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GRADUATE SCHOOL OF BUSINESS

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ZAPPOS: HAPPINESS IN A BOX

I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel.

—Maya Angelou, American author

Zappos is about delivering happiness to the world.

—Tony Hsieh, Chief Executive Officer, Zapposⁱ

THE BEGINNINGⁱⁱ

Nick Swinmurn, a Bay Area entrepreneur, founded Zappos in 1999 after unsuccessfully trying to find a specific pair of shoes in several stores. He believed the internet could address the selection problems traditional shoe sellers faced by removing the physical constraints of shoes stores. He launched Zappos (whose name was an adaptation of the Spanish word for shoes, “zapatos”), despite having no experience in retail or the shoe industry, to provide access to a wide variety of shoe styles, colors and sizes.

Meanwhile, just three years after graduating from Harvard, Tony Hsieh (pronounced “Shay”) and Alfred Lin sold their internet ad-banner business, LinkExchange, to Microsoft for \$265 million. In 1999, Hsieh and Lin founded a venture capital fund called Venture Frogs. Hsieh originally served as an investor and advisor to Zappos and then joined the company in 2000, serving as the co-CEO with Swinmurn. (Lin later joined as COO/CFO.) Swinmurn was intent on building the next internet retailing powerhouse and satisfying customers’ needs faster and more simply than ever before. Hsieh, on the other hand, was not focused solely on profits. He wanted to create a new universe, a company that was different from any other company he had known. His focus was on culture and employee happiness. Recalling his outlook on the new position, Hsieh explained, “It was about: What kind of company can we create where we all want to be there, including me? How can we create such a great environment, where employees get so much out of it that they would do it for free?”ⁱⁱⁱ What Hsieh did not know at the time was that he

Sara Gaviser Leslie and Professor Jennifer Aaker prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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would move beyond a focus on creating enjoyment and fulfillment for employees towards delivering happiness to both customers and the greater public.

FINDING THE VISION

Zappos survived the burst of the internet bubble and its own struggles to create a reliable supply chain and distribution system, but, in 2000, was on the edge of running out of cash. Hsieh knew the company was doing something right and went to enormous lengths—propping up the company with personal funds and even selling real estate—to ensure its survival. The dire circumstances forced the team to focus even more on customer service to enable the company to continue.^{iv}

Even as a retailing newcomer, Zappos was already collecting customer accolades. In 2003 Hsieh commented to Fred Mossler, then director of product development, about a customer who had been shocked by the level of service Zappos provided. The customer had ordered a pair of shoes and Zappos surprised him by upgrading his shipping from one week to two days: “He loved the customer service and would tell his friends and family about us. He even said we should one day start a Zappos Airlines.” Recently, Hsieh had finished reading Jim Collins’ *Good to Great* and latched on to Collins’ idea that great companies focus on more than just making money or becoming market leaders. With these two events top of mind, Hsieh and Mossler realized they needed to focus on both short-term goals—making money—and becoming a great company. Hsieh recalled, “We realized that the biggest vision would be to build the Zappos brand to be about the very best customer service.”^v

CREATING THE CULTURE

The start-up culture, where everyone pitched in and felt integral to the success of the company, invigorated Hsieh and his colleagues:

Even though we were going through some tough times, we were going through everything together, and we were all fiercely passionate about what we were doing. We had made sacrifices in our own way because we all believed in the potential and future of the company.”^{vi}

The need for employees to work as a unit only strengthened when the company moved from the San Francisco Bay Area to Las Vegas in 2004. Most employees were new to the area—their lives at work and outside of work merged. Hsieh and his colleagues enjoyed feeling “part of a tribe,” and Zappos encouraged this activity. The culture and Zappos’ performance were so intimately related that Hsieh believed, “If we got the culture right, then building our brand to be about the very best in customer service would happen naturally on its own.”^{vii}

Knowing it would be hard to maintain the start-up feel and culture, in August 2004, Zappos asked all of its employees to provide their thoughts on what the Zappos culture meant to them. It compiled this feedback into a culture book that it shared both internally and externally. (From that point on, the book was published annually with new employee comments.) Zappos wanted employees to understand that they were building the culture and ensure that employees had a shared experience in working at the company. Serious about creating an environment where

personal well-being and happiness were emphasized, Zappos hired an in-house life coach, Dr. Vik, in July 2005.

Later that year, the company again approached its employees to help it define its core values. They pared down this list and released it to the world in February 2006:

1. Deliver WOW Through Service
2. Embrace and Drive Change
3. Create Fun and a Little Weirdness
4. Be Adventurous, Creative and Open-minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships with Communication
7. Build a Positive Team and Family Spirit
8. Do More with Less
9. Be Passionate and Determined
10. Be Humble

Many companies developed core values and some even publicized them. No company, however, had values like those of Zappos. From cubicles decorated by theme, such as the “Monkey Row” (housing the company’s executive team); to open public tours of the company’s headquarters, complete with hoots and bells from every department the group passed; to fully-paid health and dental insurance, Zappos was unique. It almost looked as though employees were having too much fun to be productive. Visitors to the company’s headquarters were not only invited to help themselves to anything at the company’s free lunch room but also allowed to walk around unescorted—thus demonstrating that “build open and honest relationships with communication” was a value that extended to the company’s interactions with the public. They thought about how they could make their core values into the platform on which they would build a company, and the culture became the platform. Making employees happy and making customers happy and making our partners happy became their mantra

Hiring for Cultural Fit

To maintain its unique culture, Zappos hired for specific qualities—weirdness, humor, humility, and even luck. The job interview included a technical assessment and personality/fit questions as well as funny quizzes or even crossword puzzles that focused on Zappos’ business. Lin added that happiness was another quality that they screened for interviews:

I attended a conference where someone in the audience asked Starbucks’ chairman/CEO Howard Schultz why everyone at Starbucks smiled and he said, ‘We only hire people that smile.’ We try to do the same thing at Zappos. We only hire happy people and we try to keep them happy. Our philosophy is that you can’t have happy customers without having happy employees and you can’t have happy employees without having a company where people are inspired by the culture.^{viii}

Zappos was interested in how potential employees saw themselves. One of the interview questions was, “On a scale of one to ten, how lucky are you?” According to a study Hsieh had

read, people who reported themselves as being lucky were more likely to pick up on clues to help solve a task they were given, even outperforming a group of people who perceived themselves as unlucky. Zappos' goal was to "hire the lucky people that bring more good luck to Zappos."^{ix} Cultural fit was so important, Hsieh explained, that it superseded talent: "We have passed on a lot of smart and talented people that we know can make an immediate impact on our top or bottom line, but if they are not a culture fit we won't hire them."^x

Training to Spur Personal Emotional Connections

Every employee started with Customer Loyalty Team (CLT) training, regardless of the employee's future role. New hires learned about the kinds of things CLT members did to "WOW" or surprise customers with fantastic service. The new hires even spent two weeks taking phone calls from customers.

Once new hire training ended, Zappos employees had the opportunity to continue to learn. The company offered courses on communication, finance, and time management as well as unique offerings, including "The Z Library: Tribal" (based on the book *Tribal Leadership*), "The Science of Happiness" and "Delivering Happiness: The Book." In 2007, Hsieh became interested in the science of happiness and started reading books and articles about happiness, including *The Happiness Hypothesis* by Jonathan Haidt and *Happier* by Tal Ben-Shahar, and offering courses on the topic. The Science of Happiness was one of the most popular classes in the elective training program.^{xi}

