Quidsi
Background and Management's Recommendations

We recommend the acquisition of Quidsi, the parent company of ecommerce sites Diapers.com, Soap.com and BeautyBar.com, for a total consideration of approximately [redacted] This amount is comprised of up to [redacted] of cash paid to Quidsi shareholders, [redacted] of Amazon restricted stock units (RSUs) for employee retention purposes, and up to [redacted] to assume Quidsi's outstanding debt (which we plan to pay off at close) and capital lease obligations, less up to [redacted] of aggregate option exercise proceeds to be received over the next three years. **Appendix A** is a table showing the components of the acquisition costs and **Appendix B** is Quidsi's most recent capitalization table and overview of its financing history. The midpoint of our standalone discounted cash flow valuation (with no Amazon integration benefits) of Quidsi is $408MM. As a combined company, we believe that we can realize at least an additional $84MM in synergies (NPV, net of cost to achieve) over the next 10 yrs.

Over the past three weeks, we have completed our on-site due diligence at Quidsi's Jersey City, New Jersey headquarters and at two of their three fulfillment centers in Pennsylvania and Nevada, covering operations, technology, finance, customer service, legal, accounting, and other areas. A summary of our due diligence findings is included as **Attachment A**. We are currently working within a 30-day exclusivity period with Quidsi which expires on November 7th. Given the competitive nature of this transaction[2] we would need to complete our work and sign a Definitive Purchase Agreement within this timeframe.

Acquisition Rationale

Originally founded in 2005 as 1800Diapers, the company officially changed its name to Quidsi in 2009 to reflect its expansion from diapers and core baby care products to a wider assortment of baby-related merchandise and additional categories focused on meeting the needs of mothers. Quidsi, through its Diapers.com brand, has grown to become a leading online retailer of diapers and baby care products in the US, offering over 250 brands and more than 36,000 unique SKUs, which it inventories and fulfills from its three fulfillment centers. Although Quidsi is still primarily an online baby care specialty retailer, it has recently begun selling new items such as household goods and personal care products with the launch of Soap.com. Soap.com launched in July 2010 and carries over 1,000 brands and 25,000 SKUs and currently has a gross revenue run rate of $40MM. In the future, management intends to launch additional vertical shopping categories such as beauty, toys and pets. Quidsi's newest site BeautyBar.com, which offers specialty beauty products and cosmetics, is scheduled to launch soon. Through its Soap.com and Diapers.com domains, Quidsi has served more than 1.4MM customers to date (800k active in the last year) and is anticipating $285MM in revenue in 2010 (up 57% Y/Y). Since inception, Quidsi has raised a total of $63.5MM from 5 rounds of equity financing. In its most recent funding round (October 2009), Quidsi raised $30MM at a $239MM post-money valuation. Quidsi has 531 full-time employees (including 315 in fulfillment, 89 in customer service, 33 in merchandising, and 11 in marketing) split between its Jersey City headquarters and its three fulfillment centers. In our opinion, the founders have built one of the most impressive ecommerce management teams we have ever met, and the company as a whole has a highly data-driven culture.

We believe a Quidsi acquisition is attractive and could provide Amazon with the following:

A Strong Presence in a Segment that is Strategically Important

Quidsi is singularly focused on meeting the ecommerce needs of mothers. Each of its sites, Diapers.com, Soap.com, and the soon-to-be-launched BeautyBar.com, targets high-income mothers who value convenience and a highly-tailored shopping experience. Having sold diapers since 2005, Diapers.com established itself as an early leader in an important repeat-purchase category and has benefited from a first-mover advantage in a segment that continues to show online growth potential. The Diapers.com brand is well-positioned to extend beyond diapers into other baby care categories and household goods by leveraging its existing vendor relationships, its loyal customer base, and its commerce relationship with mothers. Quidsi would provide Amazon additional touch points with mothers, which we believe is a highly desirable customer segment for Amazon. It is estimated that women control or influence 85% of all consumer purchases in the US and up to 93% when looking only at consumable household expenditures.[3] Early results from our newly-launched Amazon Mom program emphasize the importance of this demographic. New Amazon customers, whose first purchase included diapers, spend over 3 times as much ($292 vs. $91) during their first year as the average new Amazon customer. Further, this segment represents a large opportunity as evidenced by the more than 17MM mothers with children in the 'prenatal' through 'toddler' stage and 1.6MM new first-time Moms each year in the US. For Amazon, a strong presence in categories that drive high repeat purchases and frequency of visits such as baby products, consumables, and household goods is highly desirable. We believe adding Quidsi's sites and team to our own efforts will get us the scale we need faster.

[1] This figure includes a [redacted] base purchase price plus up to [redacted] for options/warrants aggregate exercise proceeds, less [redacted] in transaction costs.

