998, the Company has 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 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 and 1996 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.

#### Comprehensive Income (Loss)

As of January 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income, which establishes standards for the reporting and display of comprehensive income and its components in the financial statements. The only items of comprehensive income (loss) that the Company currently reports are unrealized gains (losses) on marketable securities and foreign currency translation adjustments.

#### New Accounting Pronouncements

In March 1998, the Accounting Standards Executive Committee issued Statement of Position 98-1 ("SOP 98-1"), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.

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AMAZON.COM, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SOP 98-1 requires all costs related to the development of internal use software other than those incurred during the application development stage to be expensed as incurred. Costs incurred during the application development stage are required to be capitalized and amortized over the estimated useful life of the software. SOP 98-1 is effective for the Company's fiscal year ending December 31, 1999. Adoption is not expected to have a material effect on the Company's consolidated financial statements as the Company's policies are substantially in compliance with SOP 98-1.

In April 1998, the American Institute of Certified Public Accountants issued SOP 98-5, Reporting on the Costs of Start-Up Activities. SOP 98-5 is effective for the Company's fiscal year ending December 31, 1999. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. Adoption is not expected to have a material effect on the Company's consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. 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 does not expect that the adoption of SFAS No. 133 will have a material impact on its consolidated financial statements because the Company does not currently hold any derivative instruments.

#### Reclassifications

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

#### NOTE 2 -- BUSINESS COMBINATIONS AND INVESTMENTS

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 3.2 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 is a leading provider of Web-based virtual

database technology which allows visitors to access a variety of products sold by other merchants. The Company issued approximately 4.7 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. In November 1998, the Company sold the employment business unit of Junglee in exchange for cash and approximately 1.7 million shares of the purchaser's common stock. There was no gain or loss recorded from this sale. The investment is recorded at cost and is classified within marketable securities in the accompanying consolidated balance sheet.

The pro forma combined consolidated financial information for the aggregate of all the business combinations described above and accounted for under the purchase method of accounting, as though the acquisitions had occurred on January 1 of each year, would have resulted in net sales of \$615.0 million and \$155.8 million; net loss of \$171.6 million and \$118.7 million; and basic and diluted loss per share of \$1.12 and \$0.86 for the years ended December 31, 1998 and 1997, respectively. The pro forma net loss includes amortization of goodwill and purchased intangibles of \$83.0 million for the years ended December 31,

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1998 and 1997. This unaudited pro forma combined consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations in future periods or the results that actually would have been realized had Amazon.com, the international subsidiaries and Junglee been a combined company 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 2.4 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, \$3.4 million and \$469,000 for the nine months ended September 30, 1998 and the years ended December 31, 1997 and 1996, 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.

As of December 31, 1998, the Company has an investment of approximately 46% in drugstore.com, inc., an online drugstore, that is accounted for under the equity method of accounting. The Company's basis in its equity investment is classified within other purchased intangibles in the accompanying consolidated balance sheet and the Company's share of the investee's loss is classified in merger and acquisition related costs, including amortization of goodwill and other purchased intangibles. To date, this investment has not materially impacted the Company's results of operations or its financial position.

NOTE 3 -- MARKETABLE SECURITIES

The following tables summarize by major security type the Company's marketable securities and their contractual maturities:

DECEMBER 31, 1998

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
(IN THOUSANDS)				
Commercial paper and short-term obligations.....	\$114,158	\$ 22	\$ --	\$114,180
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
	-----	-----	-----	-----
	\$346,043	\$2,153	\$ (312)	\$347,884
	=====	=====	=====	=====

	AMORTIZED COST	ESTIMATED FAIR VALUE
(IN THOUSANDS)		
Due within one year.....	\$121,411	\$121,454
Due after one year through five years.....	132,941	133,090
Asset-backed and agency securities with various maturities.....	83,611	83,569
Equity securities.....	8,080	9,771
	-----	-----
	\$346,043	\$347,884
	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The gross realized gains and losses on sales of available-for-sale securities were not significant for the year ended December 31, 1998. The net adjustment to unrealized holding gains on available-for-sale securities included in accumulated other comprehensive income as a component of stockholders' equity totaled approximately \$1.8 million.

At December 31, 1997, marketable securities consist primarily of commercial paper and short-term obligations and corporate notes and bonds and were carried at cost, which approximates market. Unrealized holding gains and losses at December 31, 1997 were not significant.

NOTE 4 -- FIXED ASSETS

Fixed assets, at cost, consist of the following:

	DECEMBER 31,	
	1998	1997
(IN THOUSANDS)		
Computers and equipment.....	\$33,061	\$7,562

Purchased software.....	4,547	4,560
Leasehold improvements.....	5,535	926
Leased assets.....	442	442
	-----	-----
	43,585	13,490
Less accumulated depreciation and amortization....	13,794	3,764
	-----	-----
Fixed assets, net.....	\$29,791	\$9,726
	=====	=====

NOTE 5 -- LONG-TERM DEBT

Senior Discount Notes

In May 1998, the Company completed the offering of approximately \$326 million gross proceeds of the Senior Discount Notes due May 1, 2008. 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 were 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 \$530 million 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, 1998.

A portion of the net proceeds from the offering of the Senior Discount Notes was used to retire approximately \$75 million of indebtedness outstanding as of December 31, 1997. Future principal payments related to the Senior Discount Notes do not commence until 2008. The carrying amount of the Senior Discount Notes is approximately \$347.2 million as of December 31, 1998, which approximates fair value.

In November 1997, the Company purchased fixed assets through a financing agreement with a vendor having an imputed interest rate of approximately 7.7% and a term of three years. The debt is to be repaid in four equal payments. Future debt payments related to this financing agreement are \$684,000 and \$837,000 for the years ending December 31, 1999 and 2000, respectively, and none thereafter.

NOTE 6 -- 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 1998, 1997 and 1996 was \$8.5 million, \$2.1 million and \$270,000, 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 ENDED DECEMBER 31,		
1999.....	\$145	\$ 47,626
2000.....	62	37,718
2001.....	--	11,615
2002.....	--	6,077
2003.....	--	4,712
Thereafter.....	--	27,081
	----	-----
Total minimum lease payments.....	\$207	\$134,829
		=====
Less imputed interest.....	20	
	----	
Present value of net minimum lease payments.....	187	
Less current portion.....	124	
	----	
Long-term capital lease obligation.....	\$ 63	
	=====	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Legal Proceedings

In October 1998, Wal-Mart Stores, Inc. ("Wal-Mart") filed a lawsuit in Bentonville, Arkansas against the Company and other defendants alleging actual and threatened misappropriation of trade secrets and ancillary common-law claims. Wal-Mart subsequently requested a temporary restraining order preventing the defendants from misappropriating Wal-Mart's alleged trade secrets, from placing employees in positions in which they would "inevitably disclose" Wal-Mart's alleged trade secrets and from soliciting, inducing or recruiting

Wal-Mart employees. In January 1999, Wal-Mart filed an identical action in Seattle, Washington, and the Arkansas court dismissed Wal-Mart's action on jurisdictional grounds before deciding the temporary restraining order. The dismissal is pending appeal. Wal-Mart has advised the Company that it will file a preliminary injunction motion. In addition to injunctive relief, Wal-Mart has requested compensatory damages, pre- and postjudgment interest and attorneys' fees and costs. The Company believes that Wal-Mart's claims are without merit and intends to vigorously defend against the plaintiffs' claims. Amazon.com has filed a counterclaim based in part on unfair competition and intentional interference. Litigation is inherently uncertain, and there can be no assurance that the Company will prevail in the lawsuit.

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 and other intellectual property rights. The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, prospects, financial condition and operating results.

#### NOTE 7 -- STOCKHOLDERS' EQUITY

##### Reincorporation and Authorized Capital

In May 1996, the Company reincorporated in the state of Delaware with authorized capital of 5 million shares of \$0.01 par value preferred stock and 25 million shares of \$0.01 par value common stock. In April 1997, the Company increased its authorized common stock to 100 million shares and increased its authorized preferred stock to 10 million shares. In June 1998, the Company increased the number of authorized shares of common stock, from 100 million shares to 300 million shares. The accompanying consolidated financial statements have been restated to reflect these recapitalizations.

##### 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 November 23, 1996, the Company effected a 4-for-1 common stock split. 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. 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 1997 Stock Option Plan and the 1994 Stock Option Plan. Shares reserved under the plans consist of 36.0 million shares in the 1997 Stock Option Plan and 28.8 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 the acquisition of Junglee and the merger with PlanetAll in August 1998, the Company assumed outstanding options to purchase common stock originally issued under these 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, options are granted by the Company's Board of Directors 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. Each outstanding option granted on or subsequent to December 20, 1996 has a term of ten years from the date of grant. Subject to Internal Revenue Service limitations, options granted under the Plans generally become exercisable immediately. Options generally vest at the rate of 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 upon termination of employment or services and such restrictions lapse over the original vesting schedule. At December 31, 1998, approximately 3.9 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	WEIGHTED- AVERAGE EXERCISE PRICE
	-----	-----
	(IN THOUSANDS)	
Balance January 1, 1996.....	10,616	\$ 0.024
Options granted and assumed.....	15,600	0.102
Options canceled.....	(3,172)	0.046
Options exercised.....	(3,027)	0.065
	-----	
Balance December 31, 1996.....	20,017	0.075
Options granted and assumed.....	18,060	2.295
Options canceled.....	(2,552)	0.539
Options exercised.....	(8,193)	0.063
	-----	
Balance December 31, 1997.....	27,332	1.502
Options granted and assumed.....	19,774	25.468
Options canceled.....	(3,768)	8.098
Options exercised.....	(5,333)	1.108
	-----	
Balance December 31, 1998.....	38,005	\$13.375
	=====	

At December 31, 1998, 12.8 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, 1998:

OPTIONS OUTSTANDING

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	OPTIONS OUTSTANDING (IN THOUSANDS)	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE (IN THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE	
\$ 0.029 -- \$ 0.111	5,744	5.1 years	\$ 0.082	5,204	\$ 0.083	
0.167 -- 0.778	6,397	8.0 years	0.432	5,499	0.426	
1.232 -- 4.021	4,959	8.4 years	2.141	3,714	2.157	
4.094 -- 12.271	5,502	9.0 years	8.128	3,850	7.902	
12.563 -- 17.875	7,303	9.3 years	14.599	5,675	14.679	
19.604 -- 25.771	781	9.6 years	23.874	443	23.729	
26.094 -- 39.479	3,225	9.7 years	33.618	2,383	33.375	
39.667 -- 65.729	3,235	9.7 years	43.625	2,112	43.804	
67.427 -- 94.479	626	9.9 years	79.702	493	80.068	
103.625 -- 114.479	233	9.9 years	107.483	189	107.413	
	-----			-----		
\$ 0.029 -- \$114.479	38,005	8.4 years	\$ 13.375	29,562	\$ 12.410	
	=====			=====		

Deferred Compensation

The Company recorded aggregate deferred compensation of \$2.1 million, \$2.7 million and \$612,000 in 1998, 1997 and 1996, respectively. The amounts recorded 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, 1997 and 1996. Options granted below fair market value and the associated weighted average exercise price per share were 536,000 and \$4.095, 8.3 million and \$0.473, and 9.3 million and \$0.133 during the years ended December 31, 1998, 1997 and 1996, respectively. The amortization of deferred compensation is charged to operations over the vesting period of the options, which is typically five years. Total amortization recognized in 1998 and 1997 was \$2.4 million and \$1.4 million, respectively. No amortization was recognized in 1996.

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 1998, 1997 and 1996, the pro forma amounts of the Company's net loss and net loss per share for the years ended December 31, 1998, 1997 and 1996 would have been as follows:

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	-----	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net loss -- as reported.....	\$ (124,546)	\$ (31,020)	\$ (6,246)
Net loss -- pro forma.....	(194,269)	(35,983)	(6,278)
Basic and diluted loss per share -- as reported....	\$ (0.84)	\$ (0.24)	\$ (0.06)
Basic and diluted loss per share -- pro forma.....	(1.31)	(0.28)	(0.06)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

YEARS ENDED DECEMBER 31,

	1998	1997	1996
Average risk-free interest rates.....	4.7%	6.3%	6.4%
Average expected life (in years).....	3.0	3.0	3.0
Volatility (1).....	81.6%	50.0%	0.0%

(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 the years 1998, 1997 and 1996 was \$19.07, \$2.07 and \$0.01, respectively, for options granted at fair market value. The weighted-average fair value of options granted at less than fair market value during 1998, 1997 and 1996 was \$4.61, \$0.55 and \$0.09, respectively. Compensation expense recognized in providing pro forma disclosures may 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

In June 1998, pursuant to a registration statement on Form S-4, the Company registered 15 million shares of its common stock, which may from time to time be offered in connection with the acquisition of entities. Such shares may be issued in exchange for the shares of capital stock (by merger or otherwise), partnership interests or other assets representing an interest in other companies or other entities, or in exchange for assets used in or related to the business of such entities.