HAPPY EMPLOYEES GIVE GREAT SERVICE

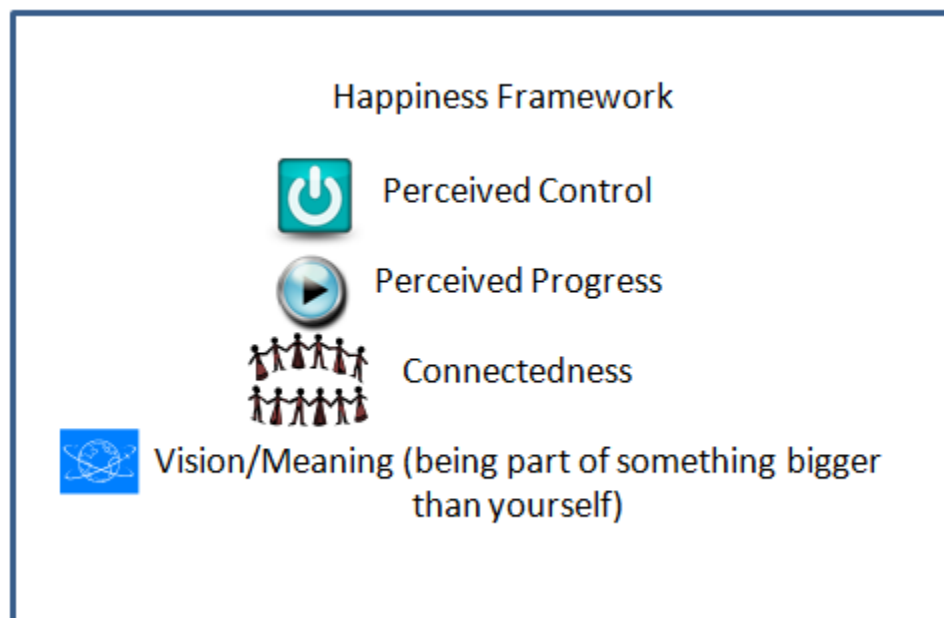
Zappos' customer service included some straightforward but unusual standard practices—a 365-day return policy, free shipping both ways, 24-hour customer service, a toll-free phone number for service inquiries prominently displayed at the top of every page, and assistance in reaching competitors if Zappos could not satisfy a customer request. Most call centers were sterile and could experience turnover as high as 300 percent annually—their main goal was to keep service costs down. Zappos, however, did not see its call center as an expense; rather, as Hsieh explained, "We believe that it's [telephone customer service] a huge untapped opportunity for most companies, not only because it can result in word-of-mouth marketing, but because of its potential to increase the lifetime value of the customer."^{xii}

The team member's job was to WOW customers. They answered the phone cheerfully but without a script, a standard tool for most phone reps. They were not compensated on how many calls they handled during their shifts but were told to spend as much time with customers as it took to resolve their issues. Zappos even kept a record of the longest customer call—the last was on July 10, 2010 when a CLT member spoke for 7 hours and 28 minutes. These conversations helped build the brand, as Hsieh explained: "We want our reps to let their true personalities shine during each phone call so that they can develop a personal emotional connection (internally referred to as PEC) with the customer."^{xiii}

Implementing the Happiness Framework at Zappos

As the company grew, and the happiness culture become even more prominent, Hsieh realized that Zappos was going to be about more than just shoes or clothes—its goal was about happiness and spreading happiness far and wide. “We’ve always had customers tell us that they think of the experience of opening up a Zappos shipment as ‘Happiness in a Box.’ Whether it’s the happiness that customers feel when they receive the perfect pair of shoes or the perfect outfit, or the happiness that they feel from our surprise upgrades to overnight shipping or when they talk to someone on our Customer Loyalty Team, or the happiness that employees feel from being part of a culture whose values match their own personal values—the thing that ties these all together is happiness.” Accordingly, in 2009, the company’s brand promise evolved once again, this time from “personal emotional connection” to “delivering happiness.”^{xiv}

Hsieh, in the process of learning about happiness, discovered several “happiness frameworks” that could help individuals and organizations understand how best to reach happiness. The framework he found most useful for Zappos was the following:



Source: Compiled by author based on information from *Delivering Happiness*.

Perceived control was the first part of Zappos’ happiness framework. In place of annual raises in its call center, which reps appreciated but did not control, Zappos implemented a “skill sets” system for CLTs. The company had 20 different skill sets that employees could acquire, and mastering each one came with a small pay increase. As Hsieh explained, “If someone chooses not to get any, then he or she simply stays at the same pay level. If someone is ambitious and wants to gain all 20 skills, then we let the rep decide on the right pace to achieve that.... Our call center reps are much happier being in control of their pay and which skill sets to attain.”^{xv}

The importance of perceived progress in driving happiness caused Zappos to change its merchandising promotion process from every 18 months to smaller promotions every six months. Though the end results did not change—employees reached the training, certification

and compensation milestones on the same schedule—employees were, Hsieh said, “much happier because there is an ongoing sense of perceived progress.”^{xvi}

To create a feeling of connectedness, Hsieh encouraged employees to socialize outside of work. Managers were required to spend 10-20 percent of their time hanging out with their team members. Hsieh conceded, “It’s just kind of a random number we made up. But part of the way you build company culture is hanging out outside of the office.”^{xvii}

While Hsieh was leading the happiness movement at Zappos, he did not see himself as the center of that movement. Instead, he explained, “For any company or movement or religion or whatever, if there’s one person that personifies it, then that puts that company or vision at risk.... That’s why it needs to be about a movement, not about a person or even a specific company.”^{xviii} Zappos would drive the happiness movement and each employee would play an important role in advancing it.

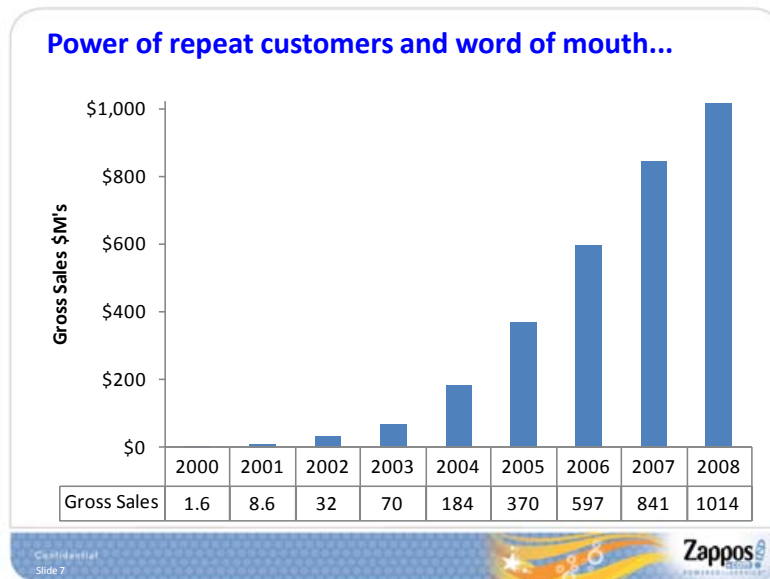
Zappos’ unique approach to running a business and engaging employees and customers attracted the attention of some of the world’s leading retailers. Amazon, like Zappos, was adamant that it must “obsess over customers” and reinvent itself continuously.^{xix} In July 2009, Amazon announced it was acquiring Zappos in a deal that closed at \$1.2 billion.^{xx} True to the Zappos values of embracing change and building honest and open relationships, Hsieh sent a detailed e-mail to all employees (and made it available to the press) the day the deal was announced. (See **Exhibit 1** for a copy of Hsieh’s letter to employees announcing the deal. See **Exhibit 2** for Hsieh’s 2010 letter reflecting on the deal.)

Repeat Customers Drive Zappos’ Success

Connecting with customers and driving customer happiness were part of Zappos’ recipe from the very beginning, as Lin explained:

We started out with the idea that while we want to sell shoes, and that’s how we make money, if we can make one customer happy, they will tell 10 of their friends. That’s how we basically built Zappos, not by spending a ton of money on marketing, but WOWing our customers and WOWing employees, so that they tell their friends to come shop at Zappos or work at Zappos or do business with Zappos.

“WOWing” customers was the way to ensure customers would buy from Zappos again and again. Seventy-five percent of Zappos sales on any given day are from repeat customers. If you wanted to model out the true power of repeat customer visits and the power that translates into business performance, this is an under-told story. Further, repeat customers ordered 2.5 times the amount that new customers ordered in the 12 months following a purchase, and had higher average orders. For instance, first-time customers spent \$123.86 in Q407 and returning customers spent \$156.27 during that same period.^{xxi}



Source: Zappos

Sharing Stories of Great Service and Happiness

Sharing the feedback from customers as well as stories that CLT members collected helped reinforce the core values for newer team members—Zappos was serious about going to great lengths to serve customers. That kind of sharing also acknowledged, as Lin explained, that the company made mistakes: “We’ll screw up more often than we would like to admit, and we’ll apologize, and we’ll fix it. Customers that have said, ‘I’m going to be a customer for life’ are the ones [for whom] something wasn’t exactly right, whether it was the shoe didn’t fit, or it broke, or we sent them the wrong one three times, and we made it up to them.” As one team member wrote:

One of our international customers was in the U.S. for a business trip and placed an order to be delivered while he was in the States. Unfortunately, his order was not delivered on the expected date. He was, understandably, upset and he really wanted his shoes. He decided to stay an extra day and wait for his package to arrive. He ended up missing his flight out and had to pay a fee to reschedule with the airline. Because his order wasn’t delivered as promised, we paid for the difference in his airfare, the shoes that he ordered, and issued a very generous coupon towards a future purchase!^{xxiii}

Zappos had numerous stories to share about the astounding things employees would do to make customers happy. (See **Appendix** for customer stories.)

