AMAZON COM INC
Form 10-Q
October 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File No. 000-22513

Amazon.com, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	91-1646860 (I.R.S. Employer Identification No.)

410 Terry Avenue North, Seattle, WA 98109-5210
(206) 266-1000
(Address and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

468,762,005 shares of common stock, par value $0.01 per share, outstanding as of October 14, 2015

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For the Quarterly Period Ended September 30, 2015
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2015	2014	2015	2014	2015	2014
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$10,269	$5,057	$14,557	$8,658	$5,258	$3,872
OPERATING ACTIVITIES:						
Net income (loss)	79	(437)	114	(455)	328	(216)
Adjustments to reconcile net income (loss) to net cash from operating activities:						
Depreciation of property and equipment, including internal-use software and website development, and other amortization, including capitalized content costs	1,599	1,247	4,529	3,366	5,908	4,329
Stock-based compensation	544	377	1,513	1,089	1,921	1,414
Other operating expense (income), net	34	31	120	93	156	133
Losses (gains) on sales of marketable securities, net	2	(3)	4	(4)	4	(3)
Other expense (income), net	56	42	166	(16)	244	36
Deferred income taxes	(63)	(270)	(108)	(503)	76	(613)
Excess tax benefits from stock-based compensation	(95)	—	(212)	(121)	(96)	(199)
Changes in operating assets and liabilities:						
Inventories	(1,537)	(845)	(844)	(54)	(1,983)	(1,383)
Accounts receivable, net and other	(588)	(362)	(577)	66	(1,681)	(1,173)
Accounts payable	2,030	1,724	(1,846)	(3,294)	3,207	1,834
Accrued expenses and other	143	4	(925)	(742)	525	847
Additions to unearned revenue	1,779	1,069	4,979	3,055	6,358	3,874
Amortization of previously unearned revenue	(1,373)	(811)	(3,805)	(2,353)	(5,144)	(3,175)
Net cash provided by (used in) operating activities	2,610	1,766	3,108	127	9,823	5,705
INVESTING ACTIVITIES:						
Purchases of property and equipment, including internal-use software and website development	(1,195)	(1,378)	(3,280)	(3,748)	(4,424)	(4,628)
Acquisitions, net of cash acquired, and other	(105)	(860)	(478)	(926)	(531)	(986)
Sales and maturities of marketable securities	1,045	1,439	1,890	2,994	2,244	3,509
Purchases of marketable securities	(1,122)	(147)	(2,732)	(920)	(4,354)	(1,339)
Net cash provided by (used in) investing activities	(1,377)	(946)	(4,600)	(2,600)	(7,065)	(3,444)
FINANCING ACTIVITIES:						
Excess tax benefits from stock-based compensation	95	—	212	121	96	199
Proceeds from long-term debt and other	33	28	260	379	6,241	628
Repayments of long-term debt and other	(181)	(84)	(712)	(331)	(894)	(371)
Principal repayments of capital lease obligations	(656)	(343)	(1,738)	(878)	(2,144)	(1,103)
Principal repayments of finance lease obligations	(21)	(13)	(95)	(68)	(163)	(73)
Net cash provided by (used in) financing activities	(730)	(412)	(2,073)	(777)	3,136	(720)
Foreign-currency effect on cash and cash equivalents	(63)	(207)	(283)	(150)	(443)	(155)

Net increase (decrease) in cash and cash equivalents	440	201	(3,848)	(3,400)	5,451	1,386
CASH AND CASH EQUIVALENTS, END OF PERIOD	$10,709	$5,258	$10,709	$5,258	$10,709	$5,258
SUPPLEMENTAL CASH FLOW INFORMATION:						
Cash paid for interest on long-term debt	$7	$7	$177	$56	$212	$93
Cash paid for income taxes (net of refunds)	80	38	200	148	230	173
Property and equipment acquired under capital leases	1,047	1,158	3,385	2,794	4,599	3,347
Property and equipment acquired under build-to-suit leases	125	343	381	707	595	920

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net product sales	$18,463	$16,022	$52,650	$46,978
Net service sales	6,895	4,557	18,609	12,681
Total net sales	25,358	20,579	71,259	59,659
Operating expenses (1):				
Cost of sales	16,755	14,627	47,310	42,080
Fulfillment	3,230	2,643	8,865	7,342
Marketing	1,264	993	3,496	2,806
Technology and content	3,197	2,423	8,971	6,639
General and administrative	463	406	1,357	1,110
Other operating expense (income), net	43	31	136	94
Total operating expenses	24,952	21,123	70,135	60,071
Income (loss) from operations	406	(544)	1,124	(412)
Interest income	13	9	37	31
Interest expense	(116)	(49)	(344)	(136)
Other income (expense), net	(56)	(50)	(187)	(23)
Total non-operating income (expense)	(159)	(90)	(494)	(128)
Income (loss) before income taxes	247	(634)	630	(540)
Benefit (provision) for income taxes	(161)	205	(498)	38
Equity-method investment activity, net of tax	(7)	(8)	(18)	47
Net income (loss)	$79	$(437)	$114	$(455)
Basic earnings per share	$0.17	$(0.95)	$0.24	$(0.99)
Diluted earnings per share	$0.17	$(0.95)	$0.24	$(0.99)
Weighted average shares used in computation of earnings per share:				
Basic	468	463	467	461
Diluted	478	463	476	461

(1) Includes stock-based compensation as follows:

Fulfillment	$122	$93	$344	$278
Marketing	48	32	133	91
Technology and content	309	204	861	579
General and administrative	65	48	175	141

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$79	$(437)	$114	$(455)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax of $4, $(1), $3, and $0	(56)	(248)	(170)	(209)
Net change in unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses), net of tax of $3, $2, $(5), and $1	(3)	(1)	3	2
Reclassification adjustment for losses (gains) included in “Other income (expense), net,” net of tax of $(1), $(1), $(1), and $(1)	1	(2)	3	(2)
Net unrealized gains (losses) on available-for-sale securities	(2)	(3)	6	—
Total other comprehensive income (loss)	(58)	(251)	(164)	(209)
Comprehensive income (loss)	$21	$(688)	$(50)	$(664)

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$10,709	$14,557
Marketable securities	3,719	2,859
Inventories	8,981	8,299
Accounts receivable, net and other	5,440	5,612
Total current assets	28,849	31,327
Property and equipment, net	20,636	16,967
Goodwill	3,529	3,319
Other assets	3,216	2,892
Total assets	$56,230	$54,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$14,437	$16,459
Accrued expenses and other	9,157	9,807
Unearned revenue	3,063	1,823
Total current liabilities	26,657	28,089
Long-term debt	8,243	8,265
Other long-term liabilities	8,900	7,410
Commitments and contingencies (Note 3)		
Stockholders' equity:		
Preferred stock, $0.01 par value:		
Authorized shares — 500		
Issued and outstanding shares — none	—	—
Common stock, $0.01 par value:		
Authorized shares — 5,000		
Issued shares — 492 and 488		
Outstanding shares — 469 and 465	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	12,874	11,135
Accumulated other comprehensive loss	(675)	(511)
Retained earnings	2,063	1,949
Total stockholders' equity	12,430	10,741
Total liabilities and stockholders' equity	$56,230	$54,505

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 — ACCOUNTING POLICIES

Unaudited Interim Financial Information

We have prepared the accompanying consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. These consolidated financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our consolidated balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for 2015 due to seasonal and other factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Item 8 of Part II, “Financial Statements and Supplementary Data,” of our 2014 Annual Report on Form 10-K.

Prior Period Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation, including the expanded presentation of “Net cash provided by (used in) financing activities” on our consolidated statements of cash flows and recasting the segment financial information within “Note 4 — Acquisitions, Goodwill, and Acquired Intangible Assets” and “Note 8 — Segment Information” as a result of changing our reportable segments to include an Amazon Web Services (“AWS”) segment.

Principles of Consolidation

The consolidated financial statements include the accounts of Amazon.com, Inc., its wholly-owned subsidiaries, and those entities in which we have a variable interest and of which we are the primary beneficiary, including certain entities in India and China (collectively, the “Company”). Intercompany balances and transactions between consolidated entities are eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, determining the selling price of products and services in multiple element revenue arrangements and determining the amortization period of these elements, incentive discount offers, sales returns, vendor funding, stock-based compensation forfeiture rates, income taxes, valuation and impairment of investments, inventory valuation and inventory purchase commitments, collectability of receivables, valuation of acquired intangibles and goodwill, depreciable lives of property and equipment, internal-use software and website development costs, acquisition purchase price allocations, investments in equity interests, and contingencies. Actual results could differ materially from those estimates.

Earnings per Share

Basic earnings per share is calculated using our weighted-average outstanding common shares. Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method. In periods when we have a net loss, stock awards are excluded from our calculation of earnings per share as their inclusion would have an antidilutive effect. In Q3 2014 and for the nine months ended September 30, 2014, we excluded stock awards of 18 million and 17 million.

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The following table shows the calculation of diluted shares (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Shares used in computation of basic earnings per share	468	463	467	461
Total dilutive effect of outstanding stock awards	10	—	9	—
Shares used in computation of diluted earnings per share	478	463	476	461

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, account, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the revenue recognition guidance to reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. We are continuing to evaluate our method of adoption and the impact this ASU will have on our consolidated financial statements.

In July 2015, the FASB issued an ASU modifying the accounting for inventory. Under this ASU, the measurement principle for inventory will change from lower of cost or market value to lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU is applicable to inventory that is accounted for under the first-in, first-out method and is effective for reporting periods after December 15, 2016, with early adoption permitted. We do not expect adoption to have a material impact on our consolidated financial statements.

Note 2 — CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

As of September 30, 2015, and December 31, 2014, our cash, cash equivalents, and marketable securities primarily consisted of cash, U.S. and foreign government and agency securities, AAA-rated money market funds, and other investment grade securities. Cash equivalents and marketable securities are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

We measure the fair value of money market funds and equity securities based on quoted prices in active markets for identical assets or liabilities. All other financial instruments were valued either based on recent trades of securities in inactive markets or based on quoted market prices of similar instruments and other significant inputs derived from or corroborated by observable market data. We did not hold any cash, cash equivalents, or marketable securities categorized as Level 3 assets as of September 30, 2015, or December 31, 2014.