[redacted]

[3] http://www.she-conomy.com/report/marketing-to-women-quick-facts/

A Leading Brand and Loyal Customer Base with Attractive Repeat Purchase Behavior

Since its founding, Quidsi has been focused on providing the best possible online shopping experience for its customers, incorporating free[4] and fast shipping (71% of customers receive orders the next business day and 94% of customers receive their orders within 2 business days), 24/7 phone-based customer service, and an easy-to-use website. To date, Quidsi's strategy has been focused on driving repeat purchase behavior by acquiring new diapers customers. Quidsi has an active and engaged Diapers.com customer base with the average repeat diapers customer (1 out of 3 new diaper customers become a repeat customer) purchasing $97 (4.7 items per order) worth of goods on 17 separate future occasions. Diapers.com's ability to monetize this repetitive purchasing behavior for all Diapers.com customers has improved steadily as the average order size (AOS) has grown from $85 to $96 and days between repeat purchases have decreased from 46 to 34 since the end of 2006. Additionally, the percentage of orders including higher-margin 'noncore' ('core' consists of diapers, formula and wipes) items such as car seats, strollers, and toys has increased from 45% in 2008 to 65% today. Given these improvements, Quidsi now estimates the lifetime value of a repeat diaper buyer to be approximately $160. Going forward, Quidsi intends to introduce its devoted customers to additional branded websites, thereby increasing the lifetime value of a customer across multiple verticals and extending the relationship with mothers beyond their babies' diaper-wearing years. Similarly, Soap.com markets frequently-purchased household products such as detergent and toiletries as a driver of repeat purchases, believing this customer will eventually purchase higher-margin items from Soap.com as well. Early data from the launch of Soap.com suggests that Quidsi has also been able to leverage its existing base of Diapers.com customers (56% of Soap.com's customers have come from Diapers.com). These cross-shopping customers are exhibiting attractive behavior. For example, the average number of days between repeat purchases for Diapers.com customers shopping on Soap.com decreased from 34 (for diapers.com only purchases) to 22 days while the average order size of the combined shopping cart increased from $96 to $102 in the most recent quarter. While it is still too early to tell, Quidsi believes that by introducing Diapers.com buyers to Soap.com, it will be able to increase the lifetime value of a customer by $70. Although the launch of Soap.com was more challenging than management anticipated (nine months, 20 people and $9MM worth of inventory), management sees value in launching additional product categories which would result in similar repeat purchasing behavior. Overall, we were impressed with management's ability to define and rapidly develop these brands.

Strong Management Team and a Metrics-Focused Culture

The two founders, Marc Lore and Vinit Bharara, have been with the company for over five years and have assembled a strong and multi-talented management team. We believe this is one of the best overall management teams that we have come across in ecommerce (see **Appendix C** for key member bios). The Quidsi team has built a strong corporate culture that strives to be service-oriented and data-driven. Examples include management's focus on speed of delivery and on driving cost out of its operations. As stated earlier in the document, 71% of orders are delivered next business day and 94% of orders are delivered within 2 business days using ground transportation. Recently, Quidsi has experimented with 1-hour delivery times in Manhattan. An innovative example of management's focus on driving cost out of the system is its use of a proprietary algorithm (Boxem) for optimized box selection which management claims saves $1 in cost per order by minimizing the amount of air shipped by selecting the optimal box. Further, we found the Quidsi team to be focused on their pertinent e-commerce inputs such as lifetime value of a customer (calculated as the present value of all repeat revenue adjusted for gross margin, fixed and variable costs, capex, and working capital), average order size (currently $97 for Diapers.com), and cost of new customer acquisition ($40 for a diaper buyer). Management is data driven and focused on measuring results and driving improvement. Overall, we found the Quidsi team to be strong across each of its departments, particularly in merchandising and brand marketing. In addition to senior management, we also interacted with the next layer of management. Most members of the team have degrees from top-tier undergraduate and business schools and backgrounds from analytically-focused positions in finance and publishing. Quidsi clearly has a high hiring bar, and the majority of people we met would likely do well at Amazon. Quidsi has been able to tap into a large east coast talent pool, and we believe that going forward Amazon as a whole would also benefit from recruiting talent from this region. The [redacted] RSU retention pool is designed to help keep this team in place (See **Appendix D** for Quidsi Management Retention).

Better Value for Our Customers

We believe that a Quidsi acquisition will create additional value for our customers for a number of reasons: 1) With the caveat that vendors are always free to stop supplying Quidsi (or Amazon), a Quidsi acquisition will expand overall selection by allowing us to immediately increase the number of brands accessible by our customers (67 brands in the core baby segment and 264 in health and beauty). Additionally, we believe Quidsi will be able to carry premium brands that do not wish to be sold on the Amazon.com website. BeautyBar.com, much like Zappos and endless, is an example of a website that will feature higher-end brands with high gross margins (BeautyBar product margins approach 50%). 2) Amazon already has strong relationships with many baby care, beauty and household goods vendors. As a combined company, we may be able to further negotiate discounts and achieve minimum order quantity thresholds with such vendors in order to provide lower prices to our customers. 3) To the extent that we combine Amazon's and Quidsi's backend operations, we will increase our ability to scale and enhance the operational efficiencies of our consumables business, creating cost savings which we are then able to pass onto our customers. For instance, during diligence we discovered that Quidsi has a significant variable cost per unit (the cost to fulfill one item) advantage over Amazon. See "Integration Framework and Post-Acquisition Planning" for more detail.

---

[4] Free shipping based on $49 minimum order value for Diapers.com and $25 for Soap.com.