USING TECHNOLOGY TO SHARE THE CULTURE AND AMPLIFY THE CUSTOMER EXPERIENCE

Zappos fielded 5,000 to 6,000 calls a day. Hsieh explained, “Our best branding tool, as unsexy and low-tech as it may sound, is actually the telephone. And if we get that interaction right, it’s something they remember, maybe for the rest of their life, and tell their friends and family

about.”^{xxiii} Nevertheless, Zappos also explored additional ways to connect with customers and non-customers.

Leveraging Twitter to Strengthen Company Culture

Hsieh originally joined Twitter to keep track of his friends at an offsite meeting. He also used Twitter as his personal search engine with tweets such as, “I’m in NYC. What’s a good bar to hang out at?” While he was initially uncomfortable with publicly announcing his actions and thoughts, he embraced Twitter’s transparency and appreciated that such transparency was consistent with Zappos’ core value #6: Build Open and Honest Relationships with Communication.^{xxiv} Connecting with customers and employees on Twitter, Hsieh felt, could be good for the Zappos brand.

As Hsieh’s following on Twitter grew and the Twitter bug infected the company, the company decided to launch a Twitter list for all employees already using Twitter (twitter.zappos.com). The rationale? Get the employees closer to the customers, allowing and empowering them to create their own voices. An additional benefit was for the consumer and the culture; because all the tweets from employees could be aggregated, anyone who wanted to could see what was on the minds of employees at Zappos at any point in time. The employee tweets helped strengthen the culture and facilitated employees’ interactions outside of work. Customers actually began to follow employees, thus increasing the time they spent with the Zappos brand and bringing them closer to the culture. In this way, Twitter was a tool that facilitated the culture that Zappos had created and intended to continue cultivating—one that fostered openness, consumer-brand intimacy, and happiness, both among employees and customers. As Alfred Lin, Zappos’ COO, explained, “We found Twitter to be very, very useful for our culture, because it facilitated serendipity and the possibility of delight.”

Delivering Happiness with Twitter

The most-followed Zappos employee was Hsieh. Hsieh saw Twitter as a tool that could both drive his own happiness and strengthen the company culture:

What I found was that people really appreciated the openness and honesty, and that led people to feel more of a personal connection with Zappos and me compared to other corporations and business people that were on Twitter.... Whether I tweet about something personal or something related to Zappos, if I’m living my life through these 10 core values, it all goes towards building the Zappos brand while shaping me personally as well.^{xxv}

His self-proclaimed goal was to “inspire, connect, educate, entertain.”^{xxvi} Much of what Hsieh (and Zappos employees) tweeted about were inspirational quotes, endorsing a success that everyone could celebrate or interesting articles that affected a broad group of people:

“A great company is more likely to die of indigestion from too much opportunity than starvation from too little.” —Packard’s Law

“You can’t stop the waves, but you can learn to surf.” —Jon Kabat-Zinn

“Be humble: In the beginner’s mind there are many possibilities, but in the expert’s mind there are few.”—Sunryu Suzuki.^{xxvii}

Humorous tweets were also Hsieh’s specialty:

“At Vegas airport. While in bathroom, I had an AMAZING revelation: Toilet seat covers are shaped exactly the same as life vests!”^{xxviii}

“Wow. Amazing rainbow in London! Pass the Lucky Charms please.”^{xxix}

“I wonder what TSA would do if I brought a block of ice through airport security. My physics teacher said it’s not a liquid.”^{xxx}

Hsieh tweeted to generate laughter and honesty. As of April 2010, his most re-tweeted tweet was on April 4, 2010 when he wrote, “Instead of getting an iPad, I now use my iPhone with a giant magnifying glass attached to my face.”^{xxxi}

Impact: Twitter by the Numbers

By May 2010, 499 Zappos employees were using Twitter,^{xxxii} and Hsieh’s @Zappos account had over 1,684,910 followers and appeared on 8,125 lists. In addition, @Zappos ranked 69th in the top 100 Twitter users’ list.^{xxxiii} By May 15, 2010, Hsieh had put out 2,126 tweets and @Zappos had 1.68 million followers. Including all of Hsieh’s fans’ re-tweets, Hsieh had, in one way or another, reached over 6 million unique users. Lin remarked at the speed and power of Twitter as an enabler for Zappos’ goal to spread happiness and create a relationship with its customers:

Tony [Hsieh] now has 1.7 million followers which he accumulated over the past few years. Zappos has slightly over 12 million customers after 10 years in business. The speed at which you can get people up on Twitter is way faster than the speed at which we can bring in new customers. Every single person that Tony reaches on Twitter is a customer or a potential customer, and he touches them every single day because he tweets every single day. That’s a pretty powerful engine and it is affecting more than 15 percent of our customer base.

To aggregate Zappos-related tweets in an easy-to-access and streamlined fashion, Zappos created a subsite called twitter.zappos.com. The site aggregated three types of content: (a) public mentions of Zappos, (b) tweets by employees who tweeted for the company about specific topics (e.g., @Zappos_Wedding for weddings, @Zappos_Service for customer service), and (c) status updates and pictures from employees’ personal Twitter accounts. The policy that guided blogging and micro-blogging was simple: “Use your best judgment,” and “Don’t send out any information that you might not want to see on the front page of the *New York Times*.”

The relationships cultivated, and the candor that Zappos displayed, paid off; the company received numerous e-mails from customers explaining that, “I decided to buy from Zappos today because I follow you on Twitter. I feel like I know you.” Stories started coming in about how Zappos’ behavior was affecting consumers, thus increasing consumer insight. And more importantly, Zappos started collecting a significant asset—stories about the brand. Because of

the nature of Twitter, these stories were amplified. Zappos “followers” would re-tweet their favorite stories and insights, thereby augmenting Zappos’ message faster than ever before and further cultivating Zappos’ personality, culture and goals. (See **Appendix** for customer stories.) Considering the growth in Twitter followers, it was clear that Twitter could serve as a conduit, perhaps the best conduit, for spreading happiness to the world—the ultimate goal for Hsieh.

Blogging

At most companies, few employees had permission to blog on the official company site. At Zappos, any employee could get an account. Zappos’ motivation in maintaining these blogs was to show the world that there are real people inside of Zappos, not a faceless corporation. Zappos had no policies as to what employees could tweet. The only policy was to “use your best judgment.”

Video: A Window on Life at Zappos

Zappos used its blog to showcase videos, via YouTube, that both documented life at Zappos and provided humorous news items from the company. Zappos’ first foray into video, ZTV, answered all questions that people had about life at Zappos. It included employees extolling the virtues of Zappos (e.g., taco day, Zappos’ core values, free health and dental care), a video highlighting “A Day in the Life of a Zappos Employee,” or offering parodies of political commercials. ZTV, after four and a half years in existence, included over 187 videos that had been viewed 2,076,595 times. The second video channel, “Inside Zappos,” was “a little peek into the culture of this wonderful company and all its employees.”^{xxxiv} Inside Zappos had nothing to do with Zappos’ core business but, rather, showcased the fun that employees had at work planting cockroaches in an employee’s shoe delivery box or impersonating celebrities. The common thread was that the videos made employees laugh at themselves and each other. Inside Zappos had collected over 870 videos and 590,576 total views in the two and a half years since its founding.

Using Technology to Build Open and Honest Relationships with Communication

Zappos was not concerned about employees saying negative things about the company, either in blogs or other public communication media—the company preferred to know employees’ gripes so it could address them. In fact, Lin wondered why a company would want to guide messaging at all:

If there's an employee that is just bitter and hates working for Zappos, we'd rather know it sooner [rather] than later. Or, if you have a customer that's really unhappy with Zappos, you want to know it, as opposed to just controlling the messaging completely. If you read Twitter and Zappos.com, you will see the good, bad, and the ugly. If you know what the ugly is, you can fix it.

Public communication with customers was also a way for Zappos to provide a window on the company and communicate its values. They believe that the true brand is what your customers say you are. Negative tweets or blog posts gave Zappos the opportunity to make a better offering for every purchaser and create happiness for individuals.

In the late 2000s, other companies began to contact Zappos to learn about how to apply Zappos' management practices in their firms. The company realized it was "changing other companies and other people's lives,"—Amazon's acquisition was a testament to this reality. Delivering happiness did not start and end with Zappos; Zappos could, as Hsieh explained, "change the world not just by doing things differently at Zappos, but by helping change how other companies did things."^{xxxv} To meet this goal, the company launched Zappos Insights (www.zapposinsights.com) and began offering seminars to individuals from other companies who wanted to understand Zappos' management practices.