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The following table summarizes, by major security type, our cash, cash equivalents, and marketable securities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in millions):

	September 30, 2015				December 31, 2014
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value	Total Estimated Fair Value
Cash	$5,026	$—	$—	$5,026	$4,155
Level 1 securities:					
Money market funds	5,921	—	—	5,921	10,718
Equity securities	4	14	—	18	4
Level 2 securities:					
Foreign government and agency securities	48	—	—	48	80
U.S. government and agency securities	3,009	2	(2)	3,009	2,406
Corporate debt securities	483	1	(1)	483	401
Asset-backed securities	120	—	—	120	69
Other fixed income securities	42	—	—	42	33
	$14,653	$17	$(3)	$14,667	$17,866
Less restricted cash, cash equivalents, and marketable securities (1)				(239)	(450)
Total cash, cash equivalents, and marketable securities				$14,428	$17,416

(1) We are required to pledge or otherwise restrict a portion of our cash, cash equivalents, and marketable securities as collateral for standby and trade letters of credit, guarantees, debt, real estate leases, and amounts due to third-party sellers in certain jurisdictions. We classify cash, cash equivalents, and marketable securities with use restrictions of less than twelve months as "Accounts receivable, net and other" and of twelve months or longer as non-current "Other assets" on our consolidated balance sheets. See "Note 3 — Commitments and Contingencies."

The following table summarizes the contractual maturities of our cash equivalents and marketable fixed-income securities as of September 30, 2015 (in millions):

	Amortized Cost	Estimated Fair Value
Due within one year	$8,053	$8,054
Due after one year through five years	1,252	1,252
Due after five years through ten years	141	141
Due after ten years	177	176
Total	$9,623	$9,623

Actual maturities may differ from the contractual maturities because borrowers may have certain prepayment conditions.

Note 3 — COMMITMENTS AND CONTINGENCIES

Commitments

We have entered into non-cancellable operating, capital, and finance leases for equipment and office, fulfillment, sortation, delivery, data center, and renewable energy facilities. Rental expense under operating lease agreements was $291 million and $252 million for Q3 2015 and Q3 2014, and $824 million and $700 million for the nine months ended September 30, 2015 and 2014.

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The following summarizes our principal contractual commitments, excluding open orders for purchases that support normal operations, as of September 30, 2015 (in millions):

	Three Months Ended December 31,	Year Ended December 31,					
	2015	2016	2017	2018	2019	Thereafter	Total
Debt principal and interest	$1,237	$323	$1,322	$310	$1,272	$9,403	$13,867
Capital lease obligations, including interest	729	2,758	2,119	860	239	162	6,867
Finance lease obligations, including interest	40	161	163	167	171	1,658	2,360
Operating leases	317	964	878	779	688	2,875	6,501
Unconditional purchase obligations (1)	116	632	539	386	152	43	1,868
Other commitments (2) (3)	446	482	240	170	107	963	2,408
Total commitments	$2,885	$5,320	$5,261	$2,672	$2,629	$15,104	$33,871

(1) Includes unconditional purchase obligations related to long-term agreements to acquire and license digital content that are not reflected on the consolidated balance sheets. For those agreements with variable terms, we do not estimate the total obligation beyond any minimum quantities and/or pricing as of the reporting date. Purchase obligations associated with renewal provisions solely at the option of the content provider are included to the extent such commitments are fixed or a minimum amount is specified.

(2) Includes the estimated timing and amounts of payments for rent and tenant improvements associated with build-to-suit lease arrangements that have not been placed in service and media content liabilities associated with long-term media content assets with initial terms greater than one year.

(3) Excludes $895 million of tax contingencies for which we cannot make a reasonably reliable estimate of the amount and period of payment, if any.

Pledged Assets

As of September 30, 2015, and December 31, 2014, we have pledged or otherwise restricted $377 million and $602 million of our cash, cash equivalents, and marketable securities, and certain property and equipment as collateral for standby and trade letters of credit, guarantees, debt relating to certain international operations, real estate leases, and amounts due to third-party sellers in certain jurisdictions.

Legal Proceedings

The Company is involved from time to time in claims, proceedings, and litigation, including the matters described in Item 8 of Part II, “Financial Statements and Supplementary Data — Note 8 — Commitments and Contingencies — Legal Proceedings” of our 2014 Annual Report on Form 10-K and in Item 1 of Part I, “Financial Statements — Note 3 — Commitments and Contingencies — Legal Proceedings” of our Quarterly Reports on Form 10-Q for the Periods Ended March 31, 2015 and June 30, 2015, as supplemented by the following:

In November 2007, an Austrian copyright collection society, Austro-Mechana, filed lawsuits against Amazon.com International Sales, Inc., Amazon EU Sarl, Amazon.de GmbH, Amazon.com GmbH, and Amazon Logistik in the Commercial Court of Vienna, Austria and in the District Court of Munich, Germany seeking to collect a tariff on blank digital media sold by our EU-based retail websites to customers located in Austria. In July 2008, the German court stayed the German case pending a final decision in the Austrian case. In July 2010, the Austrian court ruled in favor of Austro-Mechana and ordered us to report all sales of products to which the tariff potentially applies for a determination of damages. We contested Austro-Mechana’s claim and in September 2010 commenced an appeal in the Commercial Court of Vienna. We lost this appeal and in March 2011 commenced an appeal in the Supreme Court of Austria. In October 2011, the Austrian Supreme Court referred the case to the European Court of Justice (“ECJ”). In July 2013, the ECJ ruled that EU law does not preclude application of the tariff where certain conditions are met and directed the case back to the Austrian Supreme Court for further proceedings. In October 2013, the Austrian Supreme Court referred the case back to the Commercial Court of Vienna for further fact finding to determine whether the tariff on blank digital media meets the conditions set by the ECJ. In August 2015, the Commercial Court of Vienna ruled that the Austrian tariff regime does not meet the conditions the ECJ set and dismissed Austro-Mechana's claims. In September 2015, Austro-Mechana appealed that judgment to the Higher Commercial Court of Vienna. In addition, in December 2012, a German copyright collection society, Zentralstelle für private Überspielungsrechte ("ZPU"), filed a complaint against