A Branded Approach to Verticals and Specialized Shopping Experiences

Quidsi has implemented a model for building specialized online shopping experiences with a unique look-and-feel and individualized branding. This is achieved by launching multiple distinct websites for specific verticals, each with unique branding, marketing, merchandising, and a focused shopping experience. At the core of the company's strategy is the belief that it can offer a consistently positive customer experience by offering an elegant user interface, a curated selection of products, fast shipping, and over-the-top customer service all optimized for that specific vertical. While each site will have a tailored and focused experience, Quidsi plans to offer a shared shopping cart in order to increase the average units per order and drive more favorable economics. Underlying this branded approach to product categories is the belief that there is room and consumer demand for dedicated ecommerce sites with specialized customer experiences focused on ease of use and convenience. Similar to the approach that Amazon took by launching endless.com, Quidsi believes that by building a stable of individual sites and brands with a shared shopping cart, it will be able to customize its user experience across product categories and optimize the overall customer experience. Quidsi is committed to building numerous sites using this approach and believes it will be able to replicate the success of Diapers.com across multiple product categories with a shared pool of devoted customers across its network. For its next offering, Quidsi plans to launch Yoyo.com, a toys-focused vertical, in Q2 2011. In addition to baby-care, HPC, and toys, we believe this mother-centric shopping experience lends itself to other categories such as apparel and pets, and other theme-based sites such as "lifestage" or "green."

Financial Summary

Between 2005 and 2009, Quidsi's net revenue grew at a compounded annual rate of 192%, increasing from $2.5MM to $182MM, with growth exceeding 100% each year. Quidsi has supported this growth by raising $63.5MM in equity and by securing access to a $40MM credit facility. During this time, management has invested heavily in expanding selection by both growing its core offering and launching new categories and verticals, thereby focusing more on growth than profitability.

Since 2008, Quidsi has begun to push beyond offering core baby consumables into complementary baby products and other higher margin categories. As part of this transition, the number of Diapers.com unique SKUs has increased from 929 at the beginning of 2008 to 37k at the end of September 2010, while the number of categories more than quadrupled. The increased selection and mix shift away from consumables has helped Quidsi's gross margin improve from 12.7% in Q1 2008 to 18.9% in Q3 2010 as "non-core" items as a percent of total units sold has increased from 32% to 50% over the same time period. In July 2010, Quidsi launched Soap.com, its first specialized website beyond the Diapers.com domain, with 20,000 products, 900 brands and 350 vendors. Fourteen weeks after launch, Soap.com is currently operating at a $40MM gross revenue run-rate. Purchasing behavior looks strong as Soap.com has already acquired 129k customers and the average time between repeat orders is around 22 days. While Soap.com surpassed expectations through the first six weeks post-launch (exceeded planned net revenue by 19%), it has recently lost some momentum. Soap.com was 7% below plan on a net revenue basis year-to-date through September and the business has reached a $40MM gross revenue run-rate plateau for the past six weeks.

To date, free cash flow generation has not been Quidsi's focus as the company has concentrated on growing sales and reaching scale quickly. This rapid growth has required significant capital investments in the form of building out three fulfillment centers, costing $38MM over 2009 and 2010, which includes a KIVA system implementation. Additionally, Quidsi's inventory turns have been fairly low (6.2x in 2009) compared to 10-12x in comparable categories at Amazon. The difference in turns is driven by Quidsi's recent and rapid expansion of SKUs in Diapers.com and Soap.com, as well as the company's strategy of fast delivery via ground shipping, which requires the company to replicate its inventory across each of its three fulfillment centers. Before management launched Soap.com and started significantly expanding Diapers.com selection, Quidsi had experienced turns of around 10x. Another cost of quickly adding assortment has been the unfavorable terms that Quidsi has received from vendors. Quidsi has recently improved its payable days from 32 in 2009 to 41 in Q2 2010, but the company still faces significant prepayment requirements. We expect that the company will be able to get to 50 days as the business scales, which is closer to Amazon's terms in comparable categories. See **Appendix E** for a financial summary and operating metrics.

Key Business Risks

- ***Ongoing Capital Requirements.*** For 2010, we are forecasting Quidsi will have a FCF loss of approximately $82MM off of revenue of $285MM. According to our standalone forecasts, the company will not get to breakeven on a FCF basis until 2014 when they reach $1.3B in annual revenue. Part of Quidsi's strategy is to reach scale quickly in each of its verticals, but as it experienced with the launch of Soap.com, significant incremental investment in fulfillment, marketing, and inventory is required for the launch of each new category. In order to reduce near-term FCF losses, we have the option of not adding any new verticals in 2011 and instead focusing on becoming more efficient within the existing verticals (Diapers.com, Soap.com and BeautyBar.com). See "Summary of Valuation and Synergies" section for more detail on how Amazon can lower Quidsi's costs.

- ***Movement into New Categories Through Specialized Websites.*** As described above, Quidsi's branded vertical approach has a number of benefits, but this strategy also has drawbacks. Quidsi will have to demonstrate the ability to inexpensively migrate customers from one site to another without many of the search engine optimization and cross-selling benefits that exist on a fully integrated multi-category ecommerce site. Each launch of a new vertical will require significant incremental investments in brand development, inventory, and marketing/customer acquisition. For example, Soap.com took nine months, 20 people, and $9MM of inventory build to launch, costing an estimate $13MM. There will always be a trade-off between a focused specialist experience and the ability to acquire customers efficiently by amortizing the cost of customer acquisition across multiple categories. To date, Soap.com is the only new vertical that Quidsi has launched under this specialized website strategy, and it remains to be seen if Quidsi will be successful in extending this strategy to other categories. Our technical, merchandising, and RCX teams have diligenced this area and believe that from a technology perspective, Quidsi has the capabilities to launch new vertical sites in 6-8 weeks, although significant incremental merchandising and marketing resources will be required while also scaling their Chinese development team.

