

**AIA6-4** The incredible growth of Amazon.com has put fear into the hearts of traditional retailers. Amazon.com's stock price has soared to amazing levels. However, it is often pointed out in the financial press that the company did not report a profit until 2003 (several years after it went public). The following financial information is taken from the 2003 financial statements of Amazon.com.

(\$ in millions)	2003	2002
Current assets	\$ 1,821	\$ 1,616
Total assets	2,162	1,990
Current liabilities	1,253	1,066
Total liabilities	3,198	3,343
Cash provided by operations	392	174
Capital expenditures	46	39
Dividends paid	-0-	-0-
Net income (loss)	35	(149)
Sales	5,264	3,933

### Instructions

- Calculate free cash flow for Amazon.com for 2003 and 2002, and discuss the company's ability to finance expansion from internally generated cash. Thus far, Amazon.com has avoided purchasing large warehouses. Instead, it has used those of others. It is possible, however, that in order to increase customer satisfaction the company may have to build its own warehouses. If this happens, how might your impression of its ability to finance expansion change?
- Discuss any potential implications of the change in Amazon.com's cash provided by operations from 2002 to 2003.
- Based on your findings in parts (a) and (b), can you conclude whether Amazon.com's amazing stock price is justified?

### International Reporting Issues