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Amazon EU Sarl, Amazon Media EU Sarl, Amazon Services Europe Sarl, Amazon Payments Europe SCA, Amazon Europe Holding Technologies SCS, and Amazon Eurasia Holdings Sarl in the District Court of Luxembourg seeking to collect a tariff on blank digital media sold by the Amazon.de retail website to customers located in Germany. In January 2013, a Belgian copyright collection society, AUVIBEL, filed a complaint against Amazon EU Sarl in the Court of First Instance of Brussels, Belgium, seeking to collect a tariff on blank digital media sold by the Amazon.fr retail website to customers located in Belgium. In November 2013, the Belgian court ruled in favor of AUVIBEL and ordered us to report all sales of products to which the tariff potentially applies for a determination of damages. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In July 2013, Telebuyer, LLC filed a complaint against Amazon.com, Inc., Amazon Web Services, LLC, and VADATA, Inc. in the United States District Court for the Eastern District of Virginia. The complaint alleges, among other things, that certain features used on our retail website-including high resolution video and still images, user-indicated areas of interest, targeted follow-up communications, vendor proposals, on-line chat, Gold Box and Lightning Deals, and vendor ratings-infringe seven U.S. patents: Nos. 6,323,894, 7,835,508, 7,835,509, 7,839,984, 8,059,796, and 8,098,272, all entitled “Commercial Product Routing System With Video Vending Capability,” and 8,315,364, entitled “Commercial Product Routing System With Mobile Wireless And Video Vending Capability.” The complaint seeks an unspecified amount of damages, interest, and injunctive relief. In September 2013, the case was transferred to the United States District Court for the Western District of Washington. In July 2015, the court invalidated all asserted claims of all asserted patents and dismissed the case with prejudice. In August 2015, Telebuyer appealed that judgment to the United States Court of Appeals for the Federal Circuit. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In September 2013, Personalized Media Communications, LLC filed a complaint against Amazon.com, Inc. and Amazon Web Services, LLC in the United States District Court for the District of Delaware. The complaint alleges, among other things, that the use of certain Kindle devices, Kindle apps and/or Amazon.com, Inc.’s website to purchase and receive electronic media infringes nine U.S. Patents: Nos. 5,887,243, 7,801,304, 7,805,749, 7,940,931, 7,769,170, 7,864,956, 7,827,587, 8,046,791, and 7,883,252, all entitled “Signal Processing Apparatus And Methods.” The complaint also alleges, among other things, that CloudFront, S3, and EC2 web services infringe three of those patents, Nos. 7,801,304, 7,864,956, and 7,827,587. The complaint seeks an unspecified amount of damages, interest, and injunctive relief. In August 2015, the court invalidated all asserted claims of all asserted patents and dismissed the case with prejudice. In September 2015, Personalized Media appealed that judgment to the United States Court of Appeals for the Federal Circuit. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In December 2013, Appistry, Inc. filed a complaint against Amazon.com, Inc. and Amazon Web Services, Inc. for patent infringement in the United States District Court for the Eastern District of Missouri. The complaint alleges, among other things, that Amazon’s Elastic Compute Cloud infringes U.S. Patent Nos. 8,200,746, entitled “System And Method For Territory-Based Processing Of Information,” and 8,341,209, entitled “System And Method For Processing Information Via Networked Computers Including Request Handlers, Process Handlers, And Task Handlers.” The complaint seeks injunctive relief, an unspecified amount of damages, treble damages, costs, and interest. In March 2015, the case was transferred to the United States District Court for the Western District of Washington. In July 2015, the court granted our motion for judgment on the pleadings and invalidated the patents-in-suit. In August 2015, the court entered judgment in our favor. In September 2015, the plaintiff appealed that judgment to the United States Court of Appeals for the Federal Circuit, and filed a new complaint against Amazon.com, Inc. and Amazon Web Services, Inc. in the United States District Court for the Western District of Washington. The 2015 complaint alleges, among other things, that Amazon’s Elastic Compute Cloud, Simple Workflow, and Herd infringe U.S. Patent Nos. 8,682,959, entitled “System And Method For Fault Tolerant Processing Of Information Via Networked Computers Including Request Handlers, Process Handlers, And Task Handlers,” and 9,049,267, entitled “System And Method For Processing Information Via Networked Computers Including Request Handlers, Process Handlers, And Task Handlers.” The 2015 complaint seeks injunctive relief, an unspecified amount of damages, treble damages, costs, and interest. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In March 2014, Kaavo, Inc. filed a complaint against Amazon.com, Inc. and Amazon Web Services, Inc. for patent infringement in the United States District Court for the District of Delaware. The complaint alleges, among other things, that Amazon Web Services' Elastic Beanstalk and CloudFormation infringe U.S. Patent No. 8,271,974, entitled "Cloud Computing Lifecycle Management For N-Tier Applications." The complaint seeks injunctive relief, an unspecified amount of damages, costs, and interest. In June 2015, the case was stayed pending resolution of a motion for judgment on the pleadings in a related case. In July 2015, Kaavo Inc. filed another complaint against Amazon.com, Inc. and Amazon Web Services, Inc. in the United States District Court for the District of Delaware. The 2015 complaint alleges, among other things, that CloudFormation infringes U.S. Patent No. 9,043,751, entitled "Methods And Devices For Managing A Cloud Computing Environment." The 2015 complaint seeks injunctive relief, an unspecified amount of damages, enhanced damages, attorneys' fees, costs, and interest. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In October 2015, St. Luke Technologies, LLC filed a complaint against Amazon.com, Inc. and Amazon Web Services, Inc. for patent infringement in the United States District Court for the Eastern District of Texas alleging, among other things,