At December 31, 1998, common stock reserved for future issuance is as follows (in thousands):

Stock options.....	50,853
Shelf registration.....	15,000
Total.....	65,853

NOTE 8 -- EARNINGS (LOSS) PER SHARE

The following represents the calculations for net loss per share:

	1998	1997	1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net loss -- as reported.....	\$(124,546)	\$(31,020)	\$(6,246)
Weighted average shares outstanding.....	152,472	126,559	90,795
Pro forma adjustment for preferred stock...	--	9,478	20,498
Weighted average common shares issued subject to repurchase agreements.....	(4,300)	(5,696)	(22)
Shares used in computation of basic and diluted loss per share.....	148,172	130,341	111,271

	=====	=====	=====
Basic and diluted loss per share.....	\$ (0.84)	\$ (0.24)	\$ (0.06)
	=====	=====	=====

## AMAZON.COM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

All of the Company's stock options (see Note 7) are excluded from diluted loss per share since their effect is antidilutive.

## NOTE 9 -- INCOME TAXES

The Company did not provide any current or deferred United States 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 carryforwards, because of uncertainty regarding its realizability.

At December 31, 1998, the Company had net operating loss carryforwards of approximately \$207 million related to U.S. federal, foreign and state jurisdictions. Utilization of net operating loss carryforwards may be subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended. Substantially all of these carryforwards will begin to expire at various times starting in 2011. To the extent that net operating loss carryforwards, when realized, relate to stock option deductions of approximately \$103 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,	
	1998	1997
	-----	-----
	(IN THOUSANDS)	
Net operating loss carryforwards.....	\$73,100	\$10,800
Depreciation and amortization.....	7,400	--
Other.....	5,400	2,400
	-----	-----
Total deferred tax assets.....	85,900	13,200
Valuation allowance for deferred tax assets.....	(85,900)	(13,200)
	-----	-----
Net deferred tax assets.....	\$ --	\$ --
	=====	=====

## NOTE 10 -- 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 11 -- SUBSEQUENT EVENTS

## Convertible Subordinated Notes

On February 3, 1999, the Company completed an offering of \$1.25 billion of 4 3/4% Convertible Subordinated Notes due 2009 (the "Convertible Notes"). The Convertible Notes are convertible into the Company's common stock at a conversion price of \$156.055 per share, subject to adjustment in certain events and at the holders' option. Interest on the Convertible Notes is payable semiannually in arrears on February 1 and August 1 of each year, commencing on August 1, 1999. The Convertible Notes are unsecured and are subordinated to all existing and future Senior Indebtedness (as defined in the Convertible Notes indenture) of the Company. The Convertible Notes may be redeemed at the option of the Company prior to February 6, 2002, in whole or in part, at the redemption prices set forth in the Convertible Notes indenture. The Company is obligated to file by May 4, 1999, a shelf registration statement covering resales of the Convertible Notes and the common stock issuable upon conversion of the Convertible Notes.

AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Upon occurrence of any Fundamental Change (as defined in the Convertible Notes indenture) prior to the maturity of the Convertible Notes, each holder of the Convertible Notes has the right to require the Company to redeem all or any part of the holder's Convertible Notes at a price equal to 100% of the principal amount, plus any accrued interest, of the Convertible Notes being redeemed.

The Company has or may use the net proceeds from the offering of the Convertible Notes for general corporate purposes, including working capital to fund anticipated operating losses, the expansion of the Company's core business, investments in new business segments and markets, capital expenditures, acquisitions or investments in complementary businesses, products and technologies and repurchases and retirement of debt.

Authorized Shares

On February 10, 1999, the Board of Directors approved an increase in authorized shares of common stock and preferred stock, par value \$0.01 per share, from 300 million shares to 1.5 billion shares and from 10 million shares to 150 million shares, respectively. This increase in authorized shares is subject to approval by the stockholders at the Company's Annual Meeting on May 20, 1999.

Stock Option Plan

On February 10, 1999, the Board of Directors approved the 1999 Nonofficer Employee Stock Option Plan, which reserves 20.0 million shares of common stock available for future issuance.

NOTE 12 -- QUARTERLY RESULTS (UNAUDITED)

The following tables contain selected unaudited Statement of Operations information for each quarter of 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, 1998			
FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
(IN THOUSANDS, EXCEPT PER SHARE DATA)			

Net sales.....	\$252,893	\$153,698	\$116,010	\$ 87,395
Gross profit.....	53,417	34,875	26,216	19,333
Net loss.....	(46,427)	(45,171)	(22,579)	(10,369)
Basic and diluted loss per share(1).....	\$ (0.30)	\$ (0.30)	\$ (0.15)	\$ (0.07)
Shares used in computation of basic and diluted loss per share.....	154,389	150,703	146,277	141,318

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.....	\$ (0.08)	\$ (0.07)	\$ (0.06)	\$ (0.03)
Shares used in computation of basic and diluted loss per share.....	139,413	137,595	127,920	116,430

(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.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the Company's executive officers required by Part III, Item 10, is set forth in Item 1 of Part I herein under the caption "Executive Officers and Directors." Information required by Part III, Item 10, regarding the Company's directors is included in the Company's Proxy Statement relating to the Company's annual meeting of stockholders to be held on May 20, 1999, and is incorporated herein by reference. Information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is set forth in the Proxy Statement and incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Part III, Item 11, is included in the Company's Proxy Statement relating to the Company's annual meeting of stockholders to be held on May 20, 1999, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by Part III, Item 12, is included in the Company's Proxy Statement relating to the Company's annual meeting of stockholders to be held on May 20, 1999, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain of the Company's relationships and related transactions is included in the Company's Proxy Statement relating to the Company's annual meeting of stockholders to be held on May 20, 1999, and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) LIST OF DOCUMENTS FILED AS A PART OF THIS ANNUAL REPORT:

(1) INDEX TO CONSOLIDATED FINANCIAL STATEMENTS:

Report of Ernst & Young LLP, Independent Auditors

Consolidated Balance Sheets as of December 31, 1998 and 1997

Consolidated Statements of Operations for each of the three years ended December 31, 1998

Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 1998

Consolidated Statements of Cash Flows for each of the three years ended December 31, 1998

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.

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(3) INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
2.1	Agreement and Plan of Merger dated as of August 3, 1998, by and among Amazon.com, Inc., AJ Acquisition, Inc. and Junglee Corporation (incorporated by reference to the Company's Current Report on Form 8-K dated August 3, 1998).
2.2	Agreement and Plan of Merger dated as of August 3, 1998, by and among Amazon.com, Inc., Pacific Acquisition, Inc. and Sage Enterprises, Inc. (incorporated by reference to the Company's Current Report on Form 8-K dated August 3, 1998).
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3.2	Restated Bylaws of the Company (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 1998).
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- 10.3+ Form of Indemnification Agreement between the Company and each of its Directors and Executive Officers (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).

EXHIBIT  
NUMBER

DESCRIPTION

- 10.4+ 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).
- 10.5+ 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).
- 10.6+ Non-Qualified Stock Option Letter Agreement, effective December 20, 1996, from the Company to Joy D. Covey (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).

- 10.7+ Incentive Stock Option Letter Agreement, effective December 20, 1996, from the Company to Joy D. Covey (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).
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- 10.10 Lease Agreement, dated April 17, 1998, by and between Bookpages Limited and Amazon.com, Inc. and Slough Trading Estate Limited (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 1998).
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- 10.13 Lease Agreement, dated December 14, 1998, by and between Amazon.com, Inc. and Panattoni Carlsen Rieger.
- 21.1 List of Subsidiaries.
- 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 26, 1998, the Company filed a Form 8-K/A under Item 5, which amended the Company's Current Report on Form 8-K dated August 12, 1998, regarding its acquisition of Junglee Corp.

On October 28, 1998, the Company filed a Form 8-K under Item 5 announcing its financial results for the third quarter of 1998.

On November 20, 1998, the Company filed a Form 8-K under Item 5 announcing the approval by the Board of Directors of a 3-for-1 stock split of its common stock.

SIGNATURES

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

AMAZON.COM, INC.

Date: March 5, 1999

By: /s/ JEFFREY P. BEZOS

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

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

<p>-----  /s/ JEFFREY P. BEZOS  -----  Jeffrey P. Bezos</p>	<p>Chairman of the Board, President and Chief  Executive Officer (Principal Executive  Officer)</p>
<p>-----  /s/ JOY D. COVEY  -----  Joy D. Covey</p>	<p>Chief Financial Officer and Vice President  of Finance and Administration (Principal  Financial and Accounting Officer)</p>
<p>-----  /s/ TOM A. ALBERG  -----  Tom A. Alberg</p>	<p>Director</p>
<p>-----  /s/ SCOTT D. COOK  -----  Scott D. Cook</p>	<p>Director</p>
<p>-----  /s/ L. JOHN DOERR  -----  L. John Doerr</p>	<p>Director</p>
<p>-----  /s/ PATRICIA Q. STONESIFER  -----  Patricia Q. Stonesifer</p>	<p>Director</p>

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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, 1998.....	\$800 =====	\$4,420 =====	\$(620) =====	\$4,600 =====
December 31, 1997.....	\$ -- =====	\$ 800 =====	\$ -- =====	\$ 800 =====
December 31, 1996.....	\$ -- =====	\$ -- =====	\$ -- =====	\$ -- =====

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- 21.1 List of Subsidiaries.
- 23.1 Consent of Ernst & Young LLP, Independent Auditors.
- 27.1 Financial Data Schedule.

- -----

+ Executive Compensation Plan or Agreement

California Chapters of the  
Society of Industrial and Office Realtors, Inc.

INDUSTRIAL REAL ESTATE LEASE  
(SINGLE-TENANT FACILITY)

ARTICLE ONE: BASIC TERMS

This Article One contains the Basic Terms of this Lease between the Landlord and Tenant named below. Other Articles, Sections and Paragraphs of the Lease referred to in this Article One explain and define the Basic Terms and are to be read in conjunction with the Basic Terms.

Section 1.01. DATE OF LEASE: December 14, 1998  
-----

Section 1.02. LANDLORD (include legal entity): Panattoni Development Company,  
or Assignee  
-----

Address of Landlord: 8401 Jackson Road  
-----  
Sacramento, CA 95826  
-----

Section 1.03. TENANT (include legal entity): Amazon.com, Inc.  
-----

Address of Tenant: 1516 Second Avenue  
Seattle, WA 98101  
-----  
ATTN: General Counsel  
-----

Section 1.04. PROPERTY: (include street address, approximate square footage and description) An approximately 322,560 square foot facility located on a 35 acre parcel at 1600 East Newlands Drive in the Nevada Pacific Industrial Park in Fernley, Nevada. A legal description of the property has been attached as Exhibit "A"

Section 1.05. LEASE TERM: 10 years 0 months beginning on (see paragraph 3 of the addendum) or such other date as is specified in this Lease, and ending on (see paragraph 3 of the addendum)

Section 1.06. PERMITTED USES: (See Article Five) warehouse, distribution, office and other such uses as permitted by code and applicable state and local regulations

Section 1.07. TENANT'S GUARANTOR: (If none, so state) None  
-----

Section 1.08. BROKERS: (See Article Fourteen) (If none, so state)  
Landlord's Broker: Wilma Warshak - Colliers International  
Tenant's Broker: Wilma Warshak - Colliers International and Commercial Properties of Nevada, Inc.

Section 1.09. COMMISSION PAYABLE TO LANDLORD'S BROKER: (See Article Fourteen)  
\$ per separate agreement  
-----

Section 1.10. INITIAL SECURITY DEPOSIT: (See Section 3.03)  
\$ See Addendum to Lease, Paragraph 2  
-----

Section 1.11. VEHICLE PARKING SPACES ALLOCATED TO TENANT: per site plan

Section 1.12. RENT AND OTHER CHARGES PAYABLE BY TENANT:

(a) BASE RENT: or (ii) See Addendum to Lease, Paragraph 1. (If (ii) is completed, then (i) and Section 3.02 are inapplicable.)

(b) OTHER PERIODIC PAYMENTS: (i) Real Property Taxes (See Section 4.02); (ii) Utilities (See Section 4.03); (iii) Insurance Premiums (See Section 4.04); (iv) Impounds for Insurance Premiums and Property Taxes (See Section 4.07); (v) Maintenance, Repairs and Alterations (See Article Six). The monthly per square foot "triple net" expenses are estimated to be as follows: a) property taxes - \$.032, b) property insurance - \$.005, c) maintenance - \$.01, and d) property management (1.5%) - \$.006.

Section 1.13. LANDLORD'S SHARE OF PROFIT ON ASSIGNMENT OR SUBLEASE: (See Section 9.05) Fifty percent (50%) of the Profit (the "Landlord's share").

Section 1.14. RIDERS: The following Riders are attached to and made a part of this Lease: (If none, so state) Addendum to Lease

-----  
Exhibit A - Site Plan/Legal Description  
-----  
Hazardous Materials Rider  
-----

NOTE: The language in this Lease is based on the SIOR Format and has been modified throughout per mutual agreement of Landlord and Tenant.