It was not clear what the future would look like for Zappos. Hsieh wanted Zappos to be the architect of a movement to spread happiness, or "Zappiness," through clothing, customer service, and company culture.^{xxxvi} As part of Amazon, Zappos [had] many opportunities to transform an even larger retailer. Hsieh surmised that the future would not look anything like the past: "Eventually, we'll figure out a way of spreading knowledge to the world in general, and that has nothing to do with selling shoes online."^{xxxvii}

DELIVERING HAPPINESS TO THE WORLD

The core values were intended to govern the way management interacted with employees, employees treated each other, and employees related to customers. But before long, employees had begun to internalize these values in their lives outside of work.

Do More with Less

"Do more with less" originally meant to drive efficiency, and to help drive personal satisfaction and fulfillment outside of work. As Vanessa L. explained, she joined Zappos in 2007 during a particularly rough patch in her life. On her first Christmas, she was broke but managed to make a holiday treat and find pleasure in two yams and some marshmallows from a packet of cocoa powder. Zappos' encouragement to be creative and resourceful in solving problems at work was useful to employees in their personal lives as well. As Vanessa explained, "Thinking back to when I made those yams years ago, doing more with less, I now know that any issue arising in life is a welcome challenge where I can learn and grow.... I know it's not material possessions that generate my happiness."^{xxxviii}

Emotional Contagion: Extending WOW

After experiencing a random act of kindness when a stranger paid for her soda, a Zappos employee decided to pay it forward herself. The employee, in line at Walgreens, had a full cart of items and was in the process of checking out. Noticing an older man behind her in line, she offered to pay for his four items. Shocked, the man asked for an explanation. The employee had meant to call it a "random act of kindness" but, indoctrinated by the Zappos culture of WOWing the customer, called it a "random act of WOWness." This gave her the opportunity to talk about how Zappos "WOWs" its customers with great service. Days later, she returned to the store to learn that "random acts of WOWness" was already becoming a familiar term. After calling her by name, the clerk explained, "I wrote your name down from the credit card receipt, because I didn't want to forget the person that taught me about random acts of WOW and kindness. I've told others about it too."^{xxxix}

Finding Happiness at Zappos

Lauren S. an employee since July 2008, was one of many who could testify that working at Zappos made them happy:

When I first came to Zappos, I had only heard about how wonderful the company was to work for, about how it was a young company but that is was the one company that had figured how to incorporate excellent customer service with caring about those that performed this task. I have to admit that I was more than a little skeptical but I was so intrigued/enchanted that I threw my proverbial hat in the ring ... I am extremely happy and humbled that I work for this wonderful company. I had come from a small corporation prior to this one and I thought that it would be impossible to get a sense of security, a sense of pride and family ... I have never felt so at home and above all, appreciated, here at Zappos. Zappos Culture to me is wild, anything goes, have as much fun as you can, a make-someone-laugh-out-loud kinda place ... it's making friends and then turning them into your family, it's laughing and taking time with those on the other end of the phone, and it's showing that in times where rudeness is the norm, there is a smile waiting to greet you, 24 hours a day, seven days a week.”^{xl}

Exhibit 1

Announcement of Amazon Acquisition

CEO LETTER

The following email was sent to our employees today:

Date: Wed, 22 Jul 2009
From: Tony Hsieh (CEO - Zappos.com)
To: All Zappos Employees
Subject: Zappos and Amazon

Please set aside 20 minutes to carefully read this entire email. (My apologies for the occasional use of formal-sounding language, as parts of it are written in a particular way for legal reasons.)

Today is a big day in Zappos history.

This morning, our board approved and we signed what's known as a "definitive agreement", in which all of the existing shareholders and investors of Zappos (there are over 100) will be exchanging their Zappos stock for Amazon stock. Once the exchange is done, Amazon will become the only shareholder of Zappos stock.

Over the next few days, you will probably read headlines that say "Amazon acquires Zappos" or "Zappos sells to Amazon". While those headlines are technically correct, they don't really properly convey the spirit of the transaction. (I personally would prefer the headline "Zappos and Amazon sitting in a tree...")

We plan to continue to run Zappos the way we have always run Zappos -- continuing to do what we believe is best for our brand, our culture, and our business. From a practical point of view, it will be as if we are switching out our current shareholders and board of directors for a new one, even though the technical legal structure may be different.

We think that now is the right time to join forces with Amazon because there is a huge opportunity to leverage each other's strengths and move even faster towards our long term vision. For Zappos, our vision remains the same: delivering happiness to customers, employees, and vendors. We just want to get there faster.

We are excited about doing this for 3 main reasons:

- 1) We think that there is a huge opportunity for us to really accelerate the growth of the Zappos brand and culture, and we believe that Amazon is the best partner to help us get there faster.
- 2) Amazon supports us in continuing to grow our vision as an independent entity, under the Zappos brand and with our unique culture.

3) We want to align ourselves with a shareholder and partner that thinks really long term (like we do at Zappos), as well as do what's in the best interest of our existing shareholders and investors.

I will go through each of the above points in more detail below, but first, let me get to the top 3 burning questions that I'm guessing many of you will have.

TOP 3 BURNING QUESTIONS

Q: Will I still have a job?

As mentioned above, we plan to continue to run Zappos as an independent entity. In legal terminology, Zappos will be a "wholly-owned subsidiary" of Amazon. Your job is just as secure as it was a month ago.

Q: Will the Zappos culture change?

Our culture at Zappos is unique and always evolving and changing, because one of our core values is to Embrace and Drive Change. What happens to our culture is up to us, which has always been true. Just like before, we are in control of our destiny and how our culture evolves.

A big part of the reason why Amazon is interested in us is because they recognize the value of our culture, our people, and our brand. Their desire is for us to continue to grow and develop our culture (and perhaps even a little bit of our culture may rub off on them).

They are not looking to have their folks come in and run Zappos unless we ask them to. That being said, they have a lot of experience and expertise in a lot of areas, so we're very excited about the opportunities to tap into their knowledge, expertise, and resources, especially on the technology side. This is about making the Zappos brand, culture, and business even stronger than it is today.

Q: Are Tony, Alfred, or Fred leaving?

No, we have no plans to leave. We believe that we are at the very beginning of what's possible for Zappos and are very excited about the future and what we can accomplish for Zappos with Amazon as our new partner. Part of the reason for doing this is so that we can get a lot more done more quickly.

There is an additional Q&A section at the end of this email, but I wanted to make sure we got the top 3 burning questions out of the way first. Now that we've covered those questions, I wanted to share in more detail our thinking behind the scenes that led us to this decision.

First, I want to apologize for the suddenness of this announcement. As you know, one of our core values is to Build Open and Honest Relationships With Communication, and if I could have it my way, I would have shared much earlier that we were in discussions with Amazon so that all employees could be involved in the decision process that we went through along the way.

Unfortunately, because Amazon is a public company, there are securities laws that prevented us from talking about this to most of our employees until today.

We've been on friendly terms with Amazon for many years, as they have always been interested in Zappos and have always had a great respect for our brand.

Several months ago, they reached out to us and said they wanted to join forces with us so that we could accelerate the growth of our business, our brand, and our culture. When they said they wanted us to continue to build the Zappos brand (as opposed to folding us into Amazon), we decided it was worth exploring what a partnership would look like.

We learned that they truly wanted us to continue to build the Zappos brand and continue to build the Zappos culture in our own unique way. I think "unique" was their way of saying "fun and a little weird." :)

Over the past several months, as we got to know each other better, both sides became more and more excited about the possibilities for leveraging each other's strengths. We realized that we are both very customer-focused companies -- we just focus on different ways of making our customers happy.

Amazon focuses on low prices, vast selection and convenience to make their customers happy, while Zappos does it through developing relationships, creating personal emotional connections, and delivering high touch ("WOW") customer service.

We realized that Amazon's resources, technology, and operational experience had the potential to greatly accelerate our growth so that we could grow the Zappos brand and culture even faster. On the flip side, through the process Amazon realized that it really was the case that our culture is the platform that enables us to deliver the Zappos experience to our customers. Jeff Bezos (CEO of Amazon) made it clear that he had a great deal of respect for our culture and that Amazon would look to protect it.

We asked our board members what they thought of the opportunity. Michael Moritz, who represents Sequoia Capital (one of our investors and board members), wrote the following: "You now have the opportunity to accelerate Zappos' progress and to make the name and the brand and everything associated with it an enduring, permanent part of peoples' lives... You are now free to let your imagination roam - and to contemplate initiatives and undertakings that today, in our more constrained setting, we could not take on."

One of the great things about Amazon is that they are very long term thinkers, just like we are at Zappos. Alignment in very long term thinking is hard to find in a partner or investor, and we felt very lucky and excited to learn that both Amazon and Zappos shared this same philosophy.