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that AWS WorkMail, Identity and Access Management, CloudTrail, Key Management Service, and Data Stores infringe U.S. Patent Nos. 8,316,237, 7,181,017, 7,869,591, and 8,904,181, all entitled "System and Method for Secure Three-Party Communication," and that WorkMail, Identity and Access Management, CloudTrail, Key Management Service, Data Stores, DynamoDB, SDK, and the "AWS platform" infringe U.S. Patent Nos. 7,587,368, 8,498,941, 8,380,630, and 8,600,895, all entitled "Information Record Infrastructure, System and Method." The complaint seeks an unspecified amount of damages together with pre- and post-judgment interest. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

The outcomes of our legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular period. In addition, for some matters for which a loss is probable or reasonably possible, an estimate of the amount of loss or range of losses is not possible and we may be unable to estimate the possible loss or range of losses that could potentially result from the application of non-monetary remedies.

See also "Note 7 — Income Taxes."

Note 4 — ACQUISITIONS, GOODWILL, AND ACQUIRED INTANGIBLE ASSETS

2015 Acquisition Activity

During the nine months ended September 30, 2015, we acquired certain companies for an aggregate purchase price of $393 million. The primary reasons for these acquisitions, none of which was individually material to our consolidated financial statements, were to acquire technologies and know-how to enable Amazon to serve customers more effectively.

Acquisition-related costs were expensed as incurred and not significant. The aggregate purchase price of these acquisitions was allocated as follows (in millions):

Purchase Price	
Cash paid, net of cash acquired	$340
Indemnification holdback	53
	$393
Allocation	
Goodwill	$239
Intangible assets (1):	
Contract-based	1
Technology-based	181
Customer-related	4
	186
Property and equipment	1
Deferred tax assets	34
Other assets acquired	23
Deferred tax liabilities	(65)
Other liabilities assumed	(25)
	$393

(1) Acquired intangible assets have estimated useful lives of between one and six years, with a weighted-average amortization period of five years.

We determined the estimated fair value of identifiable intangible assets acquired primarily by using the income approach. These assets are included within "Other assets" on our consolidated balance sheets and are being amortized to operating expenses on a straight-line basis over their estimated useful lives.

On October 19, 2015, we acquired Elemental Technologies, Inc. ("Elemental"), for total consideration of approximately $296 million. The acquisition combines Elemental's video solutions with the AWS Cloud platform to provide customers integrated solutions to efficiently and economically scale video infrastructures. We are currently in the process of estimating the fair values of the assets acquired and liabilities assumed and will include the impact of this acquisition in our 2015 Annual Report on Form 10-K.

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Pro Forma Financial Information (unaudited)

The acquired companies were consolidated into our financial statements starting on their respective acquisition dates. The aggregate net sales and operating loss of the companies acquired was $7 million and $(78) million for the nine months ended September 30, 2015. The following financial information, which excludes certain acquired companies for which the pro forma impact is not meaningful, presents our results as if the companies acquired during the nine months ended September 30, 2015 had occurred at the beginning of 2014 (in millions):

	Nine Months Ended September 30,	
	2015	2014
Net sales	$71,261	$59,660
Net income (loss)	$126	$(486)

2014 Acquisition Activity

During the nine months ended September 30, 2014, we acquired companies for an aggregate purchase price of approximately $862 million in cash, as adjusted for the assumption of options and other items, which resulted in goodwill of $707 million and acquired intangible assets of $230 million. The primary reasons for these acquisitions were to acquire technologies and know-how to enable Amazon to serve customers more effectively. We determined the estimated fair value of identifiable intangible assets acquired primarily by using the income approach. These assets are included within “Other assets” on our consolidated balance sheets and are being amortized to operating expenses on a straight-line basis over their estimated useful lives. Acquisition-related costs were expensed as incurred and not significant.

Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in the aggregate, were not material to our consolidated results of operations.

Goodwill

The goodwill of the acquired companies is generally not deductible for tax purposes and is primarily related to expected improvements in technology performance and functionality, as well as sales growth from future product and service offerings and new customers, together with certain intangible assets that do not qualify for separate recognition.

The following summarizes our goodwill activity during the nine months ended September 30, 2015 by segment (in millions):

	North America	International	AWS	Consolidated
Goodwill - January 1, 2015	$1,978	$735	$606	$3,319
New acquisitions	41	17	181	239
Other adjustments (1)	(5)	(22)	(2)	(29)
Goodwill - September 30, 2015	$2,014	$730	$785	$3,529

(1) Primarily includes changes in foreign exchange rates.