- ***Technology Organizational Structure.*** All of Quidsi's technology (website platform, WMS, database) is built using Microsoft products (.net architecture). This limits Amazon's ability to leverage our technical resources to assist Quidsi post-acquisition. In addition, Quidsi's software development, including for its website, is done under a development agreement by an 80-person Chinese software development company that has some affiliation with Quidsi's Director of Software Engineering, Wei Yan. This was an area that we focused on during diligence. We ultimately gained some comfort on this issue, since these employees are 100% dedicated to Quidsi projects and Quidsi appears to have contractually secured title to all intellectual property created by this team. Furthermore, Quidsi is negotiating a 3-year exclusive development agreement with this company, which should give us room after close to resolve this issue definitively. Ultimately, of course, we want future software and website development to be created by Amazon/Quidsi employees. See Legal Due Diligence summary for additional information.

- ***Decelerating Growth in Core Diapers Category.*** As noted, Quidsi had a challenging Q3-10 (1.7% quarter-over-quarter net revenue growth for Diapers.com), which management attributes to overall unfavorable conditions within the baby care segment. A large portion of this softness can be attributed to a recent decline in the acquisition of new diaper buying customers (down 7.5% year-over-year and down 21% quarter-over-quarter in Q3) as the average cost to acquire a new diaper customer increased significantly from $30 to $38 year-over-year. While Quidsi experienced a slowdown in the acquisition of new diaper buyers, the company has been able to accelerate the growth of non-diaper buying customers (up 152% year-over-year and 25% quarter-over quarter) which now represent more than 50% of all new customers. Our diligence confirmed that the company is building traction in non-diaper baby categories ('noncore' net revenue was up 103% year-over-year in Q3 2010) and is building the Soap.com business, but the slowdown of net revenue growth in its 'core' diapers, formula, and wipes segment (down 2.2% quarter-over quarter) is concerning. Quidsi management believes the company can reignite growth in the diapers category by redeploying marketing to offers that drive repeat behavior such as its current 30% cash back offer on new diaper orders.

Summary of Valuation and Synergies

The midpoint valuation of our standalone discounted cash flow model for Quidsi is $408MM. Including an estimated $35MM in net debt at close (excluding capital leases) implies an equity value of $373MM. Our valuation estimate of $408MM represents 1.4x 2010E Net Revenue and 1.0x 2011E Net Revenue. (EBITDA multiples are not applicable as we estimate Quidsi will not be EBITDA positive until 2014.) As a point of reference, our all-in transaction price of $552MM represents 1.9x 2010E Net Revenue and 1.3x 2011E Net Revenue. The model's key assumptions are informed by our diligence of Quidsi's operations, Amazon's own experience in overlapping product categories, and a realistic assessment of the various market segments in which Quidsi operates.

Five key assumptions drive our valuation: 1) We limit the standalone model to the three website verticals that are currently or soon-to-be launched, including Diapers.com, Soap.com, and BeautyBar.com; 2) We assume that over time these three integrated businesses grow into a healthy e-commerce business at scale, characterized by consolidated EBITDA margins in the 5-6% range, and FCF margins at approximately 3%; 3) We assume that active annual buyers in the Diapers and Soap/BeautyBar verticals grow at a compounded annual growth rate of 11% and 35%, respectively, from 2011-2020, resulting in 2.6MM buyers on Diapers.com and 8.6MM buyers on Soap.com/BeautyBar.com in 2020; 4) We assume the product categories within the Soap.com vertical will see significant Gross Margin expansion (following the current launch environment of heavy "try our new service" discount promotions), expanding from 14% in 2011 to 23% in 2020 and 5). We assume that Quidsi's management can effectively scale and optimize the company's fulfillment network through an aggressive expansion in selection and fulfillment throughput capacity, with an accompanying efficient incremental Capex and working capital investment. While success on the above points is not assured, based on our assessment of the company and the strength of its team, we believe Quidsi has a good chance of achieving its long term goals with enough time and investment.

Our model is especially sensitive to assumptions driving top line growth and Gross Margins for the Soap/BeautyBar vertical. A decrease in compounded annual revenue growth from 29% to 24% in 2011 through 2020 in the Soap/BB vertical decreases value by $34MM. A 100 basis point decrease in longer-term Soap/BB gross margin (from 22.5% to 21.5%) decreases value by $65MM.