All this being said, this was not an easy decision. Over the past several months, we had to weigh all the pros and cons along with all the potential benefits and risks. At the end of the day, we realized that, once it was determined that this was in the best interests of our shareholders, it basically all boiled down to asking ourselves 2 questions:

1) Do we believe that this will accelerate the growth of the Zappos brand and help us fulfill our mission of delivering happiness faster?

2) Do we believe that we will continue to be in control of our own destiny so that we can continue to grow our unique culture?

After spending a lot of time with Amazon and getting to know them and understanding their intentions better, we reached the conclusion that the answers to these 2 questions are YES and YES.

The Zappos brand will continue to be separate from the Amazon brand. Although we'll have access to many of Amazon's resources, we need to continue to build our brand and our culture just as we always have. Our mission remains the same: delivering happiness to all of our stakeholders, including our employees, our customers, and our vendors. (As a side note, we plan to continue to maintain the relationships that we have with our vendors ourselves, and Amazon will continue to maintain the relationships that they have with their vendors.)

We will be holding an all hands meeting soon to go over all of this in more detail. Please email me any questions that you may have so that we can cover as many as possible during the all hands meeting and/or a follow-up email.

We signed what's known as the "definitive agreement" today, but we still need to go through the process of getting government approval, so we are anticipating that this transaction actually won't officially close for at least a few months. We are legally required by the SEC to be in what's known as a "quiet period", so if you get any questions related to the transaction from anyone including customers, vendors, or the media, please let them know that we are in a quiet period mandated by law and have them email tree@zappos.com, which is a special email account that Alfred and I will be monitoring.

Alfred and I would like to say thanks to the small group of folks on our finance and legal teams and from our advisors at Morgan Stanley, Fenwick & West, and PricewaterhouseCoopers who have been working really hard, around the clock, and behind the scenes over the last several months to help make all this possible.

Before getting to the Q&A section, I'd also like to thank everyone for taking the time to read this long email and for helping us get to where we are today.

It's definitely an emotional day for me. The feelings I'm experiencing are similar to what I felt in college on graduation day: excitement about the future mixed with fond memories of the past. The last 10 years were an incredible ride, and I'm excited about what we will accomplish together over the next 10 years as we continue to grow Zappos!

-Tony Hsieh

CEO - Zappos.com

Q&A

Q: Will we still continue to grow our headquarters out of Vegas?

Yes! Just like before, we plan to continue to grow our Las Vegas operations as long as we can continue to attract the right talent for each of our departments. We do not have any plans to move any departments, nor does Amazon want us to because they recognize that our culture is what makes the Zappos brand special.

Q: What will happen to our warehouse in Kentucky?

As many of you know, we were strategic in choosing our warehouse location due to its proximity to the UPS Worldport hub in Louisville. Amazon does not have any warehouse locations that are closer to the Worldport hub. There is the possibility that they may want to store some of their inventory in our warehouse or vice-versa. Right now, both Zappos and Amazon believe that the best customer experience is to continue running our warehouse in Kentucky at its current location.

Q: Will we be reducing staff in order to gain operational efficiency?

There are no plans to do so at this time. Both Zappos and Amazon are focused on growth, which means we will need to hire more people to help us grow.

Q: Will we get a discount at Amazon?

No, because we are planning on continuing to run Zappos as a separate company with our own culture and core values. And we're not going to be giving the Zappos discount to Amazon employees either, unless they bake us cookies and deliver them in person.

Q: Will our benefits change?

No, we are not planning on making any changes (outside of the normal course of business) to our benefit packages.

Q: Do we keep our core values?

Yes, we will keep our core values, and Amazon will keep their core values.

Q: Will our training/pipeline programs or progression plans change? Will there still be more growth opportunities?

We will continue building out our pipeline and progression as planned. The whole point of this combination is to accelerate our growth, so if anything, we are actually anticipating more growth opportunities for everyone.

Q: Will we continue to do the special things we do for our customers? Are our customer service policies going to change?

Just like before, that's completely up to us to decide.

Q: Can you tell me a bit more about Jeff Bezos (Amazon CEO)? What is he like?

We'd like to show an 8-minute video of Jeff Bezos that will give you some insight into his personality and way of thinking. He shares some of what he's learned as an entrepreneur, as well as some of the mistakes he's made.

Q: I'm a business/financial reporter. Can you talk like a banker and use fancy-sounding language that we can print in a business publication?

Zappos is an online footwear category leader and Amazon believes Zappos is the right team with a unique culture, proven track record, and the experience to become a leading soft goods company; Zappos' customer service obsession reinforces Amazon's mission to be the earth's most customer-centric company; Great brand, strong vendor relationships, broad selection, large active and repeat customer base; Amazon believes Zappos is a great business -- growing, profitable and positive cash flow; Accelerate combined companies' scale and growth trajectory in the shoe, apparel and accessories space; Significant synergy opportunities, including technology, marketing, and possible international expansion.

Q: What is the purchase price?

This is not a cash transaction. This is a stock exchange. Our shareholders and option holders will be issued approximately 10 million Amazon shares on a fully converted basis. The details of the deal terms and how the shares will be distributed will be filed with the SEC on Form S-4 and will be publicly available when it is filed.

Q: Can you talk like a lawyer now?

This email was sent on July 22, 2009. In connection with the proposed merger, Amazon.com will file a registration statement on Form S-4 with the Securities and Exchange Commission that will contain a consent solicitation/prospectus. Zappos' shareholders and investors are urged to carefully read the consent solicitation/prospectus when it becomes available and other relevant documents filed with the Securities and Exchange Commission regarding the proposed merger because they contain important information about Amazon.com, Zappos and the proposed merger. Shareholders and investors will be able to obtain the consent solicitation/prospectus when it becomes available at www.sec.gov or www.amazon.com/ir.

Certain statements contained in this email are not statements of historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current expectations, are inherently uncertain and are subject to known and unknown risks, uncertainties and other factors. Factors that could cause

future results to differ materially from expected results include those set forth in Amazon.com's Current Report on Form 8-K, dated July 22, 2009.

Q: Can you please stop?

okthxbye

Source: Zappos

**Exhibit 2
Amazon & Zappos, 1 Year Later**

CEO LETTER

The following email was sent to our employees today:

Date: Thu, 22 Jul 2010
From: Tony Hsieh (CEO - Zappos.com)
To: All Zappos Employees
Subject: Amazon & Zappos, 1 Year Later

Today is the 1 year anniversary of when we announced the marriage between Zappos and Amazon. It's hard to believe it's already been a year!

I thought it'd be interesting to read through the original email that I sent out a year ago (<http://blogs.zappos.com/ceoletter>) and comment on it to see whether things happened as planned and promised. The original email is below, along with my comments ***[in brackets and asterisks].

Enjoy!

Date: Wed, 22 Jul 2009
From: Tony Hsieh (CEO - Zappos.com)
To: All Zappos Employees
Subject: Zappos and Amazon

Please set aside 20 minutes to carefully read this entire email. (My apologies for the occasional use of formal-sounding language, as parts of it are written in a particular way for legal reasons.)

Today is a big day in Zappos history.

This morning, our board approved and we signed what's known as a definitive agreement, in which all of the existing shareholders and investors of Zappos (there are over 100) will be exchanging their Zappos stock for Amazon stock. Once the exchange is done, Amazon will become the only shareholder of Zappos stock.

Over the next few days, you will probably read headlines that say "Amazon acquires Zappos" or "Zappos sells to Amazon". While those headlines are technically correct, they don't really properly convey the spirit of the transaction. (I personally would prefer the headline "Zappos and Amazon sitting in a tree.")

We plan to continue to run Zappos the way we have always run Zappos -- continuing to do what we believe is best for our brand, our culture, and our business. From a practical point of view, it will be as if we are switching out our current shareholders and board of directors for a new one, even though the technical legal structure may be different.

***[This has gone according to plan. Instead of flying to San Francisco once a quarter for board meetings, we now fly to Seattle once a quarter for the equivalent of a board meeting.]

We think that now is the right time to join forces with Amazon because there is a huge opportunity to leverage each other's strengths and move even faster towards our long term vision. For Zappos, our vision remains the same: delivering happiness to customers, employees, and vendors. We just want to get there faster.

We are excited about doing this for 3 main reasons:

1) We think that there is a huge opportunity for us to really accelerate the growth of the Zappos brand and culture, and we believe that Amazon is the best [partner](#) to help us get there faster.

***[The growth rate of our business has accelerated since the acquisition announcement.]

2) Amazon supports us in continuing to grow our vision as an [independent](#) entity, under the Zappos brand and with our unique culture.