During the second quarter of 2015, we changed the measurement date of our annual goodwill impairment test from October 1 to April 1. This change was not material to our consolidated financial statements as it did not result in the delay, acceleration, or avoidance of an impairment charge. We believe this timing better aligns the goodwill impairment test with our strategic business planning process, which is a key component of the goodwill impairment test. We completed the required annual testing of goodwill for impairment for all reporting units as of April 1, 2015 and determined that goodwill is not impaired.

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Note 5 — LONG-TERM DEBT

In December 2014 and November 2012, we issued $6.0 billion and $3.0 billion of unsecured senior notes as described in the table below (collectively, the “Notes”). As of September 30, 2015, and December 31, 2014, the unamortized discount on the Notes was $91 million and $96 million. We also have other long-term debt with a carrying amount, including the current portion, of $451 million and $881 million as of September 30, 2015, and December 31, 2014. The face value of our total long-term debt obligations is as follows (in millions):

	September 30, 2015	December 31, 2014
0.65% Notes due on November 27, 2015 (1)	$750	$750
1.20% Notes due on November 29, 2017 (1)	1,000	1,000
2.50% Notes due on November 29, 2022 (1)	1,250	1,250
2.60% Notes due on December 5, 2019 (2)	1,000	1,000
3.30% Notes due on December 5, 2021 (2)	1,000	1,000
3.80% Notes due on December 5, 2024 (2)	1,250	1,250
4.80% Notes due on December 5, 2034 (2)	1,250	1,250
4.95% Notes due on December 5, 2044 (2)	1,500	1,500
Other long-term debt	451	881
Total debt	9,451	9,881
Less current portion of long-term debt	(1,117)	(1,520)
Face value of long-term debt	$8,334	$8,361

(1) Issued in November 2012, effective interest rates of the 2015, 2017, and 2022 Notes were 0.84%, 1.38%, and 2.66%.

(2) Issued in December 2014, effective interest rates of the 2019, 2021, 2024, 2034, and 2044 Notes were 2.73%, 3.43%, 3.90%, 4.92%, and 5.11%.

Interest on the Notes issued in 2014 is payable semi-annually in arrears in June and December. Interest on the Notes issued in 2012 is payable semi-annually in arrears in May and November. We may redeem the Notes at any time in whole, or from time to time, in part at specified redemption prices. We are not subject to any financial covenants under the Notes. The proceeds from the Notes are used for general corporate purposes. The estimated fair value of the Notes was approximately $9.2 billion and $9.1 billion as of September 30, 2015, and December 31, 2014, which is based on quoted prices for our publicly-traded debt as of those dates.

The other debt, including the current portion, had a weighted average interest rate of 3.7% and 5.5% as of September 30, 2015, and December 31, 2014. We used the net proceeds from the issuance of this debt primarily to fund certain international operations. The estimated fair value of the other long-term debt, which is based on Level 2 inputs, approximated its carrying value as of September 30, 2015, and December 31, 2014.

On September 5, 2014, we entered into an unsecured revolving credit facility (the “Credit Agreement”) with a syndicate of lenders that provides us with a borrowing capacity of up to $2.0 billion. The Credit Agreement has a term of two years, but it may be extended for up to three additional one-year terms if approved by the lenders. The initial interest rate applicable to outstanding balances under the Credit Agreement is the London interbank offered rate (“LIBOR”) plus 0.625%, under our current credit ratings. If our credit ratings are downgraded this rate could increase to as much as LIBOR plus 1.00%. There were no borrowings outstanding under the Credit Agreement as of September 30, 2015.

Note 6 — STOCKHOLDERS’ EQUITY

Stock Award Activity

Common shares outstanding plus shares underlying outstanding stock awards totaled 489 million as of September 30, 2015, and 483 million as of December 31, 2014. These totals include all vested and unvested stock awards outstanding, including those awards we estimate will be forfeited. The compensation expense for stock options, the total intrinsic value for stock options outstanding, the amount of cash received from the exercise of stock options, and the related tax benefits were not material for the nine months ended September 30, 2015.

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The following table summarizes our restricted stock unit activity for the nine months ended September 30, 2015 (in millions):

	Number of Units	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2014	17.4	$285
Units granted	8.7	400
Units vested	(3.8)	244
Units forfeited	(2.2)	312
Outstanding as of September 30, 2015	20.1	$339

Scheduled vesting for outstanding restricted stock units as of September 30, 2015, is as follows (in millions):

	Three Months Ended December 31,	Year Ended December 31,					
	2015	2016	2017	2018	2019	Thereafter	Total
Scheduled vesting—restricted stock units	1.8	6.5	6.9	3.3	1.3	0.3	20.1

As of September 30, 2015, there was $3.1 billion of net unrecognized compensation cost related to unvested stock-based compensation arrangements. This compensation is recognized on an accelerated basis with approximately half of the compensation expected to be expensed in the next twelve months, and has a weighted average recognition period of 1.1 years.

Note 7 — INCOME TAXES

Our tax provision or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to significant variation due to several factors, including variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, acquisitions (including integrations) and investments, audit-related developments, foreign currency gains (losses), changes in law, regulations, and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

In 2015, our effective tax rate will be significantly affected by the favorable impact of earnings in lower tax rate jurisdictions and the adverse effect of losses incurred in certain foreign jurisdictions for which we may not realize a tax benefit. Income earned in lower tax jurisdictions is primarily related to our European operations, which are headquartered in Luxembourg. Losses for which we may not realize a related tax benefit, primarily due to losses of foreign subsidiaries, reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate. We record valuation allowances against the deferred tax assets associated with losses for which we may not realize a related tax benefit. Our effective tax rate may also be adversely impacted by the amount of our pre-tax income, or loss, relative to our income tax expense, nondeductible expenses, and changes in tax law such as the expiration of the U.S. federal research and development credit at the end of 2014.