Table 1 – Valuation Model Summary

KEY MODEL ASSUMPTIONS								
FY Ends Dec31 st	**2009A**	**2010**	**2011**	**2012**	**2013**	**2014...**	**...2019**	**2020**
Diapers.com Growth Rate	104.3%	50.8%	33.0%	30.1%	26.2%	21.0%	7.8%	5.3%
Soap.com Growth Rate	NA	NA	419.5%	200.0%	141.4%	67.2%	7.4%	5.2%
Diapers.com Gross Margin	17.0%	17.9%	17.5%	18.7%	18.8%	18.8%	20.6%	21.0%
Soap.com Gross Margin	NA	10.2%	13.9%	16.7%	19.2%	21.1%	22.2%	22.5%
Diapers.com Inventory Days	58.7	62.7	69.7	64.2	55.5	43.9	44.1	44.1
Soap.com Inventory Days	-	1,466.1	332.8	164.0	100.1	68.6	49.7	49.7

Free Cash Flow Forecast								
Diapers.com Net Revenue	182.5	275.1	366.0	476.1	600.9	726.9	1,234.8	1,300.1
Soap.com Net Revenue	-	9.4	48.6	145.9	352.2	588.9	1,366.3	1,437.3
Net Revenue	**182.5**	**284.5**	**414.6**	**622.0**	**953.1**	**1,315.8**	**2,601.1**	**2,737.4**
Y/Y Growth	104.3%	55.9%	45.8%	50.0%	53.2%	38.0%	7.6%	5.2%
Gross Profit	30.7	49.9	70.5	113.0	180.5	260.4	556.9	594.9
Gross Margin	17.0%	17.6%	17.0%	18.2%	18.9%	19.8%	21.4%	21.7%
EBITDA	(2.9)	(21.8)	(23.8)	(16.0)	(4.9)	21.9	117.4	130.6
EBITDA Margin	-1.6%	-7.7%	-5.7%	-2.6%	-0.5%	1.7%	4.5%	4.8%
Free Cash Flow	(25.6)	(82.4)	(42.8)	(22.5)	(26.7)	24.0	73.7	77.6
FCF % of Net Revenue	-14.0%	-29.0%	-10.3%	-3.6%	-2.8%	1.8%	2.8%	2.8%

VALUATION	
	Overall
NPV 2011-2020	64.2
Terminal Value at 4% growth	343.9
Firm Value/Enterprise Value	408.1
Less: Debt	(35.0)
Add: Cash	-
Equity Value @ 12% Discount Rate	373.1

NPV SENSITIVITY	
	NPV Change
100 bps increase in terminal Growth Rate	50
100 bps decrease in terminal Growth Rate	(40)
100 bps increase in discount rate	(70)
100 bps decrease in discount rate	90

Based on the integration framework described below, we estimate the NPV of the 10-year synergies we expect to realize through a combined entity to be between $70MM and $130MM. This estimate only includes synergies that we can quantify based on currently available data, and we do not include a synergy terminal value in order to be conservative. We expect synergies will be derived from both Quidsi and Amazon operations. Much of the value comes from improving both Quidsi's and Amazon's Gross Margin structure in the Baby and Health, Beauty & Personal Care product categories. Leveraging advantageous terms across both companies from both product vendors and shipping providers yields an estimated $56MM in value from reduced Product and Shipping COGS. While not quantified yet, we also believe there may be significant opportunity to improve Quidsi's margin profile by pruning its low contribution profit product lines and offering a curated selection of higher margin products on Diapers.com and Soap.com. We also estimate significant value from leveraging Amazon's online marketing techniques for Quidsi's business to improve the efficiency of its paid search and associates marketing channels, resulting in a 10-year NPV of $26MM. While there are still many unanswered questions regarding the ability of Amazon's existing fulfillment network to fully integrate with the KIVA system, we believe there is an opportunity to realize material value over the combined business in both the near and long term through reduced variable fulfillment expense for Amazon product for both Amazon and Quidsi, deferred and/or delayed incremental Capex, and working capital improvements resulting from inventory pooling opportunities. We are still working to quantify the variable fulfillment and capex savings, but we estimate the NPV from improved inventory management alone to be $15MM. We also expect to realize incremental synergies (which are difficult to model and therefore not included in our estimates) through Quidsi's ability to further realize its strategic vision by launching new category verticals in a capital efficient manner through leveraging Amazon's existing product catalog, inventory, and personnel. Finally, we examined Quidsi's payment processing costs but found them to be similar to Amazon's. We estimate we will incur approximately $13MM in expense over three years (NPV, excluding possible increased ongoing costs associated with the move of any Quidsi facilities) to complete the bulk of the integration work. Most of this integration expense is a result of our proposed plan to eventually migrate Quidsi to Amazon's fulfillment and retail platforms and to consolidate product category teams over time, which will in turn lead to many of the synergies described above. Many of our assumptions on synergies will need to be further refined and validated during a detailed integration planning phase.

Table 2 – Summary of Synergies

Standalone Boardwalk Enterprise Value ($mm)	408.1
Modeled Synergies	**10 Yr NPV**
Transportation	24.0
Vendor Product COGS	32.0
Marketing	26.0
Inventory Pooling	15.0
Total Savings - 10 Years	**97.0**
One-time cost to achieve Synergies (over 3 years)	(13.0)
Boardwalk Value Inclusive of Synergies	492.1

[redacted]

Appendix A – Acquisition Costs

[redacted]