***[The Zappos Family has remained [independent](#).]

3) We want to align ourselves with a shareholder and [partner](#) that thinks really long term (like we do at Zappos), as well as do what's in the best interest of our existing shareholders and investors.

***[Zappos shareholders and investors were happy with the transaction, and we continue to build the Zappos businesses for the long term.]

I will go through each of the above points in more detail below, but first, let me get to the top 3 burning questions that I'm guessing many of you will have.

TOP 3 BURNING QUESTIONS

Q: Will I still have a job?

As mentioned above, we plan to continue to run Zappos as an [independent](#) entity. In legal terminology, Zappos will be a "wholly-owned subsidiary" of Amazon. Your job is just as secure as it was a month ago.

*****[This has remained true.]**

Q: Will the Zappos culture change?

Our culture at Zappos is unique and always evolving and changing, because one of our core values is to Embrace and Drive Change. What happens to our culture is up to us, which has always been true. Just like before, we are in control of our destiny and how our culture evolves.

A big part of the reason why Amazon is interested in us is because they recognize the value of our culture, our people, and our brand. Their desire is for us to continue to grow and develop our culture (and perhaps even a little bit of our culture may rub off on them).

They are not looking to have their folks come in and run Zappos unless we ask them to. That being said, they have a lot of experience and expertise in a lot of areas, so we're very excited about the opportunities to tap into their knowledge, expertise, and resources, especially on the technology side. This is about making the Zappos brand, culture, and business even stronger than it is today.

*****[There are a lot of different areas of Amazon that we've been able to learn from, but we've continued to run Zappos independently with our own unique culture.]**

Q: Are Tony, Alfred, or Fred leaving?

No, we have no plans to leave. We believe that we are at the very beginning of what's possible for Zappos and are very excited about the future and what we can accomplish for Zappos with Amazon as our new [partner](#). Part of the reason for doing this is so that we can get a lot more done more quickly.

*****[A year ago, Alfred had no plans to leave. Since then, his wife is now pregnant with their first child and they are planning on moving to the San Francisco Bay Area to raise their family. Alfred will be joining Sequoia Capital to fulfill his life long dream of investing in and helping other startups.]**

There is an additional Q&A section at the end of this email, but I wanted to make sure we got the top 3 burning questions out of the way first. Now that we've covered those questions, I wanted to share in more detail our thinking behind the scenes that led us to this decision.

First, I want to apologize for the suddenness of this announcement. As you know, one of our core values is to Build Open and Honest Relationships With Communication, and if I could have it my way, I would have shared much earlier that we were in discussions with Amazon so that all

employees could be involved in the decision process that we went through along the way. Unfortunately, because Amazon is a public company, there are securities laws that prevented us from talking about this to most of our employees until today.

We've been on friendly terms with Amazon for many years, as they have always been interested in Zappos and have always had a great respect for our brand.

Several months ago, they reached out to us and said they wanted to join forces with us so that we could accelerate the growth of our business, our brand, and our culture. When they said they wanted us to continue to build the Zappos brand (as opposed to folding us into Amazon), we decided it was worth exploring what a partnership would look like.

We learned that they truly wanted us to continue to build the Zappos brand and continue to build the Zappos culture in our own unique way. I think "unique" was their way of saying "fun and a little weird." :)

Over the past several months, as we got to know each other better, both sides became more and more excited about the possibilities for leveraging each other's strengths. We realized that we are both very customer-focused companies -- we just focus on different ways of making our customers happy.

Amazon focuses on low prices, vast selection and convenience to make their customers happy, while Zappos does it through developing relationships, creating personal emotional connections, and delivering high touch ("WOW") customer service.

We realized that Amazon's resources, technology, and operational experience had the potential to greatly accelerate our growth so that we could grow the Zappos brand and culture even faster. On the [flip](#) side, through the process Amazon realized that it really was the case that our culture is the [platform](#) that enables us to deliver the Zappos experience to our customers. Jeff Bezos (CEO of Amazon) made it clear that he had a great deal of respect for our culture and that Amazon would look to protect it.

We asked our board members what they thought of the opportunity. Michael Moritz, who represents Sequoia Capital (one of our investors and board members), wrote the following: "You now have the opportunity to accelerate Zappos' progress and to make the name and the brand and everything associated with it an enduring, permanent part of peoples' lives... You are now free to let your imagination roam - and to contemplate initiatives and undertakings that today, in our more constrained setting, we could not take on."

One of the great things about Amazon is that they are very long term thinkers, just like we are at Zappos. Alignment in very long term thinking is hard to find in a [partner](#) or investor, and we felt very [lucky](#) and excited to learn that both Amazon and Zappos shared this same philosophy.

All this being said, this was not an easy decision. Over the past several months, we had to weigh all the pros and cons along with all the potential benefits and risks. At the end of the day, we

realized that, once it was determined that this was in the best interests of our shareholders, it basically all boiled down to asking ourselves 2 questions:

1) Do we believe that this will accelerate the growth of the Zappos brand and help us fulfill our mission of delivering happiness faster?

*****[We've accelerated the growth of our business since the announcement.]**

2) Do we believe that we will continue to be in control of our own destiny so that we can continue to grow our unique culture? n>

*****[We've continued to control our own destiny and grow our culture.]**

After spending a lot of time with Amazon and getting to know them and understanding their intentions better, we reached the conclusion that the answers to these 2 questions are YES and YES.

The Zappos brand will continue to be separate from the Amazon brand. Although we'll have access to many of Amazons resources, we need to continue to build our brand and our culture just as we always have. Our mission remains the same: delivering happiness to all of our stakeholders, including our employees, our customers, and our vendors. (As a side note, we plan to continue to maintain the relationships that we have with our vendors ourselves, and Amazon will continue to maintain the relationships that they have with their vendors.)

We will be holding an all hands meeting soon to go over all of this in more detail. Please email me any questions that you may have so that we can cover as many as possible during the all hands meeting and/or a follow-up email.

We signed what's known as the "definitive agreement" today, but we still need to go through the process of getting government approval, so we are anticipating that this transaction actually won't officially close for at least a few months. We are legally required by the SEC to be in what's known as a "quiet period", so if you get any questions related to the transaction from anyone including customers, vendors, or the media, please let them know that we are in a quiet period mandated by law and have them email tree@zappos.com, which is a special email [account](#) that Alfred and I will be monitoring.

Alfred and I would like to say thanks to the small group of folks on our finance and legal teams and from our advisors at Morgan Stanley, Fenwick & West, and PricewaterhouseCoopers who have been working really hard, around the clock, and behind the scenes over the last several months to help make all this possible.

Before getting to the Q&A section, I'd also like to thank everyone for taking the time to read this long email and for helping us get to where we are today.

Its definitely an emotional day for me. The feelings Im experiencing are similar to what I felt in college on graduation day: excitement about the future mixed with fond memories of the past.

The last 10 years were an incredible ride, and I'm excited about what we will accomplish together over the next 10 years as we continue to grow Zappos!

-Tony Hsieh

CEO - Zappos.com

Q: Will we still continue to grow our headquarters out of Vegas?

Yes! Just like before, we plan to continue to grow our Las Vegas operations as long as we can continue to attract the right talent for each of our departments. We do not have any plans to move any departments, nor does Amazon want us to because they recognize that our culture is what makes the Zappos brand special.

*****[This has happened as planned. No departments have moved.]**

Q: What will happen to our warehouse in Kentucky?

As many of you know, we were strategic in choosing our warehouse location due to its proximity to the UPS Worldport hub in Louisville. Amazon does not have any warehouse locations that are closer to the Worldport hub. There is the possibility that they may want to store some of their inventory in our warehouse or vice-versa. Right now, both Zappos and Amazon believe that the best customer experience is to continue running our warehouse in Kentucky at its current location.

*****[We are continuing to run our own warehouse in Kentucky, and plans are currently underway for us to eventually fulfill some of Amazon's shoe orders from our warehouse.]**

Q: Will we be reducing staff in order to gain operational efficiency?

There are no plans to do so at this time. Both Zappos and Amazon are focused on growth, which means we will need to hire more people to help us grow.

*****[We've actually increased the total Zappos Family staff by over 30% from when the announcement was made a year ago. Headcount on 7/22/09 was 1297 employees, and today we have 1942 employees.]**

Q: Will we get a discount at Amazon?

No, because we are planning on continuing to run Zappos as a separate company with our own culture and core values. And we're not going to be giving the Zappos discount to Amazon employees either, unless they bake us cookies and deliver them in person.

*****[Only 1 Amazon employee has brought us cookies. Thanks Jeff Wilke.]**

Q: Will our benefits change?

No, we are not planning on making any changes (outside of the normal course of business) to our benefit packages.