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ARTICLE TWO: LEASE TERM

Section 2.01. LEASE OF PROPERTY FOR LEASE TERM. Landlord leases the Property to Tenant and tenant leases the Property from Landlord for the Lease Term. The Lease Term is for the period stated in Section 1.05 above and shall begin and end on the dates specified in Section 1.05 above, unless the beginning or end of the Lease Term is changed under any provision of this Lease. The "Commencement Date" shall be the date specified in Section 1.05 above for the beginning of the Lease Term, unless advanced or delayed under any provision of this Lease.

Section 2.02. DELAY IN COMMENCEMENT. SEE PARAGRAPH 3 OF THE ADDENDUM. Landlord shall not be liable to Tenant if Landlord does not deliver possession of the Property to Tenant on the Commencement Date. Landlord's non-delivery of the Property to Tenant on that date shall not affect this Lease or the obligations of Tenant under this Lease, except as set forth in paragraph 3 of the addendum; and except that the Commencement Date shall be delayed until Landlord delivers possession of the Property to Tenant and the Lease Term shall be extended for a period equal to the delay in delivery of possession of the Property to Tenant, plus the number of days necessary to end the Lease Term on the last day of a month. If delivery of possession of the Property to Tenant is delayed, Landlord and Tenant shall, upon such delivery, execute an amendment to this Lease setting forth the actual Commencement Date and expiration date of the Lease. Failure to execute such amendment shall not affect the actual Commencement Date and expiration date of the Lease.

Section 2.03. EARLY OCCUPANCY. If Tenant occupies the Property prior to the Commencement Date, Tenant's occupancy of the Property shall be subject to all of the provisions of this Lease. Early occupancy of the Property shall not advance the expiration date of this Lease. Tenant shall pay Base Rent and all other charges specified in this Lease for the early occupancy period.

Section 2.04. HOLDING OVER. Tenant shall vacate the Property upon the expiration or earlier termination of this Lease. Tenant shall reimburse

Landlord for and indemnify Landlord against all damages which Landlord incurs from Tenant's delay in vacating the Property. If Tenant does not vacate the Property upon the expiration or earlier termination of the Lease and Landlord thereafter accepts rent from Tenant, Tenant's occupancy of the Property shall be a "month-to-month" tenancy, subject to all of the terms of this Lease applicable to a month-to-month tenancy, except that the Base Rent then in effect shall be increased by Twenty-five percent (25%).

#### ARTICLE THREE: BASE RENT

Section 3.01. TIME AND MANNER OF PAYMENT. Upon execution of this Lease, Tenant shall pay Landlord the Base Rent in the amount stated in Paragraph 1.12(a) above for the first month of the Lease Term. On the first day of the second month of the Lease Term and each month thereafter, Tenant shall pay Landlord the Base Rent, in advance, without offset, deduction or prior demand. The Base Rent shall be payable at Landlord's address or at such other place as Landlord may designate in writing.

Section 3.02. COST OF LIVING INCREASES.

Section 3.03. SECURITY DEPOSIT; INCREASES.

(a) Upon the execution of this Lease, Tenant shall deposit with Landlord a cash Security Deposit in the amount set forth in Section 1.10 above. Landlord may apply all or part of the Security Deposit to any unpaid rent or other charges due from Tenant or to cure any other defaults of Tenant. If Landlord uses any part of the Security Deposit, Tenant shall restore the Security Deposit to its full amount within ten (10) days after Landlord's written request. Tenant's failure to do so shall be a material default under this Lease. No interest shall be paid on the Security.

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Deposit. Landlord shall not be required to keep the Security Deposit separate from its other accounts and no trust relationship is created with respect to the Security Deposit.

Section 3.04. TERMINATION; ADVANCE PAYMENTS. Upon termination of this Lease under Article Seven (Damage or Destruction), Article Eight (Condemnation) or any other termination not resulting from Tenant's default, and after Tenant has vacated the Property in the manner required by this Lease, Landlord shall refund or credit to Tenant (or Tenant's successor) the unused portion of the Security Deposit, any advance rent or other advance payments made by Tenant to Landlord, and any amounts paid for real property taxes and other reserves which apply to any time periods after termination of the Lease.

#### ARTICLE FOUR: OTHER CHARGES PAYABLE BY TENANT

Section 4.01. ADDITIONAL RENT. All charges payable by Tenant other than Base Rent are called "Additional Rent." Unless this Lease provides otherwise, Tenant shall pay all Additional Rent then due with the next monthly installment of Base Rent. The term "rent" shall mean Base Rent and Additional Rent.

Section 4.02. PROPERTY TAXES.

(a) REAL PROPERTY TAXES. Tenant shall pay all real property taxes on the Property (including any fees, taxes or assessments against, or as a result of, any tenant improvements installed on the Property by or for the benefit of Tenant) during the Lease Term. Subject to Paragraph 4.02(c) and Section 4.07 below, such payment shall be made at least ten (10) days prior to the delinquency date of the taxes. Within such ten (10) -day period, Tenant shall furnish Landlord with satisfactory evidence that the real property taxes have been paid. Landlord shall reimburse Tenant for any real property taxes paid by Tenant covering any period of time prior to or after the Lease Term. If Tenant fails to pay the real property taxes when due, Landlord may pay the taxes and Tenant shall reimburse Landlord for the amount of such tax payment as

Additional Rent.

(b) DEFINITION OF "REAL PROPERTY TAX." "Real property tax" means: (i) any fee, license fee, license tax, business license fee, commercial rental tax, levy, charge, assessment, penalty or tax imposed by any taxing authority against the Property; (ii) any tax on the Landlord's right to receive, or the receipt of, rent or income from the Property or against Landlord's business of leasing the Property; (iii) any tax or charge for fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Property by any governmental agency; (iv) any tax imposed upon this transaction or based upon a re-assessment of the Property due to a change of ownership, as defined by applicable law, or other transfer of all or part of Landlord's interest in the Property; and (v) any charge or fee replacing any tax previously included within the definition of real property tax. "Real property tax" does not, however, include Landlord's federal or state income, franchise, inheritance or estate taxes.

(c) JOINT ASSESSMENT. If the Property is not separately assessed, Landlord shall reasonably determine Tenant's share of the real property tax payable by Tenant under Paragraph 4.02(a) from the assessor's worksheets or other reasonably available information. Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement.

(d) PERSONAL PROPERTY TAXES.

(i) Tenant shall pay all taxes charged against trade fixtures, furnishings, equipment or any other personal property belonging to Tenant. Tenant shall try to have personal property taxed separately from the property.

(ii) If any of Tenant's personal property is taxed with the Property, Tenant shall pay Landlord the taxes for the personal property within fifteen (15) days after Tenant receives a written statement from Landlord for such personal property taxes.

(c) TENANT'S RIGHT TO CONTEST TAXES. Tenant may attempt to have the assessed valuation of the Property reduced or may initiate proceedings to contest the real property taxes. If required by law, Landlord shall join in the proceedings brought by Tenant. However, Tenant shall pay all costs of the proceedings, including any costs or fees incurred by Landlord. Upon the final determination of any proceeding or contest, Tenant shall immediately pay the real property taxes due, together with all costs, charges, interest and penalties incidental to the proceedings. If Tenant does not pay the real property taxes when due and contests such taxes, Tenant shall not be in default under this Lease for nonpayment of such taxes if Tenant deposits funds with Landlord or opens an interest-bearing account reasonably acceptable to Landlord in the joint names of Landlord and Tenant. The amount of such deposit shall be sufficient to pay the real property taxes plus a reasonable estimate of the interest, costs, charges and penalties which may accrue if Tenant's action is unsuccessful, less any applicable tax impounds previously paid by Tenant to Landlord. The deposit shall be applied to the real property taxes due, as determined at such proceedings. The real property taxes shall be paid under protest from such deposit if such payment under protest is necessary to prevent the Property from being sold under a "tax sale" or similar enforcement proceeding.

Section 4.03. UTILITIES. Tenant shall pay, directly to the appropriate supplier, the cost of all natural gas, heat, light, power, sewer service, telephone, water, refuse disposal and other utilities and services supplied to the Property. However, if any services or utilities are jointly metered with other property, Landlord shall make a reasonable determination of Tenant's proportionate share of the cost of such utilities and services and Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement.

Section 4.04. INSURANCE POLICIES.

(a) LIABILITY INSURANCE. During the Lease Term, Tenant shall maintain a policy of commercial general liability insurance (sometimes known as broad form comprehensive general liability insurance) insuring Tenant against liability for bodily injury, property damage (including loss of use of property) and personal injury arising out of the operation, use or occupancy of the Property. Tenant shall name Landlord as an additional insured under such policy. The initial amount of such insurance shall be One Million Dollars (\$1,000,000) per occurrence and shall be subject to periodic increase (not more than once every two years) based upon inflation, increased liability awards, recommendation of Landlord's professional insurance advisers and other relevant factors. The liability insurance obtained by Tenant under this Paragraph 4.04(a) shall (i) be primary and non-contributing; (ii) contain cross-liability endorsements; and (iii) insure Landlord against Tenant's performance under Section 5.05, if the matters giving rise to the indemnity under Section 5.05 result from the negligence of Tenant. The amount and coverage of such insurance shall not limit Tenant's liability nor relieve Tenant of any other obligation under this Lease. Landlord may also obtain comprehensive public liability insurance in an amount and with coverage determined by Landlord insuring Landlord against liability arising out of ownership, operation, use or occupancy of the Property. The policy obtained by Landlord shall not be contributory and shall not provide primary insurance.

(b) PROPERTY AND RENTAL INCOME INSURANCE. During the Lease Term, Landlord shall maintain policies of insurance covering loss of or damage to the Property in the full amount of its replacement value. Such policy shall contain an Inflation Guard Endorsement and shall provide protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils (all risk), sprinkler leakage and any other perils which Landlord deems reasonably necessary. Landlord shall have the right to obtain flood and earthquake insurance if required by any lender holding a security interest in the Property. Landlord shall not obtain insurance for Tenant's fixtures or equipment or building improvements installed by Tenant on the Property. During the Lease Term, Landlord shall also maintain a rental income insurance policy, with loss payable to Landlord, in an amount equal to one year's Base Rent, plus estimated real property taxes and insurance premiums. Tenant shall be liable for the payment of any deductible amount under Landlord's or Tenant's insurance policies maintained pursuant to this Section 4.04, in an amount not to exceed Ten Thousand Dollars (\$10,000). Tenant shall not do or permit anything to be done which invalidates any such insurance policies.

(c) PAYMENT OF PREMIUMS. Subject to Section 4.07, Tenant shall pay all premiums for the insurance policies described in Paragraphs 4.04(a) and (b) (whether obtained by Landlord or Tenant) within fifteen (15) days after Tenant's receipt of a copy of the premium statement or other evidence of the amount due, except Landlord shall pay all premiums for non-primary comprehensive public liability insurance which Landlord elects to obtain as provided in Paragraph 4.04(a). If insurance policies maintained by Landlord cover improvements on real property other than the Property, Landlord shall deliver to Tenant a statement of the premium applicable to the Property showing in reasonable detail how Tenant's share of the premium was computed. If the Lease Term expires before the expiration of an insurance policy maintained by Landlord, Tenant shall be liable for Tenant's prorated share of the insurance premiums. Before the Commencement Date, Tenant shall deliver to Landlord a copy of any policy of insurance which Tenant is required to maintain under this Section 4.04. At least thirty (30) days prior to the expiration of any such policy, Tenant shall deliver to Landlord a renewal of such policy. As an alternative to providing a policy of insurance, Tenant shall have the right to provide Landlord a certificate of insurance, executed by an authorized officer of the insurance company, showing that the insurance which Tenant is required to maintain under this Section 4.04 is in full force and effect and containing such other information which Landlord reasonably requires. Tenant shall have the right to obtain competitive bids for all insurance to be paid by Tenant (including any insurance obtained by Landlord), and Tenant shall be entitled to select the insurance provider based on such bids. In addition, Landlord shall not acquire any insurance that has a deductible in excess of Ten Thousand Dollars (\$10,000) without Tenant's prior written consent.

(d) GENERAL INSURANCE PROVISIONS.

(i) Any insurance which Tenant is required to maintain under this Lease shall include a provision which requires the insurance carrier to give Landlord not less than thirty (30) days' written notice prior to any cancellation or modification of such coverage.

(ii) If Tenant fails to deliver any policy, certificate or renewal to Landlord required under this Lease within the prescribed time period or if any such policy is canceled or modified during the Lease Term without Landlord's consent, Landlord may obtain such insurance, in which case Tenant shall reimburse Landlord for the cost of such insurance within fifteen (15) days after receipt of a statement that indicates the cost of such insurance.