Our income tax provision for the nine months ended September 30, 2015 was $498 million, which included $37 million of discrete tax items primarily attributed to acquisition integrations. Our income tax benefit for the nine months ended September 30, 2014 was $38 million, which included $82 million of discrete tax items primarily attributable to audit-related developments. Cash paid for income taxes (net of refunds) was $80 million and $38 million in Q3 2015 and Q3 2014, and $200 million and $148 million for the nine months ended September 30, 2015 and 2014.

As of September 30, 2015, and December 31, 2014, tax contingencies were $895 million and $710 million. We expect the total amount of tax contingencies will grow in 2015. In addition, changes in state, federal, and foreign tax laws may increase our tax contingencies. The timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from the amounts accrued. It is reasonably possible that within the next 12 months we will receive additional assessments by various tax authorities or possibly reach

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resolution of income tax examinations in one or more jurisdictions. These assessments or settlements may or may not result in changes to our contingencies related to positions on prior years' tax filings.

We are under examination, or may be subject to examination, by the Internal Revenue Service ("IRS") for the calendar year 2005 and thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes or our net operating losses with respect to years under examination as well as subsequent periods. As previously disclosed, we have received Notices of Proposed Adjustment from the IRS for transactions undertaken in the 2005 and 2006 calendar years relating to transfer pricing with our foreign subsidiaries. The IRS is seeking to increase our U.S. taxable income by an amount that would result in additional federal tax of approximately $1.5 billion, subject to interest. To date, we have not resolved this matter administratively and are currently contesting it in U.S. Tax Court. We continue to disagree with these IRS positions and intend to defend ourselves vigorously in this matter. In addition to the risk of additional tax for 2005 and 2006 transactions, if this litigation is adversely determined or if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, we could be subject to significant additional tax liabilities.

Certain of our subsidiaries are under examination or investigation or may be subject to examination or investigation by the French Tax Administration ("FTA") for calendar year 2006 and thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes. In September 2012, we received proposed tax assessment notices for calendar years 2006 through 2010 relating to the allocation of income between foreign jurisdictions. In June 2015, we received final tax collection notices for these years assessing additional French tax of €196 million, including interest and penalties through September 2012. We disagree with the assessment and intend to contest it vigorously. We plan to pursue all available administrative remedies at the FTA, and if we are not able to resolve this matter with the FTA, we plan to pursue judicial remedies. In addition to the risk of additional tax for years 2006 through 2010, if this litigation is adversely determined or if the FTA were to seek adjustments of a similar nature for subsequent years, we could be subject to significant additional tax liabilities. In addition, in October 2014, the European Commission opened a formal investigation to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries comply with European Union rules on state aid. If this matter is adversely resolved, Luxembourg may be required to assess, and we may be required to pay, additional amounts with respect to current and prior periods and our taxes in the future could increase. We are also subject to taxation in various states and other foreign jurisdictions including Canada, China, Germany, India, Japan, Luxembourg, and the United Kingdom. We are under, or may be subject to, audit or examination and additional assessments in respect of these particular jurisdictions for 2003 and thereafter.

Note 8 — SEGMENT INFORMATION

Beginning in the first quarter of 2015, we changed our reportable segments to North America, International, and AWS. These segments reflect the way the Company evaluates its business performance and manages its operations. We allocate to segment results the operating expenses "Fulfillment," "Marketing," "Technology and content," and "General and administrative" based on usage, which is generally reflected in the segment in which the costs are incurred. The majority of technology infrastructure costs are allocated to the AWS segment based on usage. The majority of the remaining non-infrastructure technology costs are incurred in the U.S. and are allocated to our North America segment. We exclude from our allocations the portions of these operating expense lines attributable to stock-based compensation. We do not allocate the line item "Other operating expense (income), net" to our segment operating results. There are no internal revenue transactions between our reportable segments.

North America

The North America segment consists primarily of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through North America-focused websites such as www.amazon.com, www.amazon.ca, and www.amazon.com.mx. This segment includes export sales from these websites.

International

The International segment consists primarily of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through internationally-focused websites such as www.amazon.com.au, www.amazon.com.br, www.amazon.cn, www.amazon.fr, www.amazon.de, www.amazon.in, www.amazon.it, www.amazon.co.jp, www.amazon.nl, www.amazon.es, and www.amazon.co.uk. This segment includes export sales from these internationally-focused websites (including export sales from these sites to customers in the U.S., Mexico, and Canada), but excludes export sales from our North American websites.