*****[The benefits for the Zappos Family have actually gotten better. We now offer \$4000/\$8000 medical HRAs and adoption benefits for employees, in addition to keeping every benefit we had at this time last year.]**

Q: Do we keep our core values?

Yes, we will keep our core values, and Amazon will keep their core values.

*****[Our core values have not changed.]**

Q: Will our training/pipeline programs or progression plans change? Will there still be more growth opportunities?

We will continue building out our pipeline and progression as planned. The whole point of this combination is to accelerate our growth, so if anything, we are actually anticipating more growth opportunities for everyone.

*****[We now offer even more training/pipeline classes than before! In Q3 2009 we offered 20 different classes. Today we offer 36 Pipeline classes, 29 Merchandising Training classes, and 20 Pipeline-For-Hire classes. And, we are continuing to add to the list!]**

Q: Will we continue to do the special things we do for our customers? Are our customer service policies going to change?

Just like before, that's completely up to us to decide.

*****[We continue to focus on WOWing our customers to deliver the very best customer service. There haven't been any significant changes to our customer service policies over the past year except now we are able to process refunds for returned products even faster than before thanks to Amazon!]**

Q: Can you tell me a bit more about Jeff Bezos (Amazon CEO)? What is he like?

We'd like to show an 8-minute video of Jeff Bezos that will give you some insight into his personality and way of thinking. He shares some of what he's learned as an entrepreneur, as well as some of the mistakes he's made.

Q: I'm a business/financial reporter. Can you talk like a banker and use fancy-sounding language that we can print in a business publication?

Zappos is an online footwear category leader and Amazon believes Zappos is the right team with a unique culture, proven track record, and the experience to become a leading soft goods company; Zappos' customer service obsession reinforces Amazon's mission to be the earth's most customer-centric company; Great brand, strong vendor relationships, broad selection, large active and repeat customer base; Amazon believes Zappos is a great business -- growing, profitable and positive cash flow; Accelerate combined companies' scale and growth trajectory in the shoe, apparel and [accessories](#) space; Significant synergy opportunities, including technology, marketing, and possible international expansion.

*****[We're continuing to grow at a rapid pace! Zappos Q1 2010 net sales were up [almost 50%](#) compared to Q1 2009 net sales.]**

Q: What is the purchase price?

This is not a cash transaction. This is a stock exchange. Our shareholders and option holders will be issued approximately 10 million Amazon shares on a fully converted basis. The details of the deal terms and how the shares will be distributed will be filed with the SEC on Form S-4 and will be publicly available when it is filed.

*****[The deal was valued at about \$1.2 billion on the day of closing on November 1, 2009.]**

Q: Can you talk like a lawyer now?

This email was sent on July 22, 2009. In connection with the proposed merger, Amazon.com will file a registration statement on Form S-4 with the Securities and Exchange Commission that will contain a consent solicitation/prospectus. Zappos' shareholders and investors are urged to carefully read the consent solicitation/prospectus when it becomes available and other relevant documents filed with the Securities and Exchange Commission regarding the proposed merger because they contain important information about Amazon.com, Zappos and the proposed merger. Shareholders and investors will be able to obtain the consent solicitation/prospectus when it becomes available at www.sec.gov or www.amazon.com/ir.

Certain statements contained in this email are not statements of historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current expectations, are inherently uncertain and are subject to known and unknown risks, uncertainties and other factors. Factors that could cause future results to differ materially from expected results include those set forth in Amazon.com's Current [Report](#) on Form 8-K, dated July 22, 2009.

*****[Ditto.]**

Q: Can you please stop?

okthxbye

*****[kthxbai]**

Appendix

Customer Stories^{xli}

A Personal Concierge

One customer, a flight attendant for Qantas, was in San Francisco on a layover and needed to exchange some shoes. She did not have access to a computer so she could not print her return label. She did not know where a UPS store or outlet was located. When she contacted Zappos, a team member named Delores found the nearest UPS store to her hotel and offered to send the store the return label. She then gave directions to the customer and told her the label would be waiting for her at the UPS store.

Jean, a CLT supervisor explained, “To me this shows how much our team members do go above and beyond to help out our customers. Delores could have made this an awful experience or a great one and she chose to WOW our customer.” A letter to Zappos from the customer shows how much such service meant to her:

Hi Jean,

To simply answer a few questions on Delores’ service does not do her justice! Her customer service, help & attention to my deals and the problem I had was exceptional. I work in a service industry myself as a flight attendant. Qantas, the Australian airline places great importance on customer service, EXCEL is our motto. Delores went above and beyond the excellent standard of customer service. In, fact I was so overwhelmed with all the help, assistance she gave me I actually could not stop talking about it to everyone I saw. I even went and told the front desk staff at the Holiday Inn here in San Francisco and all my family & friends back home in Australia.

Her service was awesome, to be honest, it was an experience I will not forget, I'm not an American and do not live here so I was without access to a computer/ printer which made the return a little more complicated for me to organise while I was in San Francisco. Delores took the problem out of my hands, talked me thru solving the issue of obtaining the UPS return label. She phoned the closest UPS store, asked them to download the return label, then gave me directions to get there and within a few hours the shoes were returned via UPS for an exchange and I had a receipt and tracking details.

I phoned Zappos back later in the day, hoping to thank Delores, but unfortunately I spoke to another customer service assistant. I just wanted to clarify that a replacement shoe was being sent and not a credit refund. Again, the service I was received was exceptional. She assured me everything was in order and I had not made it too confusing with all the errors I had made earlier online.

Yes, I would love to speak to Delores every time I phoned Zappos. Zappos is extremely fortunate to have an employee like Delores. I felt truly humble when I received the customer service and attention she gave me yesterday. She went beyond and above expectations of [what] excellent service is all about!

Regards and thank you, I'm so happy that you have contacted me to take the time to acknowledge Delores.

Caring for the Sick

CLT members often had the opportunity to learn what was going on in the lives of customers. They were trained to help customers and connect with individuals. The goal was to show, as the following story does, that the company was made up of individuals who truly cared about customers beyond simply selling products:

The most recent WOW story that stands out in my mind was what Ana S. did for a customer and her granddaughter. A woman had ordered some Lelli Kelly shoes for her 4-year-old granddaughter who was going to have heart surgery. After Ana got off of the phone with the customer, she came to me asking for ideas on what we could send the customer's granddaughter. We got some ideas from Tami, and went down to the kid's team to see if they had anything to donate. After getting a few items we were able to put together a care package. We also had flowers sent as well. Ana also had a family member draw a picture of the girl as well, as the grandmother had described what the little girl looked like. She also had members of the team sign it. A few days later, Ana received a letter from the girl's family thanking her for the care package and the support. She even sent pictures of the little girl, and spoke with Ana on the phone as well.

Selling on Personal Time

Zappos employees were proud of their company and continued to support Zappos even when they were not at work. They turned Zappos virgins into customers and ensured their first experience with Zappos exceeded their expectations:

I was eating in California Pizza Kitchen at Town Square. I had my Zappos Jacket on the back of my chair. I was next to a family who was from Indiana and they were running around looking for a pair of shoes for their daughter. They could not find the shoes and the daughter was crying. I being not a busy body, didn't say anything, but the wife noticed my jacket and asked if I had worked for Zappos. I said, "yes" with a smile, asked what I could do for her. She said she heard of us but never shopped with us before. I asked what the shoe was that she needed, the daughter said, "I want the Skechers twinkle toe shoes, no one has them available." I went onto my phone found we had it available in the color and size needed. I asked for their email address and I sent them a 20percent off friends and family discount coupon to use. The daughter was so excited she gave me a big hug. They placed the order when they returned back to the hotel. I came in on Monday, pulled up the account, and upgraded them to Next Day delivery. That was well worth it, she is 7 yrs old. I had received a thank you card from them. Made [them] Zappos customers for life.

From Confusion to Mobility

The selection at Zappos could overwhelm some customers but rather than leaving customers to figure out things for themselves, as most web sites did, Zappos held their hands:

Three years ago my dad had a stroke caused by a random blood vessel bursting in his brain. He was 51 years old, not overweight, and in good general health. The doctors still cannot pinpoint what caused it or why it happened. I was with my dad at the moment the stroke happened, and drove him speeding to the hospital. He was able to speak, but was completely paralyzed on his entire left side.

Over the next 3 months, I ended up leaving my job and going to school only part time so that I could be with him every day. My stepmom and I literally lived at the hospital and ate every meal there. He was transferred to a hospital with top neurosurgeons, and started on physical and occupational therapy, but the prognosis was that he would be wheelchair bound for the rest of his life. About 1 1/2 months after the stroke, the therapist wanted him to try to stand up, and said that wearing sneakers might help his stability.