(iii) Tenant shall maintain all insurance required under this Lease with companies holding a "General Policy Rating" of A-12 or better, as set forth in the most current issue of "Best Key Rating Guide". Landlord and Tenant acknowledge the insurance markets are rapidly changing and that insurance in the form and amounts described in this Section 4.04 may not be available in the future. Tenant acknowledges that the insurance described in this Section 4.04 is for the primary benefit of Landlord. If at any time during the Lease Term, Tenant is unable to maintain the insurance required under the Lease, Tenant shall nevertheless maintain insurance coverage which is customary and commercially reasonable in the insurance industry for Tenant's type of business, as that coverage may change from time to time. Landlord makes no representation as to the adequacy of such insurance to protect Landlord's or Tenant's interests. Therefore, Tenant shall obtain any such additional property or liability insurance which Tenant deems necessary to protect Landlord and Tenant.

(iv) Unless prohibited under any applicable insurance policies maintained, Landlord and Tenant each hereby waive any and all rights of recovery against the other, or against the officers, employees, agents or representatives of the other, for loss of or damage to its property or the property of others under its control, if such loss or damage is covered by any insurance policy in force (whether or not described in this Lease) at the time of

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such loss or damage. Upon obtaining the required policies of insurance, Landlord and Tenant shall give notice to the insurance carriers of this mutual waiver of subrogation.

Section 4.05. LATE CHARGES. Tenant's failure to pay rent promptly may cause Landlord to incur unanticipated costs. The exact amount of such costs are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, mortgage or trust deed encumbering the Property. Therefore, if Landlord does not receive any rent payment within ten (10) days after written notice from Landlord that such payment is overdue, Tenant shall pay Landlord a late charge equal to five percent (5%) of the overdue amount and remit the overdue amount within three (3) business days. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment.

Section 4.06. INTEREST ON PAST DUE OBLIGATIONS. Any amount owed by Tenant to Landlord which is not paid after written notice from Landlord that such payment is overdue shall bear interest at the rate of fifteen percent (15%) per annum from the due date of such amount. However, interest shall not be payable on late charges to be paid by Tenant under this Lease. The payment of interest on such amounts shall not excuse or cure any default by Tenant under this Lease. If the interest rate specified in this Lease is higher than the rate permitted by law, the interest rate is hereby decreased to the maximum legal interest rate permitted by law.

ARTICLE FIVE: USE OF PROPERTY

Section 5.01. PERMITTED USES. Tenant may use the Property only for the Permitted Uses set forth in Section 1.06 above.

Section 5.02. MANNER OF USE. Tenant shall not cause or permit the Property to be used in any way which constitutes a violation of any law, ordinance, or governmental regulation or order, which annoys or interferes with the rights of other tenants of Landlord, or which constitutes a nuisance or waste. Tenant shall obtain any pay for all permits, including a Certificate of Occupancy, required for Tenant's occupancy of the Property and shall promptly take all actions necessary to comply with all applicable statutes, ordinances, rules, regulations, orders and requirements regulating the use by Tenant of the Property, including the Occupational Safety and Health Act.

SEE ADDENDUM TO LEASE, PARAGRAPH 4

Section 5.03. HAZARDOUS MATERIALS. As used in this Lease, the term "Hazardous Material" means any flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials, including any substances defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials" or "toxic substances" now or subsequently regulated under any applicable federal, state or local laws or regulations, including without limitation petroleum-based products, paints, solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, PCBs and similar compounds, and including any different products and materials which are subsequently found to have adverse effects on the environment or the health and safety of persons. Tenant shall not cause or permit any Hazardous Material to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Property by Tenant, its agents, employees, contractors, subleasees or invitees without the prior written consent of Landlord. Landlord shall be entitled to take into account such other factors or facts as Landlord may reasonably determine to be relevant in determining whether to grant or withhold consent to Tenant's proposed activity with respect to Hazardous Material. In no event, however, shall Landlord be required to consent to the installation or use of any storage tanks on the Property. Notwithstanding anything to the contrary contained in this Lease, Landlord acknowledges that Tenant will be operating a distribution and warehouse facility at the Property, and Tenant shall be entitled to bring upon, use and store on and in the Property normal amounts of Hazardous Materials (including, but not limited to, fuel for forklift trucks, cleaning compounds and other products used in the normal course of Tenants business) without Landlord's prior consent provided that Tenant shall use all such Hazardous Materials in compliance with all applicable laws.

Section 5.04. SIGNS AND AUCTIONS. Tenant shall not place any signs on the Property without Landlord's prior written consent. Tenant shall not conduct or permit any auctions or sheriff's sales at the Property.

Section 5.05. INDEMNITY. Tenant shall indemnify Landlord against and hold Landlord harmless from any and all costs, claims or liability arising from: (a) Tenant's use of the Property; (b) the conduct of Tenant's business or anything else done or permitted by Tenant to be done in or about the Property, including any contamination of the Property or any other property resulting from the presence or use of Hazardous Material caused or permitted by Tenant; (c) any breach or default in the performance of Tenant's obligations under this Lease; (d) any misrepresentation or breach of warranty by Tenant under this Lease; or (e) other acts or omissions of Tenant.

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Tenant shall defend Landlord against any such cost, claim or liability at Tenant's expense with counsel reasonably acceptable to Landlord or, at Landlord's election, Tenant shall reimburse Landlord for any legal fees or costs incurred by Landlord in connection with any such claim (but Landlord shall not settle any claim without Tenant's written consent, which shall not be unreasonably withheld). As a material part of the consideration to Landlord,

Tenant assumes all risk of damage to property or injury to persons in or about the Property arising from any cause, and Tenant hereby waives all claims in respect thereof against Landlord, except for any claim arising out of Landlord's negligence or willful misconduct. As used in this Section, the term "Tenant" shall include Tenant's employees, agents, contractors and invitees, if applicable.

Section 5.06. LANDLORD'S ACCESS. Landlord or its agents may enter the Property at all times reasonable for Tenant's business to show the Property to potential buyers, investors or tenants, or to inspect and conduct tests in order to monitor Tenant's compliance with all applicable environmental laws and all laws governing the presence and use of Hazardous Material. Landlord shall give Tenant prior notice of such entry, except in the case of an emergency. Landlord may place customary "For Sale" or "For Lease" signs on the Property. Any such access by Landlord or its agents pursuant to this section, or otherwise, shall only be permitted in accordance with the following:

- (a) Landlord shall give Tenant reasonable prior notice of any desired access (at least one business day in advance, except in case of emergency);
- (b) Any such access shall be strictly in accordance with such security and confidentiality requirements as Tenant may require (including, without limitation the requirement that any person having access be escorted by an employee of Tenant and that any such person sign nondisclosure and confidentiality agreements acceptable to Tenant).

Section 5.07. QUIET POSSESSION. If Tenant pays the rent and complies with all other terms of this Lease, Tenant may occupy and enjoy the Property for the full Lease Term, subject to the provisions of this Lease.

#### ARTICLE SIX: CONDITION OF PROPERTY; MAINTENANCE, REPAIRS AND ALTERATIONS

Section 6.01. EXISTING CONDITIONS. Tenant accepts the Property in its condition as of the Commencement Date, subject to all recorded matters, laws, ordinances, and governmental regulations and orders. Except as provided herein, Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation as to the condition of the Property or the suitability of the Property for Tenant's intended use. Tenant represents and warrants that Tenant has made its own inspection of and inquiry regarding the condition of the Property and is not relying on any representations of Landlord (except as set forth herein) or any Broker with respect thereto.

Section 6.02. EXEMPTION OF LANDLORD FROM LIABILITY. Landlord shall not be liable for any damage or injury to the person, business (or any loss of income therefrom), goods, wares, merchandise or other property of Tenant, Tenant's employees, invitees, customers or any other person in or about the Property, whether such damage or injury is caused by or results from: (a) fire, steam, electricity, water, gas or rain; (b) the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or any other cause; (c) conditions arising in or about the Property or from other sources or places; or (d) any act or omission of any other tenant of Landlord. Landlord shall not be liable for any such damage or injury even though the cause of or the means of repairing such damage or injury are not accessible to Tenant. The provisions of this Section 6.02 shall not, however, exempt Landlord from liability for Landlord's negligence or willful misconduct.

Section 6.03. LANDLORD'S OBLIGATIONS. Subject to the provisions of Article Seven (Damage or Destruction) and Article Eight (Condemnation), Landlord shall have absolutely no responsibility to repair, maintain or replace any portion of the Property at any time; provided, however, that Landlord shall, at its sole cost, be responsible for any structural repairs or replacements, and for any replacements of the roof or roof membrane, building foundations, exterior walls or buried utility lines outside of the building. Tenant, however, shall be responsible for normal roof repairs after the initial ten (10) years of the Lease (from the Commencement Date). Tenant waives the benefit of any present or

future law, which might give Tenant the right to repair the Property at Landlord's expense or to terminate the Lease due to the condition of the Property.

#### Section 6.04. TENANT'S OBLIGATIONS.

(a) Except as provided in Section 6.03, Article Seven (Damage or Destruction) and Article Eight (Condemnation), Tenant shall keep all portions of the Property (including structural, nonstructural, interior, exterior, and landscaped areas, portions, systems and equipment) in good order, condition and repair (including interior repainting and refinishing, as needed), subject to normal wear and tear. If any portion of the Property or any system or equipment in the Property which Tenant is obliged to repair cannot be fully repaired or restored, Tenant shall promptly replace such portion of the Property or system or equipment in the Property, regardless of whether the benefit of such replacement extends beyond the Lease Term; but if the benefit or useful life of such replacement extends beyond the Lease Term (as such term may be extended by exercise of any options), the useful life of such replacement shall be prorated over the remaining portion of the Lease Term (as extended), and Tenant shall be liable only for that portion of the cost which is applicable to the Lease Term (as extended) and shall receive a refund from Landlord for any portion after the Lease term. Tenant shall maintain a preventive

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maintenance contract providing for the regular inspection and maintenance of the heating and air conditioning system by a licensed heating and air conditioning contractor. If any part of the Property is damaged by any act or omission of Tenant, Tenant shall pay Landlord the cost of repairing or replacing such damaged property, whether or not Landlord would otherwise be obligated to pay the cost of maintaining or repairing such property. It is the intention of Landlord and Tenant that at all times Tenant shall maintain the portions of the Property which Tenant is obligated to maintain in an attractive, and fully operative condition subject to normal wear and tear.

(b) Tenant shall fulfill all of Tenant's obligations under this Section 6.04 at Tenant's sole expense. If Tenant fails to maintain, repair or replace the Property as required by this Section 6.04, within thirty (30) days after written notice from Landlord, Landlord may, upon ten (10) days' prior written notice to Tenant (except that no notice shall be required in the case of an emergency), enter the Property and perform such maintenance or repair (including replacement, as needed) on behalf of Tenant. In such case, Tenant shall reimburse Landlord for all reasonable costs incurred in performing such maintenance or repair immediately upon demand.

#### Section 6.05. ALTERATIONS, ADDITIONS, AND IMPROVEMENTS.

(a) Tenant shall not make any alterations, additions, or improvements to the Property without Landlord's prior written consent, (which consent shall not be unreasonably withheld) except for non-structural alterations and miscellaneous cabling (data, phone, etc.) which do not adversely affect the building systems and which are not visible from the outside of any building of which the Property is part. Tenant shall promptly remove any alterations, additions, or improvements constructed in violation of this Paragraph 6.05(a) upon Landlord's written request. All alterations, additions, and improvements shall be done in a good and workmanlike manner, in conformity with all applicable laws and regulations, and by a contractor approved by Landlord. Upon completion of any such work, Tenant shall provide Landlord with "as built" plans, copies of all construction contracts, and proof of payment for all labor and materials.

(b) Tenant shall pay when due all claims for labor and material furnished to the Property. Tenant shall give Landlord at least twenty (20) days' prior written notice of the commencement of any work on the Property, regardless of whether Landlord's consent to such work is required. Landlord may elect to record and post notices of non-responsibility on the Property.

Section 6.06. CONDITION UPON TERMINATION. Upon the termination of the Lease, Tenant shall surrender the Property to Landlord, broom clean and in the same condition as received (with such alterations as Landlord shall have approved, if approval is required or for which approval was not required) except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under any provision of this Lease. However, Tenant shall not be obligated to repair any damage which Landlord is required to repair under Article Seven (Damage or Destruction). In addition, Landlord may, if Landlord so notifies Tenant at the time of granting initial consent, require Tenant to remove any alternations, additions or improvements (whether or not made with Landlord's consent) prior to the expiration of the Lease and to restore the Property to its prior condition, all at Tenant's expense. All alterations, additions and improvements which Tenant does not remove shall become Landlord's property and shall be surrendered to Landlord upon the expiration or earlier termination of the Lease, except that Tenant may remove any of Tenant's machinery, trade fixtures, or equipment which can be removed without material damage to the Property. Tenant shall repair, at Tenant's expense, any damage to the Property caused by the removal of any such machinery, trade fixtures, or equipment. In no event, however, shall Tenant remove any of the following materials or equipment (which shall be deemed Landlord's property) with Landlord's prior written consent: lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; carpets or other floor coverings; heaters, air conditioners or any other heating or air conditioning equipment; fencing or security gates.