Appendix B – Quidsi Capitalization and Financing History

Capitalization Table - As of October 19, 2010	Shares	OS%	FD%
Common Shares	**4,016,821**	**26.6%**	**26.5%**
Series A	2,645,157	17.5%	17.5%
Series B	2,030,220	13.5%	13.4%
Series C	2,330,063	15.5%	15.4%
Series D	418,670	2.8%	2.8%
Series E	1,899,648	12.6%	12.5%
Preferred Shares	**9,323,758**	**61.8%**	**61.6%**
Shares Issued & Outstanding	**13,340,579**	**88.5%**	**88.1%**
Vested Options	997,715	6.6%	6.6%
Unvested Options	625,335	4.1%	4.1%
Common Options	1,623,050	10.8%	10.7%
Warrants	115,000	0.8%	0.8%
Options Issued & Outstanding	**1,738,050**	**11.5%**	**11.5%**
Shares & Options Issued & Outstanding	**15,078,629**	**100.0%**	**99.6%**
Option Pool Issuable Under Plan	66,879		0.4%
Shares & Options Issued & Issuable	**15,145,508**		**100.0%**

[redacted]

Financing History

Round	Date	Amount Raised ($MM)	Investors	Value per Share	Post-Money Value ($MM) (1)
Series A	Sep-06	$4.0	Brand Equity, Len Lodish, Nicholas Negroponte	$1.55	$13.1
Series B	Nov-07	$7.0	Bessemer, Brand Equity, Len Lodish	$3.45	$36.2
Series C	Oct-08	$17.5	Bessemer, Accel, Brand Equity	$7.53	$96.5
Series D	Aug-09	$5.0	Bessemer, Accel, Brand Equity	$11.94	$158.2
Series E	Oct-09	$30.0	Bessemer, Accel, NEA, Brand Equity	$15.79	$239.2

(1) Assuming current common stock and options & warrants outstanding

Appendix C – Management Biographies

Marc Lore, Co--Founder, Chief Executive Officer & Chairman

Marc Lore was previously the Chief Operating Officer of Wizkids, Inc., a wholly ownedsubsidiary of The Topps Company, Inc. (NASD: TOPP) and a leading game manufacturer. Prior to joining Wizkids, Marc was the co---founder and CEO of The Pit, Inc., an Internet market---making collectible company constructed as an alternative to eBay. The Pit, Inc. was successfully sold to the then publicly traded Topps Company in 2001. Prior to The Pit, Marc held various investment banking positions, including Executive Vice President of Sanwa International Bank in London where he was head of the bank's Risk Management Division. Before Sanwa, he was Vice President and Global Head of Emerging Markets Risk Department at Credit Suisse First Boston in London. In 2000, he was named by The Sunday Times Magazine of London as one of Britain's top ten "new high---tech entrepreneurs and whiz kids." Marc graduated from Bucknell University, where he received a B.A. in Business Management/Economics, cum laude, and is currently on leave from the Wharton University School of Business MBA program. He is also a C.F.A. (Chartered Financial Analyst). [redacted]

Vinit Bharara, Co--Founder, Chief Operating Officer & Board Director

Vinit Bharara was previously the General Counsel of the then publicly traded The Topps Company, Inc, the leading manufacturer of sports trading cards and novelty confectionary (e.g., Bazooka gum and Ring Pop, Push Pop and Baby Bottle Pop). Vinit managed the entire legal function of the 500 employee worldwide company and its subsidiaries. Prior to that, he was a co---founder, Executive Vice President and General Counsel of The Pit, Inc. which was successfully sold to Topps. He was previously part of a team that assisted court---appointed Special Master Judah Gribetz, former deputy mayor of New York City and counsel to former New York Governor Carey, in drafting the historic distribution plan for the $1.25 billion settlement reached in the class action lawsuits initiated by victims of the Nazi Holocaust against the Swiss banks. He began his legal career at the Wall Street law firm of Cahill Gordon & Reindel in New York. Vinit graduated from the Columbia University School of Law, where he was a Harlan Fiske Stone Scholar in 1993---94 and a research assistant to the former dean. He earned his undergraduate degree at the University of Pennsylvania, where he graduated magna cum laude and phi beta kappa. [redacted]

Wei Yan, Director, Software Engineering

Before joining Quidsi, Wei is the president of Suryani International for over 10 years. Suryani is a small web application development company with a focus in eCommerce application development, with clients range from large financial institutions, such as Citibank, to mid---size retail and wholesale companies. Suryani developed the original Diapers.com system that enabled the company to manage entire operations through a web---based system. Wei Graduated from Bowdoin College and received a Masters degree in computer science from Brown University. [redacted]

Scott Hilton, Executive Vice President, Operations

Scott spent the last 20 years at The Boeing Company, where he recently led a comprehensive effort targeting improved productivity, capacity and operational efficiency of the air transportation system and airline flight operations. He worked several years as a product strategist where he led numerous teams in the development and early implementation of new products and services and regularly participated in and led executive---level decisions that were the subject of internal board discussions and approval. Scott has held numerous other positions at Boeing including leading an effort to transform and streamline a segment of company investment decisions, managing the operations of a testing facility, and directing a research and development staff. Scott received his M.B.A. from the Wharton School of the University of Pennsylvania, graduating as a Palmer Scholar (top 5% of his class) and was named the General Motors Scholar while earning a Master of Engineering degree in Engineering Physics at Cornell University. He earned his Bachelor of Science in both Physics and Mathematics from the University of Puget Sound, graduating with Honors in Physics.