Prior to the stroke my dad had been wearing the same pair of sneakers for the past two years (he REFUSED to get new ones) and it was embarrassing (to put it lightly) seeing him in a dirty, crappy pair of white sneakers. Ever since I could remember, my dad hated getting new shoes, and would wear his until there were literally holes in the bottom! He said his feet were an uncommon size (very wide) and it was too hard finding a pair that fit just right.

I had heard about Zappos through a colleague and went online to buy my dad a new, decent pair of sneakers he could wear at the hospital. I was completely overwhelmed by all of the choices and decided to call customer service. The woman who helped me was amazing. I explained to her how picky my father was and told her exactly what I was looking for. At some point in our loooong conversation, I ended up telling her why I was getting the sneakers, and she surprised me by sending them via overnight shipping so that my dad could have them for his first "trying to stand" therapist appointment. I was speechless by the generosity, knowing how expensive overnight shipping could be, especially since I told the representative that I was only going to keep one pair. Long story short, my dad became one of those 'medical miracles' and learned, over the next few months, how to walk again. The pair of sneakers I bought from Zappos ended up being molded into part of the custom leg brace that was made for him. He does not own a wheelchair or a walker.

My dad can walk. On his own. In his crazy modified leg brace sneakers. Even though it is two years later I cannot help getting choked up telling you this story. Thank you, Zappos, from the bottom of my heart, for helping my dad. I know, to you guys, it seemed like such a little thing, but being able to talk to someone and help decide which shoes would be best, then getting surprised by free overnight shipping, was a light during a very tough time for my family. I have told this

story to many friends and family members, and they are all amazed that a company would do something like this in this day and age. I am sorry that it took me so long to say thank you. Better late than never though :-)

THANK YOU ZAPPOS, FOR HELPING MY DAD LEARN TO WALK AGAIN!!!

Offering Praise and Gratitude

Zappos employees did not limit spreading happiness to direct interactions with customers. They took every opportunity they got to develop a personal relationship with customers:

They got me again! A little history: I like to have fun with my gmail account. It's why the signature for that account from my blackberry reads: "I have big thumbs and this was sent from my handheld with itty bitty keys. Please forgive any typos." Well, when I was on the Breast Cancer 3-Day a few weeks ago, I set my vacation notice (basically the out of office functionality for gmail) to read something like, "Thanks for your e-mail. I am currently hitting the pavement in Denver, walking 60 miles in three days to put an end to breast cancer. I'll respond to your e-mail when I'm back."...

Fast forward to today when I just got our mail at home. Opened a birthday card for Trevor from Southwest Airlines. Cool. Behind it, an envelope from Zappos. I'm thinking it's a birthday card to me or a "thank you for a recent purchase" note. Nope. Not at all. It was so cool it made me tear up! (But I am lame like that sometimes.) This is what the handwritten note read:

Hello WW!

While working through emails from our amazing customers, I came across your auto reply. Normally we mark them as auto replies, but yours caught my eye. I just wanted to let you know what an admirable thing you are doing! We at Zappos are proud to have you as a customer, and as part of our family.

Thank you for being a wonderful person.

*Ashlee - customer relations rep at Zappos
(With a big 'ole "THANK YOU" on the top)*

I mean seriously. I can't get over it. I have friends, family and colleagues that didn't even acknowledge my participation in the Breast Cancer 3-Day, and I get a card from Zappos.com. Zappos—you SERIOUSLY rock. I am in marketing/customer service shock. And if any of you have heard my recent complaints about [other companies], you know I was starting to lose faith in customer service. I love that I can now gloat about a company that has gone above and beyond. I've made one purchase from Zappos.com. One. And this is what I

get. Unfreaking believable. Now I don't have to feel guilty buying shoes, 'cause I'm gonna go hog wild at Zappos.com.

ⁱ Tony Hsieh, *Delivering Happiness*, (New York: Business Plus) 2010, p. 230

ⁱⁱ Material from this section is taken from "Zappos.com: Developing a Supply Chain to Deliver WOW!" GSB No. GS-65.

ⁱⁱⁱ Alexandra Jacobs, "Happy Feet," *The New Yorker*, September 14, 2009.

^{iv} Tony Hsieh, *Delivering Happiness*, (New York: Business Plus) 2010, pp. 97-99.

^v Tony Hsieh, loc. cit., pp. 120-121.

^{vi} Tony Hsieh, loc. cit., p. 98.

^{vii} Tony Hsieh, loc. cit., p. 134.

^{viii} For further information, see "Zappos.com 2009: Clothing, Customer Service and Company Culture," HBS No.9-610-015, p.4.

^{ix} Anthony Tjan, "Four Lessons on Culture and Customer Service from Zappos CEO, Tony Hsieh," HBR Blog, <http://blogs.hbr.org/tjan/2010/07/four-lessons-on-culture-and-cu.html>, (July 27, 2010).

^x "On Leadership: Zappos.com CEO Tony Hsieh on Who He Won't Hire," (On Leadership interview with Tom Heath), *The Washington Post*, <http://views.washingtonpost.com/leadership/panelists/2010/07/tony-hsieh-transcript.html>, (July 27, 2010).

^{xi} All quotations are from the authors' interviews unless otherwise noted.

^{xii} Tony Hsieh, *Delivering Happiness*, (New York: Business Plus) 2010, p. 143.

^{xiii} Tony Hsieh, *Delivering Happiness*, (New York: Business Plus) 2010, p. 145.

^{xiv} Tony Hsieh, loc. cit., p. 230.

^{xv} Tony Hsieh, loc. cit., p. 233.

^{xvi} Tony Hsieh, loc. cit., p. 234.

^{xvii} Max Chafkin, "The Zappos Way of Managing," *Inc.* May 1, 2009.

^{xviii} Alexandra Jacobs, op. cit.

^{xix} Jeff Bezos, "Video from Jeff Bezos About Amazon and Zappos," July 22, 2009, http://www.youtube.com/watch?v=-hxX_Q5CnaA, (August 23, 2010).

^{xx} Amazon's acquisition of Zappos closed on November 1, 2009.

^{xxi} Tony Hsieh, "Delivering Happiness," presentation at SXSW Interactive, March 14, 2009, <http://www.slideshare.net/hein2006/zappos-tony-hsieh-3580169>, (April 21, 2010).

^{xxii} Zappos customer service archives.

^{xxiii} Tom Steinert-Threlkeld, "Following Zappos.com," ZDNet, June 2009.

^{xxiv} Tony Hsieh, "How Twitter Can Make You a Better (and Happier) Person," The CEO and COO: Zappos Family Blog, January 25, 2009, <http://blogs.zappos.com/blogs/ceo-and-coo-blog/2009/01/25/how-twitter-can-make-you-a-better-and-happier-person>, (July 28, 2010).

^{xxv} Ibid.

^{xxvi} Tony Hsieh, <http://twitter.com/Zappos/status/10782897645>, March 20, 2010, (April 27, 2010).

^{xxvii} Quoted in Tony Hsieh, *Delivering Happiness*, (New York: Business Plus) 2010, p. 90.

^{xxviii} Tony Hsieh, "How Twitter Can Make You A Better (and Happier) Person," The CEO and COO: Zappos Family Blog, January 25, 2009, <http://blogs.zappos.com/blogs/ceo-and-coo-blog/2009/01/25/how-twitter-can-make-you-a-better-and-happier-person>, (July 28, 2010).

^{xxix} Tony Hsieh, twitter.com/zappos/status/14123918472, May 16, 2010, (April 27, 2010).

^{xxx} Tony Hsieh, twitter.com/zappos/status/13632855967, May 8, 2010, (April 27, 2010).

^{xxxi} Tony Hsieh, <http://twitter.com/Zappos/status/11609731388>, April 4, 2010, (April 27, 2010).

^{xxxii} Twitter.zappos.com, May 5, 2010, (May 5, 2010).

^{xxxiii} "The Twitterholic.com Top 100 Twitterholics Based on Followers," *Twitterholic.com*, May 5, 2010, (May 5, 2010).

^{xxxiv} Zappos, "Inside Zappos Channel," www.youtube.com/insidezappos, (July 22, 2010).

^{xxxv} Tony Hsieh, *Delivering Happiness*, (New York: Business Plus) 2010, p. 207.

^{xxxvi} Alexandra Jacobs, op. cit.

^{xxxvii} Jacobs, op. cit.

^{xxxviii} Tony Hsieh, *Delivering Happiness*, (New York: Business Plus) 2010, p. 180-181.

^{xxxix} Tony Hsieh, loc.cit., pp. 161-162.

^{xl} Zappos.com, *Zappos Culture Book*, 2009, pg: 86.

^{xli} Zappos customer service archives.