#### ARTICLE SEVEN: DAMAGE OR DESTRUCTION

##### Section 7.01 PARTIAL DAMAGE TO PROPERTY.

(a) Tenant shall notify Landlord in writing immediately upon the occurrence of any damage to the Property. If the Property is only partially damaged (i.e., less than fifty percent (50%) of the Property is untenable as a result of such damage or less than fifty percent (50%) of Tenant's operations are materially impaired) and if the proceeds received by Landlord from the insurance policies described in Paragraph 4.04(b) are sufficient to pay for the necessary repairs, this Lease shall remain in effect and Landlord shall repair the damage as soon as reasonably possible. Landlord may elect (but is not required) to repair any damage to Tenant's fixtures, equipment, or improvements.

(b) If the insurance proceeds received by Landlord are not sufficient to pay the entire costs of repair, or if the cause of the damage is not covered by the insurance policies which Landlord maintains under Paragraph 4.04(b) Landlord may elect either to (i) repair the damage as soon as reasonably possible, in which case this Lease shall remain in full force and effect, or (ii) terminate this Lease as of the date the damage occurred. Landlord shall notify Tenant within twenty (20) business days after receipt of notice of the occurrence of the damage whether Landlord elects to repair the damage or terminate the Lease. If Landlord elects to repair the damage, Tenant shall pay Landlord the "deductible amount" (if any) under Landlord's insurance policies and, if the damage was due to an act or omission of Tenant, or Tenant's employees, agents, contractors or invitees, the difference between the actual cost of repair and any insurance proceeds received by Landlord. If Landlord elects to terminate this Lease, Tenant may elect to continue this Lease in full force and effect, in which case Tenant shall repair any damage to the Property and any building in which the Property is located. Tenant shall pay the cost of such repairs, except that upon satisfactory completion of such repairs, Landlord shall deliver to Tenant any insurance proceeds received by

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Landlord for the damage repaired by Tenant. Tenant shall give Landlord written notice of such election within (10) days after receiving Landlord's termination notice.

(c) If the damage to the Property occurs during the last twelve (12) months of the Lease Term and such damage will require more than sixty (60) days

to repair, and Tenant has not elected to re-new this Lease, either Landlord or Tenant may elect to terminate this Lease as of the date damage occurred, regardless of the sufficiency of any insurance proceeds. The party electing to terminate this Lease shall give written notification to the other party of such election within twenty (20) days after Tenant's notice to Landlord of the occurrence of the damage.

Section 7.02. SUBSTANTIAL OR TOTAL DESTRUCTION. If the Property is substantially or totally destroyed by any cause whatsoever (i.e., the damage to the Property is greater than partial damage as described in Section 7.01), and regardless of whether Landlord receives any insurance proceeds, this Lease shall terminate as of the date the destruction occurred. Notwithstanding the preceding sentence, if the Property can be rebuilt within six (6) months after the date of destruction, Landlord may elect to rebuild the Property at Landlord's own expense, in which case this Lease shall remain in full force and effect. Landlord shall notify Tenant of such election within twenty (20) business days after Tenant's notice of the occurrence of total or substantial destruction. If Landlord so elects, Landlord shall rebuild the Property at Landlord's sole expense, except that if the destruction was caused by an act or omission of Tenant, Tenant shall pay Landlord the difference between the actual cost of rebuilding and any insurance proceeds received by Landlord.

Section 7.03. TEMPORARY REDUCTION OF RENT. If the Property is destroyed or damaged and Landlord or Tenant repairs or restores the Property pursuant to the provisions of this Article Seven, any rent payable during the period of such damage, repair and/or restoration shall be reduced according to the degree, if any, to which Tenant's use of the Property is impaired. Except for such possible reduction in Base Rent, insurance premiums and real property taxes, Tenant shall not be entitled to any compensation, reduction, or reimbursement from Landlord as a result of any damage, destruction, repair, or restoration of or to the Property.

Section 7.04. WAIVER. Tenant waives the protection of any statute, code or judicial decision which grants a tenant the right to terminate a lease in the event of the substantial or total destruction of the leased property. Tenant agrees that the provisions of Section 7.02 above shall govern the rights and obligations of Landlord and Tenant in the event of any substantial or total destruction to the Property.

#### ARTICLE EIGHT: CONDEMNATION

If all or any portion of the Property is taken under the power of eminent domain or sold under the threat of that power (all of which are called "Condemnation"), this Lease shall terminate as to the part taken or sold on the date the condemning authority takes title or possession, whichever occurs first. If more than twenty percent (20%) of the floor area of the building in which the Property is located, or which is located on the Property, is taken, either Landlord or Tenant may terminate this Lease as of the date the condemning authority takes title or possession, by delivering written notice to the other within ten (10) days after receipt of written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority takes title or possession). However, Landlord shall not be entitled to terminate this Lease if Tenant certifies that the Property is still usable for Tenant's business. If neither Landlord nor Tenant terminates this Lease, this Lease shall remain in effect as to the portion of the Property not taken, except that the Base Rent and Additional Rent shall be reduced in proportion to the reduction in the floor area of the Property. Any Condemnation award or payment shall be distributed in the following order: (a) first, to any ground lessor, mortgagee or beneficiary under a deed of trust encumbering the Property, the amount of its interest in the Property; (b) second, to Tenant, only the amount of any award specifically designated for loss of or damage to Tenant's trade fixtures or removable personal property; and (c) third, to Landlord, the remainder of such award, whether as compensation for reduction in the value of the leasehold, the taking of the fee, or otherwise. If this Lease is not terminated, Landlord shall repair any damage to the Property caused by the Condemnation, except that Landlord shall not be obligated to repair any damage for which Tenant has been reimbursed by the condemning authority. If the severance damages received by Landlord are not sufficient to pay for such repair, Landlord shall have the

right to either terminate this Lease (if Tenant does not pay the difference) or make such repair at Landlord's expense.

ARTICLE NINE: ASSIGNMENT AND SUBLETTING

Section 9.01. LANDLORD'S CONSENT REQUIRED. No portion of the Property or of Tenant's interest in this Lease may be acquired by any other person or entity, whether by sale, assignment, mortgage, sublease, transfer, operation of law, or act of tenant, without Landlord's prior written consent as provided in Section 9.02 below. Landlord has the right to grant or reasonably withhold its consent as provided in Section 9.05 below. Any attempted transfer without consent shall be void and shall constitute a non-curable breach of this Lease. Landlord acknowledges that Tenant is a publicly traded corporation, and Landlord agrees that the transfer of any stock in Tenant (whether or not a controlling interest) shall not require Landlord's prior consent.

Section 9.02. TENANT AFFILIATE. Tenant may assign this Lease or sublease the Property, without Landlord's consent, to any corporation or other entity which controls, is controlled by or is under common control with Tenant, or to

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any corporation or other entity resulting from the merger of or consolidation with Tenant ("Tenant's Affiliate"). In such case, any Tenant's Affiliate shall assume in writing all of Tenant's obligations under this Lease. The Tenant may also assign this Lease to any entity that acquires all or, substantially all, of Tenant's assets, provided that any such transferee shall assume in writing all of Tenant's obligations under this Lease.

Section 9.03. NO RELEASE OF TENANT. No transfer permitted by this Article Nine, whether with or without Landlord's consent, shall release Tenant or change Tenant's primary liability to pay the rent and to perform all other obligations of Tenant under this Lease. Landlord's acceptance of rent from any other person is not a waiver of any provision of this Article Nine. Consent to one transfer is not a consent to any subsequent transfer. If Tenant's transferee defaults under this Lease, Landlord may proceed directly against Tenant without pursuing remedies against the transferee. Landlord may consent to subsequent assignments or modifications of this Lease by Tenant's transferee, without notifying Tenant or obtaining its consent. Such action shall not relieve Tenant's liability under this Lease.

Section 9.04. OFFER TO TERMINATE. If Tenant desires to assign the Lease or sublease the Property, Tenant shall have the right to offer, in writing, to terminate the Lease as of a date specified in the offer. If Landlord elects in writing to accept the offer to terminate within twenty (20) days after notice of the offer, the Lease shall terminate as of the date specified and all the terms and provisions of the Lease governing termination shall apply. If Landlord does not so elect, the Lease shall continue in effect until otherwise terminated and the provisions of Section 9.05 with respect to any proposed transfer shall continue to apply.

Section 9.05. LANDLORD'S CONSENT.

(a) Tenant's request for consent to any transfer described in Section 9.01 shall set forth in writing the details of the proposed transfer, including the name, business and financial condition of the prospective transferee, financial details of the proposed transfer (e.g., the term of and the rent and security deposit payable under any proposed assignment or sublease), and any other information Landlord reasonably deems relevant. Landlord shall have the right to withhold consent, if reasonable, or to grant consent, based on the following factors: (i) the business of the proposed assignee or subtenant and the proposed use of the Property; (ii) the net worth and creditworthiness of the proposed assignee or subtenant; and (iii) Tenant's compliance with all of its obligations under the Lease. If Landlord objects to a proposed assignment solely because of the net worth and or creditworthiness of the proposed assignee, Tenant may nonetheless sublease (but not assign), all or a portion of the Property to the

proposed transferee, but only on the other terms of the proposed transfer.

(b) If Tenant assigns or subleases, the following shall apply:

(i) Tenant shall pay to Landlord as Additional Rent under the Lease the Landlord's Share (stated in Section 1.13) of the Profit (defined below) on such transaction as and when received by Tenant, unless Landlord gives written notice to Tenant and the assignee or subtenant that Landlord's Share shall be paid by the assignee or subtenant to Landlord directly. The "Profit" means (A) all amounts paid to Tenant for such assignment or sublease, including "key" money, monthly rent in excess of the monthly rent payable under the Lease, and all fees and other consideration paid for the assignment or sublease, including fees under any collateral agreements, less (B) costs and expenses directly incurred by Tenant in connection with the execution and performance of such assignment or sublease for real estate broker's commissions and costs of renovation or construction of tenant improvements required under such assignment or sublease. Tenant is entitled to recover such costs and expenses before Tenant is obligated to pay the Landlord's Share to Landlord. The Profit in the case of a sublease of less than all the Property is the rent allocable to the subleased space as a percentage on a square footage basis.

(ii) Tenant shall provide Landlord a written statement certifying all amounts to be paid from any assignment or sublease of the Property within thirty (30) days after the transaction documentation is signed, and Landlord may inspect Tenant's publicly-available books and records with respect to such transaction to verify the accuracy of such statement. On written request, Tenant shall promptly furnish to Landlord copies of all the transaction documentation, all of which shall be certified by Tenant to be complete, true and correct. Landlord's receipt of Landlord's Share shall not be a consent to any further assignment or subletting. The breach of Tenant's obligation under this Paragraph 9.05(b) shall be a material default of the Lease.

Section 9.06. NO MERGER. No merger shall result from Tenant's sublease of the Property under this Article Nine, Tenant's surrender of this Lease or the termination of this Lease in any other manner. In any such event, Landlord may terminate any or all subtenancies or succeed to the interest of Tenant as sublandlord under any or all subtenancies.

#### ARTICLE TEN: DEFAULTS; REMEDIES

Section 10.01. COVENANTS AND CONDITIONS. Tenant's performance of each of Tenant's obligations under this Lease is a condition as well as a covenant. Tenant's right to continue in possession of the Property is conditioned upon such performance. Time is of the essence in the performance of all covenants and conditions.

Section 10.02. DEFAULTS. Tenant shall be in material default under this Lease:

(a) If Tenant abandons the Property in excess of thirty (30) days while Tenant is in default (beyond applicable notice and cure periods) of a monetary obligation of the Lease;

(b) If Tenant fails to pay rent or any other charge within ten (10) days after written notice from Landlord that

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said payment is overdue;

(c) If Tenant fails to perform any of Tenant's non-monetary obligations under this Lease for a period of thirty (30) days after written notice from Landlord; provided that if more than thirty (30) days are required to complete such performance, Tenant shall not be in default if Tenant commences such performance within the thirty (30) day period and thereafter diligently pursues its completion. The notice required by this Paragraph is intended to satisfy any and all notice requirements imposed by law on Landlord and is not in addition to any such requirement.

(d) (i) If Tenant makes a general assignment or general arrangement for the benefit of creditors; (ii) if a petition for adjudication of bankruptcy or for reorganization or rearrangement is filed by or against Tenant and is not dismissed within thirty (30) days; (iii) if a trustee or receiver is appointed to take possession of substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease and possession is not restored to Tenant within thirty (30) days; or (iv) if substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease is subjected to attachment, execution or other judicial seizure which is not discharged within thirty (30) days. If a court of competent jurisdiction determines that any of the acts described in this subparagraph (d) is not a default under this Lease, and a trustee is appointed to take possession (or if Tenant remains a debtor in possession) and such trustee or Tenant transfers Tenant's interest hereunder, then Landlord shall receive, as Additional Rent, the excess, if any, of the rent (or any other consideration) paid in connection with such assignment or sublease over the rent payable by Tenant under this Lease.