Eugene Hertz, Chief Information Officer

Prior to joining diapers.com, Eugene was the head of information technology for The Topps Company, Inc., a $300 million dollar, publicly traded marketer and distributor of entertainment cards and confections. Under Eugene's leadership, the company completely revamped all areas of IT including a new redundant network infrastructure and the introduction of a major ERP system to replace outmoded legacy mainframe systems. Prior to Topps, Eugene was VP, CIO of Thepit.com, where he led the design and development of a sophisticated online stock exchange for sports cards. The exchange was a full---featured brokerage operation as well as trading desk for market making functions where company traders made markets guaranteeing liquidity. Thepit was acquired by Topps in 2001. Before joining Thepit, Eugene was senior manager, products and platforms for DLJdirect, a leading online and full service securities dealer and brokerage firm. At DLJdirect, he had responsibility for strategy and development for all retail trading systems including dljdirect.com, Marketspeed, wireless trading, and international trading of US securities(for UK, Hong Kong, Japan and Middle East). Eugene came to DLJdirect from Bowne Internet Solutions, a full service strategic web application development consultancy where he was CTO. As a co---founder of the company's internet practice, Eugene oversaw the acquisition of 6 other web development firms and oversaw all technology aspects of the 200 person firm. Eugene has a B.S. from the University of Massachusetts, Amherst. [redacted]

Lisa Kennedy, Executive Vice President, eCommerce

Lisa is responsible for all merchandising at Quidsi. Ms. Kennedy has held a variety of positions in media and consumer packaged goods. Lisa was VP of Business Development and Operations at Scholastic, where she was responsible for incubating and launching Scholastic's most successful online subscription business for teachers. Prior to Scholastic, Lisa was General Manager of The Parenting Group, a division of Time Warner, and also a key member of the Corporate Strategic Planning team. Lisa spent three years with Diageo Plc, starting as vice president, strategy for their Guinness Bass Import Company. She also served as vice president, sales and business development for Guinness World Records where she drove the launch of the company's web site, and managed all activities related to the core book, licensing and TV businesses. Her varied business experience also includes a stint as investment officer for the Czech---American Enterprise Fund in Prague, four years with Monitor, a management consulting company, and two years as a financial analyst with Goldman Sachs. She received her Masters degree in Business Administration from Harvard Business School, and her BA (Cum Laude) in Economics and International Relations from Boston University [redacted]

David Licata, Vice President, Finance & Accounting

Prior to joining Quidsi, David was a manager in the Transaction Services group at PricewaterhouseCoopers LLP in Manhattan, NY. During his 6 years at PwC, David worked on over 25 transactions across various industries, representing both financial and strategic buyers and sellers in acquisitions and divestitures ranging from $10m to $2b. David spent his first 18 months at PwC performing financial statement audits of primarily banking industry clients. David is a licensed Certified Public Accountant in New York State and graduated from Lehigh University in Bethlehem, PA in 2001, where he earned his B.S. in Accounting and Finance and graduated beta gamma sigma. [redacted]

Christina Carbonell, Vice President, Marketing

Before joining the company in 2007, Christina spent most of her career in the consumer packaged goods world doing brand management for Kraft Foods Inc. In various roles in both the New York and Chicago offices, she worked on brands like Maxwell House, Fruity Pebbles, and Kraft Salad Dressing. From "Good to the Last Drop" advertising, to cool kid cereal promos, to distribution channel strategies, her responsibilities were wide---ranging and all about building big brands. Christina earned a Bachelor of Science degree, cum laude, from University of Pennsylvania's Wharton School of Business in 1995. She earned an MBA from the Harvard Business School in 2000. [redacted]

Josh Himwich, Vice President, eCommerce Solutions

Josh, receiving his undergraduate degree from the University of Virginia and masters from Columbia University, is the VP of eCommerce Solutions. He oversees the Product Management, User Experience, Creative and SEO teams and managed the front---end relaunch of Diapers.com in 2008 and the launch of Soap.com in 2010. Josh joined Quidsi in 2007 after eight years at Time Inc. where he managed technology teams for People magazine and The Parenting Group.

Nate Faust, Vice President, Special Operations

As Vice President of Special Operations, Nate runs the special operations group, which focuses on creating operational capabilities across fulfillment, supply chain and customer care. He also manages all outbound shipping, constantly improving the speed of delivery to customers. Nate, who previously worked in investment banking at Deutsche Bank and at Oliver Wyman as a management consultant, holds a BSE degree in operations research from Princeton and an MBA from Harvard Business School.