(e) If any guarantor of the Lease revokes or otherwise terminates, or purports to revoke or otherwise terminate, any guaranty of all or any portion of Tenant's obligations under the Lease. Unless expressly provided, no guaranty of the Lease is revocable.

Section 10.03. REMEDIES. On the occurrence of any material default by Tenant, Landlord may, at any time thereafter, with or without further notice of demand and without limiting Landlord in the exercise of any right or remedy which Landlord may have;

(a) Terminate Tenant's right to possession of the Property by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Property to Landlord. In such event, Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including (i) the worth at the time of the award of the unpaid Base Rent, Additional Rent and other charges which Landlord had earned at the time of the termination; (ii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which Landlord would have earned after termination until the time of the award exceeds the amount of such rental loss that Tenant proves Landlord could have reasonably avoided; (iii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which Tenant would have paid for the balance of the Lease term after the time of award exceeds the amount of such rental loss that Tenant proves Landlord could have reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses Landlord incurs in maintaining or preserving the Property after such default, the cost of recovering possession of the Property, expenses of reletting, including necessary renovation or alteration of the Property, Landlord's reasonable attorney's fees incurred in connection therewith, and any real estate commission paid or payable. As used in subparts (i) and (ii) above, the "worth at the time of the award" is computed by allowing interest on unpaid amounts at the rate of fifteen percent (15%) per annum, or such lesser amount as may then be the maximum lawful rate. As used in subpart (iii) above, the "worth at the time of the award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%). If Tenant has abandoned the Property, Landlord shall have the option of (i) retaking possession of the Property and recovering from Tenant the amount specified in this Paragraph 10.03(a), or (ii) proceeding under Paragraph 10.03(b);

(b) Maintain Tenant's right to possession, in which case this Lease shall continue in effect whether or not Tenant has abandoned the Property. In such event, Landlord shall be entitled to enforce all of Landlord's rights and remedies under this Lease, including the right to recover the rent as it becomes due;

(c) Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state in which the Property is located.

Section 10.04. REPAYMENT OF "FREE" RENT. If this Lease provides for a postponement of any monthly rental payments, a period of "free" rent or other rent concession, such postponed rent or "free" rent is called the "Abated Rent". Tenant shall be credited with having paid all of the Abated Rent on the expiration of the Lease Term only if Tenant has fully, faithfully, and punctually performed all of Tenant's obligations hereunder, including the payment of all rent (other than the Abated Rent) and all other monetary obligations and the surrender of the Property in the physical condition required by this Lease. Tenant acknowledges that its right to receive credit for the Abated Rent is absolutely conditioned upon Tenant's full faithful and punctual performance of its obligations under this Lease. If Tenant defaults and does not cure within any applicable grace period, the Abated Rent shall immediately become due and payable in full and this Lease shall be enforced as if there were no such rent abatement or other rent concession. In such case Abated Rent shall be calculated based on the full initial rent payable under this Lease.

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Section 10.06. CUMULATIVE REMEDIES. Landlord's exercise of any right or remedy shall not prevent it from exercising any other right or remedy.

#### ARTICLE ELEVEN: PROTECTION OF LENDERS

Section 11.01. SUBORDINATION. Landlord shall have the right to subordinate this Lease to any ground lease, deed of trust or mortgage encumbering the Property, any advances made on the security thereof and any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. Tenant shall cooperate with Landlord and any lender which is acquiring a security interest in the Property or the Lease. Tenant shall execute such further documents and assurances as such lender may require, provided that Tenant's monetary obligations under this Lease shall not be increased in any way and Tenant's contractual obligations under this Lease shall not be increased in any material way (the performance of ministerial acts shall not be deemed material), and Tenant shall not be deprived of its rights under this Lease. Tenant's right to quiet possession of the Property during the Lease Term shall not be disturbed if Tenant pays the rent and performs all of Tenant's obligations under this Lease and is not otherwise in default. If any ground lessor, beneficiary or mortgagee elects to have this Lease prior to the lien of its ground lease, deed of trust or mortgage and gives written notice thereof to Tenant, this Lease shall be deemed prior to such ground lease, deed of trust or mortgage whether this Lease is dated prior or subsequent to the date of said ground lease, deed of trust or mortgage or the date of recording thereof. Notwithstanding the foregoing, Landlord agrees that Landlord shall cause to be delivered to Tenant a non-disturbance agreement from Landlord's lender ("Lender"), if any, within thirty (30) days of the Commencement Date, pursuant to which the Lender shall agree that in event of a foreclosure or deed in lieu thereof it shall not disturb Tenant's possession under this Lease so long as Tenant pays the rent and performs all of its obligations hereunder and is not otherwise in default. If a non-disturbance agreement is not timely delivered, Tenant may terminate this Lease within fifteen (15) days thereafter. The non-disturbance agreement shall be in a commercially reasonable form and subject to Tenant's reasonable approval.

Section 11.02. ATTORNTMENT. If Landlord's interest in the Property is acquired by any ground lessor, beneficiary under a deed of trust, mortgagee, or purchaser at a foreclosure sale, Tenant shall attorn to the transferee of or successor to Landlord's interest in the Property and recognize such transferee or successor as Landlord under this Lease. Tenant waives the protection of any statute or rule of law which gives or purports to give Tenant any right to terminate this Lease or surrender possession of the Property upon the transfer of Landlord's interest.

Section 11.03. SIGNING OF DOCUMENTS. Tenant shall sign and deliver any instrument or documents necessary or appropriate to evidence any such

attornment or subordination or agreement to do so. If Tenant fails to do so within ten (10) days after written request, Tenant hereby makes, constitutes and irrevocably appoints Landlord, or any transferee or successor of Landlord, the attorney-in-fact of Tenant to execute and deliver any such instrument or document.

#### Section 11.04. ESTOPPEL CERTIFICATES.

(a) Upon Landlord's written request, Tenant shall execute, acknowledge and deliver to Landlord a written statement certifying: (i) that none of the terms or provisions of this Lease have been changed (or if they have been changed, stating how they have been changed); (ii) that this Lease has not been canceled or terminated; (iii) the last date of payment of the Base Rent and other charges and the time period covered by such payment; (iv) to the best of its knowledge that Landlord is not in default under this Lease (or, if Landlord is claimed to be in default, stating why); and (v) such other representations or information with respect to Tenant or the Lease as Landlord may reasonably request or which any prospective purchaser or encumbrancer of the Property may reasonably require. Tenant shall deliver such statement to Landlord within ten (10) days after Landlord's request. Landlord may give any such statement by Tenant to any prospective purchaser or encumbrancer of the Property. Such purchaser or encumbrancer may rely conclusively upon such statement as true and correct.

(b) If Tenant does not deliver such statement to Landlord within such ten (10)-day period, Landlord, and any prospective purchaser or encumbrancer, may conclusively presume and rely upon the following facts: (i) that the terms and provisions of this Lease have not been changed except as otherwise represented by Landlord; (ii) that this Lease has not been canceled or terminated except as otherwise represented by Landlord; (iii) that not more than one month's Base Rent or other charges have been paid in advance; and (iv) that Landlord is not in default under the Lease. In such event, Tenant shall be estopped from denying the truth of such facts.

Section 11.05 TENANT'S FINANCIAL CONDITION. Within ten (10) days after written request from Landlord, Tenant shall deliver to Landlord such publicly-available financial statements as Landlord reasonably requires to verify the

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net worth of Tenant or any assignee, of Tenant. In addition, Tenant shall deliver to any lender designated by Landlord any publicly-available financial statements required by such lender to facilitate the financing or refinancing of the Property. Tenant represents and warrants to Landlord that each such financial statement is a true and accurate statement as of the date of such statement. All financial statements shall be confidential and shall be used only for the purposes set forth in this Lease.

#### ARTICLE TWELVE: LEGAL COSTS

Section 12.01. LEGAL PROCEEDINGS. If any action for breach of or to enforce the provisions of this Lease is commenced, the court in such action shall award to the party in whose favor a judgment is entered, a reasonable sum as attorneys' fees and costs. The losing party in such action shall pay such attorneys' fees and costs. Tenant shall also indemnify Landlord against and hold Landlord harmless from all costs, expenses, demands and liability Landlord may incur if Landlord becomes or is made a party to any claim or action (a) instituted by Tenant against any third party, or by any third party against Tenant, or by or against any person holding any interest under or using the Property by license of or agreement with Tenant; (b) for foreclosure of any lien for labor or material furnished to or for Tenant or such other person; (c) otherwise arising out of or resulting from any act or transaction of Tenant or such other person; or (d) necessary to protect Landlord's interest under this Lease in a bankruptcy proceeding, or other proceeding under Title 11 of the United States code, as amended. Tenant shall defend Landlord against any such claim or action

at Tenant's expense with counsel reasonably acceptable to Landlord.

Section 12.02. LANDLORD'S CONSENT. Tenant shall pay Landlord's reasonable attorneys' fees incurred in connection with Tenant's request for Landlord's consent under Article Nine (ASSIGNMENT AND SUBLETTING), or in connection with any other act which Tenant proposes to do and which requires Landlord's consent.

#### ARTICLE THIRTEEN: MISCELLANEOUS PROVISIONS

Section 13.01. NON-DISCRIMINATION. Tenant promises, and it is a condition to the continuance of this Lease, that there will be no discrimination against, or segregation of, any person or group of persons on the basis of race, color, sex, creed, national origin or ancestry in the leasing, subleasing, transferring, occupancy, tenure or use of the Property or any portion thereof.

Section 13.02. LANDLORD'S LIABILITY; CERTAIN DUTIES.

(a) As used in this Lease, the term "Landlord" means only the current owner or owners of the fee title to the Property or the leasehold estate under a ground lease of the Property at the time in question. Each Landlord is obligated to perform the obligations of Landlord under this Lease only during the time such Landlord owns such interest or title. Any Landlord who transfers its title or interest is relieved of all liability with respect to the obligations of Landlord under this Lease to be performed on or after the date of transfer. However, each Landlord shall deliver to its transferee all funds that Tenant previously paid if such funds have not yet been applied under the terms of this Lease.

(b) Tenant shall give written notice of any failure by Landlord to perform any of its obligations under this Lease to Landlord and to any ground lessor, mortgagee or beneficiary under any deed of trust encumbering the Property whose name and address have been furnished to Tenant in writing. Landlord shall not be in default under this Lease unless Landlord (or such ground lessor, mortgagee or beneficiary) fails to cure such non-performance within thirty (30) days after receipt of Tenant's notice. However, if such non-performance reasonably requires more than thirty (30) days to cure, Landlord shall not be in default if such cure is commenced within such thirty (30)-day period and thereafter diligently pursued to completion.

(c) Notwithstanding any term or provision herein to the contrary, the liability of Landlord for the performance of its duties and obligations under this Lease is limited to Landlord's interest in the Property (and any proceeds thereof), and neither the Landlord nor its partners, shareholders, officers or other principals shall have any personal liability under this Lease.

Section 13.03. SEVERABILITY. A determination by a court of competent jurisdiction that any provision of this Lease or any part thereof is illegal or unenforceable shall not cancel or invalidate the remainder of such provision or this lease, which shall remain in full force and effect.

Section 13.04. INTERPRETATION. the captions of the Articles or Sections of this Lease are to assist the parties in reading this Lease and are not a part of the terms or provisions of this Lease. Whenever required by the context of this Lease, the singular shall include the plural and the plural shall include the singular. The masculine, feminine and neuter genders shall each include the other. In any provision relating to the conduct, acts or omissions of Tenant, the term "Tenant" shall include Tenant's agents, employees, contractors, invitees, successors or others using the Property with Tenant's expressed or implied permission.

Section 13.05. INCORPORATION OF PRIOR AGREEMENTS; MODIFICATIONS. This Lease is the only agreement between the

effective. All amendments to this Lease shall be in writing and signed by all parties. Any other attempted amendment shall be void.

Section 13.06. NOTICES. All notices required or permitted under this Lease shall be in writing and shall be personally delivered or sent by certified mail, return receipt requested, postage prepaid. Notices to Tenant shall be delivered to the address specified in Section 1.03 above. Notices to Landlord shall be delivered to the address specified in Section 1.02 above. All notices shall be effective upon delivery. Either party may change its notice address upon written notice to the other party.

Section 13.07. WAIVERS. All waivers must be in writing and signed by the waiving party. Landlord's failure to enforce any provision of this Lease or its acceptance of rent shall not be a waiver and shall not prevent Landlord from enforcing that provision or any other provision of this Lease in the future. No statement on a payment check from Tenant or in a letter accompanying a payment check shall be binding on Landlord. Landlord may, with or without notice to Tenant, negotiate such check without being bound to the conditions of such statement.

Section 13.08. NO RECORDATION. Tenant shall not record this Lease without prior written consent from Landlord. However, either Landlord or Tenant may require that a "Short Form" memorandum of this Lease fees (including the right of first refusal to purchase as set forth in the Addendum) executed by both parties be recorded. The party requiring such recording shall pay all transfer taxes and recording.

Section 13.09. BINDING EFFECT; CHOICE OF LAW. This Lease binds any party who legally acquires any rights or interest in this Lease from Landlord or Tenant. However, Landlord shall have no obligation to Tenant's successor unless the rights or interests of Tenant's successor are acquired in accordance with the terms of this Lease. The laws of the state in which the Property is located shall govern this Lease.

Section 13.10. CORPORATE AUTHORITY; PARTNERSHIP AUTHORITY. If Tenant is a corporation, each person signing this Lease on behalf of Tenant represents and warrants that he has full authority to do so and that this Lease binds the corporation. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a certified copy of a resolution of Tenant's Board of Directors authorizing the execution of this Lease or other evidence of such authority reasonably acceptable to Landlord. If Tenant is a partnership, each person or entity signing this Lease for Tenant represents and warrants that he or it is a general partner of the partnership, that he or it has full authority to sign for the partnership and that this Lease binds the partnership and all general partners of the partnership. Tenant shall give written notice to Landlord of any general partner's withdrawal or addition. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a copy of Tenant's recorded statement of partnership or certificate of limited partnership.

Section 13.11. JOINT AND SEVERAL LIABILITY. All parties signing this Lease as Tenant shall be jointly and severally liable for all obligations of Tenant.

Section 13.12. FORCE MAJEURE. If Landlord or Tenant cannot perform any of its obligations (except Tenant is still obligated for any and all financial obligations and covenants under this Lease from the Commencement Date) due to events beyond such party's control, the time provided for performing such obligations shall be extended by a period of time equal to the duration of such events. Events beyond the party's control include, but are not limited to, acts of God, war, civil commotion, labor disputes, strikes, fire, flood or other casualty, shortages of labor or material, government regulation or restriction and weather conditions.

Section 13.13. EXECUTION OF LEASE. This Lease may be executed in counterparts and, when all counterpart documents are executed, the counterparts shall constitute a single binding instrument. Landlord's delivery of this Lease to Tenant shall not be deemed to be an offer to lease and shall not be binding upon either party until executed and delivered by both parties.

Section 13.14. SURVIVAL. All representations and warranties of Landlord and Tenant shall survive the termination of this Lease.

ARTICLE FOURTEEN: BROKERS

Section 14.01. BROKER'S FEE. Per Separate Agreement (executed December 1, 1998).

Section 14.02. PROTECTION OF BROKERS. If Landlord sells the Property, or assigns Landlord's interest in this Lease,

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the buyer or assignee shall, by accepting such conveyance of the Property or assignment of the Lease, be conclusively deemed to have agreed to make all payments to Landlord's Broker thereafter required of Landlord under this Article Fourteen. Landlord's Broker shall have the right to bring a legal action to enforce or declare rights under this provision. The prevailing party in such action shall be entitled to reasonable attorneys' fees to be paid by the losing party. Such attorneys' fees shall be fixed by the court in such action. This Paragraph is included in this Lease for the benefit of Landlord's Broker.

Section 14.03. BROKER'S DISCLOSURE OF AGENCY. Landlord's Broker hereby discloses to Landlord and Tenant and Landlord and Tenant hereby consent to Landlord's Broker acting in this transaction as the agent of (check one):

- [ ] Landlord exclusively; or
[X] both Landlord and Tenant.

Section 14.04. NO OTHER BROKERS. Tenant represents and warrants to Landlord that the brokers named in Section 1.08 above are the only agents, brokers, finders or other parties with whom Tenant has dealt who are or may be entitled to any commission or fee with respect to this Lease or the Property.

ADDITIONAL PROVISIONS MAY BE SET FORTH IN A RIDER OR RIDERS ATTACHED HERETO OR IN THE BLANK SPACE BELOW. IF NO ADDITIONAL PROVISIONS ARE INSERTED, PLEASE DRAW A LINE THROUGH THE SPACE BELOW.

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Landlord and Tenant have signed this Lease at the place and on the dates specified adjacent to their signatures below and have initialed all Riders which are attached to or incorporated by reference in this Lease.

"LANDLORD"

Signed on December 18, 1998
-----
at Sacramento, CA

Panattoni Development Company
-----
By: /s/ Carl D. Panattoni
-----
Carl D. Panattoni

Its: Partner
-----

By: /s/ James R. Carlsen
-----
James R. Carlsen

Its: Partner
-----

"TENANT"

Signed on December 16, 1998  
-----  
at Seattle WA

Amazon.com, Inc.  
-----  
By: /s/ Alan Caplan  
-----

Its: VP  
-----

By:  
-----

Its:  
-----

IN ANY REAL ESTATE TRANSACTION, IT IS RECOMMENDED THAT YOU CONSULT WITH A PROFESSIONAL, SUCH AS A CIVIL ENGINEER, INDUSTRIAL HYGIENIST OR OTHER PERSON WITH EXPERIENCE IN EVALUATING THE CONDITION OF THE PROPERTY, INCLUDING THE POSSIBLE PRESENCE OF ASBESTOS, HAZARDOUS MATERIALS AND UNDERGROUND STORAGE TANKS.

THIS PRINTED FORM LEASE HAS BEEN DRAFTED BY LEGAL COUNSEL AT THE DIRECTION OF THE SOUTHERN CALIFORNIA CHAPTER OF THE SOCIETY OF INDUSTRIAL AND OFFICE REALTORS, INC. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE SOUTHERN CALIFORNIA CHAPTER OF THE SOCIETY OF INDUSTRIAL AND OFFICE REALTORS, INC., ITS LEGAL COUNSEL, THE REAL ESTATE BROKERS NAMED HEREIN, OR THEIR EMPLOYEES OR AGENTS, AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT OR TAX CONSEQUENCES OF THIS LEASE OR OF THIS TRANSACTION. LANDLORD AND TENANT SHOULD RETAIN LEGAL COUNSEL TO ADVISE THEM ON SUCH MATTERS AND SHOULD RELY UPON THE ADVICE OF SUCH LEGAL COUNSEL.

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ADDENDUM TO LEASE

BY AND BETWEEN

PANATTONI DEVELOPMENT COMPANY OR ASSIGNEE, "LANDLORD"

AND

AMAZON.COM, INC. "TENANT"

Base Rent

The Base Rent on a "Triple Net - NNN" basis is shown below. In addition to Base Rent, Tenant shall be responsible for the Other Periodic Payments as set forth in Section 1.12(b) of the Lease.

Months 1 - 30:	\$114,745 per month
Months 31 - 60:	\$120,483 per month
Months 61 - 90:	\$126,507 per month
Months 91 - 120:	\$132,833 per month

Security Deposit  
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Tenant shall pay a security deposit of \$247,578 upon execution of the Lease that will be applied by Landlord as follows:

\$114,745 (one months rent) to be applied to the Month 1 Base Rent, and \$132,833 to be retained as a security deposit.

Said security deposit shall be increased in the event of expansion pursuant to Paragraph 6 below in an amount equal to one month's rent for the expansion premises.

#### Lease Term

The Lease Term shall commence on the Commencement Date (as defined below) and end on the day immediately preceding the tenth (10th) anniversary of the Commencement Date.

As used herein the "Commencement Date" shall mean the date on which all of the following shall have occurred: Landlord shall have acquired fee simple title to the Property from The Stanley Works pursuant to that certain in Purchase Agreement and Escrow Instructions dated November 30, 1998 ("Purchase Agreement"), and shall have delivered to Tenant reasonable documentation to confirm that the acquisition under the Purchase Agreement has occurred and that the existing lease and mortgage documents entered into by Bank One Trust Company as trustee for the TSW Nevada Trust under recording numbers 203108 and 203109, respectively, have been terminated and fully discharged.

Landlord shall use its "best efforts" to cause the Commencement Date to occur by January 5, 1999 or otherwise as soon as possible thereafter. If after using its best efforts Landlord, for any reason, fails or is unable to cause the Commencement Date to occur by January 29, 1999, the Landlord or Tenant may terminate this Lease upon written notice to the other party given within thirty (30) days thereafter (but given prior to the date on which Landlord causes the Commencement Date to occur).

#### Property Improvements

The Property shall be purchased and leased in "AS-IS" condition, subject to the expansion option set forth below. Except as otherwise set forth in the Lease (including the exhibits thereof), Landlord makes no representation to Tenant relative to the absence or presence of hazardous

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material or to the condition and suitability of the Property for Tenant's use.

#### Right of First Refusal

If during the term of the lease, Landlord receives a bona fide offer for the purchase of the Property (or any portion thereof) which Landlord desires to accept, Landlord shall give written notice to Tenant thereof (the "Offering Notice") to Tenant. The Offering Notice shall contain:

- a) The name and address of the proposed purchaser;
- b) A copy of the terms and conditions of the offer; and
- c) An offer to sell the Property (or such portion) to Tenant in preference to the proposed purchaser and upon the same terms and conditions in the Offering Notice.

Tenant shall be entitled to agree to purchase the Property by giving written notice thereof to Landlord within ten (10) business days after receipt of the Offering Notice, in which case the parties will use good faith efforts to close the transaction within 90 days thereafter. If Tenant fails to deliver notice within such ten (10) business day period, Landlord shall have the right to complete the sale of the offered Property to the proposed purchaser under the

terms and conditions set forth in the Offering Notice. If the terms and conditions of the such sale change, Landlord shall submit another Offering Notice to Tenant setting forth in detail the changes in such sale, which Tenant may accept in accordance with this paragraph 5. Any purchaser of the Property (other than Tenant) shall hold the Property subject to the provisions of this Lease, including Tenant's first right of refusal described in paragraph 5, to the same force and effect as if such purchaser had been the Landlord in the Lease.

#### Option to Expand

6.1 Option: For the first 36 months of the Lease Term, Tenant shall have the right to require Landlord to expand the facility to approximately 530,000 square feet (or the maximum size permitted on the existing site) in approximately the area shown as the Expansion Land on Exhibit A ("Expansion Land"). Tenant shall provide Landlord with 6 months of their intent to expand, prior to the conclusion of the 30th month of the Lease. If Tenant exercises the expansion option, Landlord shall cause the expansion to be completed in accordance with applicable laws and available for Tenant's occupancy within six months after Tenant's notice ("Expansion Completion Date"). In the event that the Tenant does not exercise the expansion option, the option shall expire, a parcel split shall occur, at Landlord's cost, and, commencing on the 36th month of the Lease Term, the Expansion Land shall no longer be part of the Property and the Landlord shall assume responsibility for the excess land, which is estimated to be approximately 10.69 acres (valued at \$582,070 - \$1.25 psf). In such event, at the 36th month, Tenant's Base Rent shall be decreased by \$5,093 per month ( $\$582,070 \times 10 \frac{1}{2}\% / 12$ ). Alternatively, Tenant shall have the right (but shall not be required) to continue leasing the Expansion Land per the terms of the Lease. In the event of expansion, and provided the expansion space is ready for occupancy by the Expansion Completion Date, the Lease Term shall be extended ten (10) years from the Expansion Completion Date and the rental rate shall be adjusted as follows:

6.2 Expansion Rent: In the event that the notice to expand is provided during the first 15 months of the lease term, the additional monthly rent shall equal the actual cost of expansion (including all hard and soft costs but excluding land acquisition costs), multiplied by a factor of  $10 \frac{1}{2}\%$  and divided by 12 months. In the event that the notice to expand is provided during the second 15 months of the Lease Term, the return factor shall be 11%. The rent shall be subject to the same escalations as set forth above. Prior to commencement of construction, Landlord and Tenant shall work together to develop a mutually approved site plan, construction specifications and a final budget for the expansion. The cost of the project shall be determined on an "open book basis", with Landlord obtaining at least three competitive bids from qualified general contractors. The construction contract for the expansion shall contain a fixed price or a guaranteed maximum price, and such contract shall be subject to Tenant's reasonable approval. All change orders, and any other revisions to the project that would change the fixed price or guaranteed maximum price, shall also be subject

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to Tenant's reasonable approval. There will be no development fee included in the project cost.

If for any reason whatsoever (other than Tenant's willful default), the expansion space is not ready for Tenant's occupancy by the date that is three (3) months after the Expansion Complete Date, Tenant shall have the option to a) terminate this Lease, b) require Landlord to pursue completion of the expansion or c) to cause Landlord to cause the parcel split to occur in accordance with Paragraph 6.1 and terminate this Lease with respect to the Expansion Land.

## Renewal Options

Tenant will have two (2) renewal options of five (5) years each. Tenant shall provide Landlord with at least nine (9) months prior written notice in the event that it elects to renew the Lease Term. The rental rate during the option periods will be the market rent at the time of extension as determined by good faith negotiation or arbitration if necessary. In no event will the rent be less than the Base Rent in effect at the end of the original Lease Term or previous extension period. The established Base Rent shall be subject to 5% increases every thirty (30) months.