Appendix D – Quidsi Management Retention

We are focused on retaining senior and mid-level management and incentivizing their continued employment as part of this transaction. Key Quidsi employees (shown below) will have a portion of their deal proceeds held back over three years. Amazon will also assume the entire Quidsi option plan by replacing vested and unvested Quidsi options with Amazon options of equivalent value. The $12MM package of Restricted Stock Units will be distributed to everyone who is currently participating in the company's stock option plan, approximately 100 employees. 35% of this Amazon RSU pool is allocated to the key employees (excluding Marc Lore and Vinit Bharara) with the balance distributed to the other employees based on their roles within the company. It should be noted that all of these awarded RSUs vest over 2 or 3 years, i.e. none vest after 1 year. Quidsi employees will continue at their current salary levels post-close and the total compensation for key management, including awarded Amazon RSUs and options vesting in the future, will be as follows:

Key Employee Transaction Proceeds and Retention

	Transaction Proceeds	Total Salary & Retention (Holdback, RSUs & Unvested Options) (2) Year ending December 31,
[redacted]		

(1) Holdback percentages are as follows: [redacted] for the founders, [redacted] for [redacted] and all [redacted] employees. The holdback amount is released over [redacted] at a proportion of [redacted]
(2) This assumes a [redacted] annual appreciation in the value of Amazon options and RSUs

Appendix E – Financial Summary and Operating Metrics

			Amazon Projections		2009/2010 Quarterly Detail						
Financials	2008A	2009A	2010E	2011E	Q1'09A	Q2'09A	Q3'09A	Q4'09A	Q1'10A	Q2'10A	Q3'10A
(in $MM)											
Net Revenue	$89.3	$182.5	$284.5	$414.6	$33.2	$43.8	$49.8	$55.7	$62.9	$72.0	$73.2
Y/Y	*148%*	*104%*	*56%*	*46%*	*98%*	*110%*	*101%*	*107%*	*90%*	*64%*	*47%*
Gross Profit	$13.5	$30.7	$49.9	$70.5	$5.3	$7.2	$8.5	$9.7	$10.6	$12.1	$14.2
GM%	*15%*	*17%*	*18%*	*17%*	*16%*	*16%*	*17%*	*17%*	*17%*	*17%*	*19%*
EBITDA	-$2.8	-$2.9	-$21.8	-$23.8	-$1.4	-$0.8	$0.0	-$0.6	-$4.7	-$4.9	-$5.6
% of Net revenue	*-3%*	*-2%*	*-8%*	*-6%*	*-4%*	*-2%*	*0%*	*-1%*	*-7%*	*-7%*	*-8%*
FCF	-$5.5	-$11.0	-$82.4	-$42.8	-$1.3	-$8.6	-$5.8	-$9.8	-$11.0	-$11.0	-$37.5
Product Category Net Revenue											
Diapers.com	$88.0	$180.2	$274.3	$364.9	$32.7	$43.3	$49.2	$55.0	$62.7	$71.8	$73.0
% of Total Net Revenue	*99%*	*99%*	*96%*	*88%*	*99%*	*99%*	*99%*	*99%*	*100%*	*100%*	*100%*
Diapers	$48.3	$80.2	$98.7	$110.1	$17.1	$19.7	$21.1	$22.4	$24.8	$26.5	$25.7
% of Diapers.com Net Revenue	*55%*	*45%*	*36%*	*30%*	*52%*	*45%*	*43%*	*41%*	*40%*	*37%*	*35%*
Wipes and Formula	$28.0	$47.0	$62.2	$67.9	$9.3	$11.5	$12.7	$13.5	$15.3	$16.2	$16.0
% of Diapers.com Net Revenue	*32%*	*26%*	*23%*	*19%*	*29%*	*26%*	*26%*	*25%*	*24%*	*23%*	*22%*
Other Baby	$11.7	$52.9	$113.4	$187.0	$6.3	$12.1	$15.4	$19.0	$22.5	$29.1	$31.3
% of Diapers.com Net Revenue	*13%*	*29%*	*41%*	*51%*	*19%*	*28%*	*31%*	*35%*	*36%*	*41%*	*43%*
Soap.com	NA	NA	$9.4	$48.6						$0.1	$4.5
% of Total Net Revenue	*NA*	*NA*	*3%*	*12%*						*0%*	*6%*
Household	NA	NA	$2.9	$15.0						$0.0	$1.7
% of Soap Net Revenue	*NA*	*NA*	*31%*	*31%*						*55%*	*38%*
Other Soap	NA	NA	$6.3	$28.5			Not Available			$0.0	$2.8
% of Soap Net Revenue	*NA*	*NA*	*67%*	*59%*						*45%*	*62%*
Beauty Bar	NA	NA	$0.2	$5.1						$0.0	$0.0
% of Soap Net Revenue	*NA*	*NA*	*2%*	*10%*						*0%*	*0%*
Key Operating Metrics											
Diapers.com											
Units / Order	3.9	4.0	4.2	4.5	3.9	4.0	4.0	4.0	4.1	4.2	4.2
Average Order Size	$89	$94	$92	$104	$90	$93	$95	$95	$94	$95	$93
Gross Margin	15%	17%	18%	17%	16%	17%	17%	18%	17%	17%	19%
Soap.com											
Units / Order	NA	NA	4.0	5.0	NA	NA	NA	NA	NA	NA	4.3
Average Order Size	NA	NA	$31	$48	NA	NA	NA	NA	NA	NA	$32
Gross Margin	NA	NA	10.2%	13.9%	NA	NA	NA	NA	NA	20.9%	8.6%
Capex	$3	$7	$44	$11	$2	$2	$1	$2	$3	$13	$14
Inventory Days	47.5	58.7	111.4	101.0	34.9	48.9	42.1	47.8	66.6	76.0	100.1
AP Days	32.5	32.4	41.0	45.0	30.2	31.9	27.5	26.3	32.6	41.3	40.0

Note: Q3 2010 revenue and gross profit are actual; EBITDA, FCF, and capex are estimated.