The Base Rent during each renewal period will be equivalent to the then current market rate for comparable space in the Nevada Pacific Industrial Park, Lyon County, Nevada ("Market Rate"). The Market Rate shall not include the value of any of Tenant's equipment, machinery or personal property installed or located in or on the Property. In the event Landlord and Tenant are unable to agree upon the Market Rate within thirty (30) days of Tenant's notice of renewal to Landlord, then the Base Rent shall be decided by independent appraisal in accordance with the terms of this Paragraph 7. Landlord and Tenant shall each contract for an independent appraisal, which shall begin by no later than sixty (60) days following notice from Tenant to renew. Each appraiser selected shall be a real estate appraiser with an MAI certification or a real estate broker, with at least five years of experience appraising or leasing building space comparable to the Property in the region where the Property is located. The appraisers shall convene in the city or county in which the Property is located as soon as practical and offer Landlord and Tenant an opportunity to present their cases. Each party shall be responsible for the cost, charges and fees of its appointed appraiser and the parties shall share equally in the costs, charges and fees of the third appraiser, if needed. In the event either party fails to appoint an appraiser, then the party who chose an appraiser shall have that appraiser make the determination. If two appraisers are chosen but the two appraisers fail to select a third appraiser within the time required by this section, upon application of either party, the appraiser shall be appointed by the then presiding judge of the district court and/or presiding trial court of the state and county in which the Property is located.

Each appraiser shall have thirty (30) days to determine the Market Rate, which shall take into consideration any retrofit costs or interior improvements to bring the space to a shell state and shall also include any applicable lease commissions. If within fifteen (15) days after determining the Market Rate, the two appraisers cannot agree but the high appraisal is within 10% of the lower of the two appraisals, then the two appraisals shall be averaged and the resulting amount shall be the Market Rate. If within fifteen (15) days after determining the Market Rate the two appraisers cannot agree and their appraisals are more than 10% apart, then both appraisers shall, within fifteen (15) days, appoint a third appraiser to review each appraisers report. This third appraiser shall examine the reports and conclusions from each of the other two appraisers and conclude the Market Rate. Landlord and Tenant agree to abide by such findings and award, whether determined by the agreement of each of the appraiser's selected by Landlord and Tenant or by the third appraiser. This procedure shall be repeated again for the second option period no later than sixty (60) days after receiving Tenant's notice to renew.

## Contingencies

This Lease is strictly conditioned upon the completion of a standard due diligence study of the subject property to be conducted by Landlord and approved by Tenant. Said due diligence shall include (a) an environmental review of the property, (b) a physical examination and study of the condition of the building and parking lot, and (c) a review of the title matters associated with the property, and all materials shall be sent to Tenant for review. Either Landlord or Tenant may

cancel this lease in writing on or before December 23, 1998 pursuant to this paragraph. If neither party cancels this lease in writing pursuant to this Paragraph 8 by December 23, 1998, then this Paragraph 8 shall be of no further force or effect.

Commissions

Landlord shall pay Wilma Warshak of Colliers International a leasing commission per the terms of a separate agreement. No commissions will be paid relative to the Property purchase by Landlord (or assignee) from The Stanley Works.

Adherence to CC&R's

Tenant agrees to adhere to all requirements of the Conditions, Covenants and Restrictions recorded by the Nevada Pacific Industrial Park in the County of Lyon, State of Nevada set forth in documents recorded under recording numbers 194617 and 226155.

Improvements Required By Code

In accordance with provisions of this lease, in the event the County, responsible fire department, or any other governmental agency or entity with jurisdictional authority, requires additional improvements to the building due to Tenant's use, such improvements, and any and all associated costs, shall be at the sole expense and coordination of Tenant, unless otherwise mutually agreed.

Use of Forklifts

Tenant shall be responsible for repair to all damaged areas to concrete or paved areas from any cause whatsoever (other than Landlord's willful negligence or willful misconduct) including, but not limited to, the use of solid forklift tires.

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THIS ADDENDUM IS UNDERSTOOD AND AGREED UPON BY:

LANDLORD: PANATTONI DEVELOPMENT COMPANY

By: /s/ CARL D. PANATTONI 12/18/98  
-----  
Carl D. Panattoni Date  
Partner

By: /s/ JAMES R. CARLSEN 12-18-98  
-----  
James R. Carlsen Date  
Partner

TENANT: AMAZON.COM, INC.

By: /s/ ALAN CAPLAN 12/17/98  
-----  
Its: Vice President Date  
-----  
By: -----  
Its: -----  
----- Date

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## HAZARDOUS MATERIALS RIDER

Amazon.com

Tenant shall (i) not cause or permit any Hazardous Material to be brought upon, kept or used in or about the Premises by Tenant, its agents, employees, contractors or invitees, without the prior written consent of Landlord (which consent Landlord shall not unreasonably withhold or delay as long as Tenant demonstrates to Landlord's reasonable satisfaction that such Hazardous Material is necessary or useful to Tenant's business and will be used, kept and stored in a manner that complies with all laws relating to any such Hazardous Material so brought upon or used or kept in or about the Premises). If Tenant breaches the obligations stated in the preceding sentence, or if the presence of Hazardous Material on the Premises caused or permitted by Tenant results in contamination of the Premises by Hazardous Material or otherwise occurs for which Tenant is legally liable to Landlord for damage resulting therefrom, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution on value of the Premises, damages for the loss or restrictions on use of rentable or usable space or any amenity of the Premises, damages arising from any adverse impact on marketing of the Premises, and reasonable sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the lease term as a result of such contamination. The indemnification set forth herein shall run to the benefit of any bank or other lender to which Landlord or Landlord's successors and assigns may grant a security interest in the Property and or assigns may grant a security interest in the Property and or the Premises. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the Premises caused or permitted by Tenant, its agents, employees, contractors or invitees. Without limiting the foregoing, if the presence of any Hazardous Material on the Premises caused or permitted by Tenant results in any contamination of the Premises, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises to the condition existing prior to the introduction of any such Hazardous Material to the Premises; provided that Landlord's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises. Notwithstanding anything to the contrary contained in this Lease, Landlord acknowledges that Tenant will be operating a distribution and warehouse facility at the Property, and Tenant shall be entitled to bring upon, use and store on and in the Property normal amounts of Hazardous Materials (including, but not limited to, fuel for forklift trucks, cleaning compounds and other products used in the normal course of Tenant's business) without Landlord's prior consent, provided that Tenant shall use all such Hazardous Materials in compliance with all applicable laws.

Landlord represents that to the best of its knowledge, after due investigation, it is not aware of the existence of any Hazardous Material or related environmental concerns at, in, under or concerning the Property or any adjacent property "other than what is stated in the Phase I report completed by Landlord and presented to Tenant prior to December 23, 1998. Furthermore, Landlord shall indemnify Tenant for any breach of this representation.

As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of Nevada or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as a "hazardous waste," "extremely hazardous waste" or "restricted hazardous waste" under Sections 25115, 25117 or 25122.7,

(viii) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. Section 1317); (ix) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et. seq. (42 U.S.C. Section 6903); (x) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. Section 9601); or (xi) or any substance requiring remediation under any federal, state, municipal or other governmental statute, ordinance, rule, regulation or policy.

AGREED BY:

("TENANT")

TENANT: AMAZON.COM, INC.

BY: /s/ ALAN CAPLAN DATE: 12/16/98  
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ITS: VP  
-----

BY: /s/ JOY D. COVEY DATE:  
-----

ITS: VP & CFO  
-----

("LANDLORD")

LANDLORD: PANATTONI DEVELOPMENT COMPANY

BY: /S/ CARL D. PANATTONI DATE: 12/18/98  
-----

CARL D. PANATTONI  
PARTNER

BY: /S/ JAMES R. CARLSEN DATE: 12/18/98  
-----

JAMES R. CARLSEN  
PARTNER

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EXHIBIT A - p.1 OF 2

[SITE PLAN]

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EXHIBIT A - p.2 of 2

LEGAL DESCRIPTION

A parcel of land situate in Section 7, T 20 N, R 25 E, M.D.B.& M., Fernley, Lyon County, Nevada, and more particularly described as follows:

Beginning at a point from which the East 1/4 corner of said Section 7 bears North 36 degrees 49'30" East a distance of 979.88 feet, thence South 10 degrees 21'00" East a distance of 1026.73 feet, thence South 79 degrees 39'00" West a distance of 1048.95 feet, thence South 84 degrees 19'48" West a distance of 257.38 feet, thence South 79 degrees 39'00" West a distance of 300.25 feet, thence along a tangent circular curve to the right with a radius of 21.00 feet and a central angle of 90 degrees 00'00" an arc length of 32.99 feet, thence North 10 degrees 21'00" West a distance of 291.96 feet, thence along a tangent circular curve to the right with a radius of 510.82 feet and a central angle of

24 degrees 57'14" an arc length of 222.48 feet, thence North 14 degrees 36'14" East a distance of 88.54 feet, thence along a tangent circular curve to the left with a radius of 530.00 feet and a central angle of 14 degrees 36'27" an arc length of 135.12 feet, thence North 00 degrees 00'12" West a distance of 217.84 feet, thence along a tangent circular curve to the right with a radius of 31.00 feet and a central angle of 90 degrees 00'00" an arc length of 48.69 feet, thence North 89 degrees 59'48" East a distance of 193.54 feet, thence along a tangent circular curve to the left with a radius of 530.00 feet and a central angle of 10 degrees 20'48" an arc length of 95.71 feet, thence north 79 degrees 39'00" East a distance of 429.23 feet, thence along a tangent circular curve to the left with a radius of 1030.00 feet and a central angle of 06 degrees 20'56" an arc length of 114.13 feet, thence North 73 degrees 18'04" East a distance of 600.60 feet to the point of beginning.

Said parcel as further delineated on Lyon County Record for Survey for Boundary Line Adjustment, recorded on May 6, 1996 as Document No. 193018.

EXCEPTING THEREFROM, the subsurface rights of geothermal resources underlying all the herein described property in accordance with the terms and conditions of that certain Real Property Purchase/Sales Agreement between James R. Johnson et ux et al, and Johnson Development Co., a partnership, dated April 22, 1978, as Disclosed in the Deed from James R. Johnson et ux et al and Johnson Development Co., a partnership, recorded in the Official Records of Lyon County, Nevada on September 1, 1978, as Document No. 40192.

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FIRST AMENDMENT  
TO SINGLE-TENANT NET LEASE  
DATED DECEMBER 14, 1998  
BY AND BETWEEN  
PANATTONI CARLSON RIEGER, "LANDLORD"  
AND  
AMAZON.COM, "TENANT"

To the extent of any inconsistencies or contradictions between the terms and conditions of the Lease and this Amendment, the terms and conditions contained herein shall supersede and take precedence over those contained in the Lease.

The parties above acknowledge and hereby agree that the Lease as referenced above, the Lease Riders, the Addendum and the Exhibits attached thereto are hereby amended as follows:

- 1. SECTION 1.05. LEASE TERM: Ten (10) years commencing on January 7, 1999 and ending on January 6, 2009.

The parties have executed this Amendment as of the dates signed below.

LANDLORD:

TENANT:

Panattoni Carlsen Rieger

Amazon.com

By: /s/ CARL D. PANATTONI

By: /s/ ALAN CAPLAN

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Carl D. Panattoni

Allan Caplan

Its: Partner

Its: Vice President & General Counsel

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Date: 1-22-99

Date: 1/14/99

-----

-----

By: /s/ JAMES R. CARLSEN

-----  
James R. Carlsen

Its: Partner  
-----

Date: 1-25-99  
-----

By: /s/ JACKLYN L. RIEGER  
-----

Jacklyn L. Rieger

Its: Partner  
-----

Date: 1-22-99  
-----

AMAZON.COM, INC.  
LIST OF SUBSIDIARIES

NAME -----	JURISDICTION OF INCORPORATION -----	PERCENT OWNED -----
Amazon.co.uk, Ltd.	United Kingdom	100%
Internet Movie Database Limited	United Kingdom	100%
Amazon.de GmbH	Germany	100%
Junglee Corp.	Delaware, USA	100%
Amazon.com D, Inc.	Delaware, USA	100%
PlanetAll.com, Inc.	Massachusetts, USA	100%

## Consent of Ernst &amp; Young LLP, Independent Auditors

We consent to the incorporation by reference in the: (a) Registration Statement (Form S-3 No. 333-65091) pertaining to the business combinations with Telebook, Inc., Junglee Corp., and Sage Enterprises, Inc., (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) for the registration of 15 million shares of common stock, and (d) Registration Statement (Form S-8 No. 333-28763) pertaining to the 1997 Stock Option Plan and the Amended and Restated 1994 Stock Option Plan of Amazon.com, Inc. of our report dated January 22, 1999, except for Note 11 as to which the date is February 10, 1999, with respect to the consolidated financial statements and schedule of Amazon.com, Inc. included in this Annual Report (Form 10-K) of Amazon.com, Inc. for the year ended December 31, 1998.

ERNST &amp; YOUNG LLP

Seattle, Washington  
March 5, 1999

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AMAZON.COM, INC. FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<FN>

<F1>FOR PURPOSES OF THIS EXHIBIT, PRIMARY MEANS BASIC.

<F2>ON JANUARY 4, 1999, THE COMPANY EFFECTED A THREE-FOR-ONE 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 SPLIT.

</FN>