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AWS
The AWS segment consists of amounts earned from global sales of compute, storage, database, and other AWS service offerings for start-ups, enterprises, government agencies, and academic institutions.
Information on reportable segments and reconciliation to consolidated net income (loss) is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
North America				
Net sales	$15,006	$11,699	$42,208	$33,499
Segment operating expenses (1)	14,478	11,759	40,461	32,940
Segment operating income (loss)	$528	$(60)	$1,747	$559
International				
Net sales	$8,267	$7,711	$23,577	$22,936
Segment operating expenses (1)	8,323	7,885	23,728	23,144
Segment operating income (loss)	$(56)	$(174)	$(151)	$(208)
AWS				
Net sales	$2,085	$1,169	$5,474	$3,224
Segment operating expenses (1)	1,564	1,071	4,297	2,804
Segment operating income (loss)	$521	$98	$1,177	$420
Consolidated				
Net sales	$25,358	$20,579	$71,259	$59,659
Segment operating expenses (1)	24,365	20,715	68,486	58,888
Segment operating income (loss)	993	(136)	2,773	771
Stock-based compensation	(544)	(377)	(1,513)	(1,089)
Other operating income (expense), net	(43)	(31)	(136)	(94)
Income (loss) from operations	406	(544)	1,124	(412)
Total non-operating income (expense)	(159)	(90)	(494)	(128)
Benefit (provision) for income taxes	(161)	205	(498)	38
Equity-method investment activity, net of tax	(7)	(8)	(18)	47
Net income (loss)	$79	$(437)	$114	$(455)

(1) Excludes stock-based compensation and "Other operating expense (income), net" which are not allocated to segments.

We have aggregated our products and services into groups of similar products and services and provided the supplemental disclosure of net sales (in millions) below. We evaluate whether additional disclosure is appropriate when a product or service category begins to approach a significant level of net sales. For the periods presented, no individual product or service represented more than 10% of net sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Sales:				
Media	$5,283	$5,244	$15,286	$15,554
Electronics and other general merchandise	17,741	13,953	49,782	40,248
AWS	2,085	1,169	5,474	3,224
Other (1)	249	213	717	633
Consolidated	$25,358	$20,579	$71,259	$59,659

(1) Includes sales from non-retail activities, such as certain advertising services and our co-branded credit card agreements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects, or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, among others, fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet and online commerce, the amount that Amazon.com invests in new business opportunities and the timing of those investments, the mix of products sold to customers, the mix of net sales derived from products as compared with services, the extent to which we owe income taxes, competition, management of growth, potential fluctuations in operating results, international growth and expansion, the outcomes of legal proceedings and claims, fulfillment, sortation, delivery, and data center optimization, risks of inventory management, seasonality, the degree to which the Company enters into, maintains, and develops commercial agreements, acquisitions and strategic transactions, payments risks, and risks of fulfillment throughput and productivity. In addition, the current global economic climate amplifies many of these risks. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management's expectations, are described in greater detail in Item 1A of Part II, "Risk Factors."

For additional information, see Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview" of our 2014 Annual Report on Form 10-K.

Critical Accounting Judgments

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, see Item 8 of Part II, "Financial Statements and Supplementary Data — Note 1 — Description of Business and Accounting Policies," of our 2014 Annual Report on Form 10-K and Item 1 of Part I, "Financial Statements — Note 1 — Accounting Policies," of this Form 10-Q. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

Inventories

Inventories, consisting of products available for sale, are primarily accounted for using the first-in first-out method, and are valued at the lower of cost or market value. This valuation requires us to make judgments, based on currently-available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category. These assumptions about future disposition of inventory are inherently uncertain and changes in our estimates and assumptions may cause us to realize material write-downs in the future. As a measure of sensitivity, for every 1% of additional inventory valuation allowance as of September 30, 2015, we would have recorded an additional cost of sales of approximately $100 million.

In addition, we enter into supplier commitments for certain electronic device components. These commitments are based on forecasted customer demand. If we reduce these commitments, we may incur additional costs.

Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. During the second quarter of 2015, we changed the measurement date of our annual goodwill impairment test from October 1 to April 1. In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions. Certain estimates of discounted cash flows involve businesses and geographies with limited financial history and developing revenue models. Changes in these forecasts could significantly change the amount of impairment recorded, if any.

During the quarter, management monitored the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test. For the periods presented, no triggering events were identified that required an interim impairment test. As a measure of sensitivity, a 10% decrease in the fair value of any of our reporting units as of April 1, 2015, would have had no impact on the carrying value of our goodwill.

Financial and credit market volatility directly impacts the fair value measurement through our weighted average cost of capital that we use to determine a discount rate and through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether credit or stock price changes are short-term in nature or a longer-term trend. We have not made any significant changes to the accounting methodology used to evaluate goodwill for impairment. Changes in our estimated future cash flows and asset fair values may cause us to realize material impairment charges in the future. As a measure of sensitivity, a prolonged 20% decrease from our September 30, 2015 closing stock price would not be an indicator of possible impairment.

Stock-Based Compensation

We measure compensation cost for stock awards at fair value and recognize it as compensation expense over the service period for awards expected to vest. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock and the fair value of stock options is estimated on the date of grant using a Black-Scholes model. The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including employee classification, economic environment, and historical experience. We update our estimated forfeiture rate quarterly. We have not made any significant changes to the accounting methodology used to evaluate stock-based compensation. Changes in our estimates and assumptions may cause us to realize material changes in stock-based compensation expense in the future. As a measure of sensitivity, a 1% change to our estimated forfeiture rate would have had an approximately $51 million impact on our Q3 2015 operating income. Our estimated forfeiture rates as of September 30, 2015, and December 31, 2014, were 28% and 27%.

We utilize the accelerated method, rather than the straight-line method, for recognizing compensation expense. For example, over 50% of the compensation cost related to an award vesting ratably over four years is expensed in the first year. If forfeited early in the life of an award, the compensation expense adjustment is much greater under an accelerated method than under a straight-line method.

Income Taxes

We are subject to income taxes in the U.S. (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, losses incurred in jurisdictions for which we are not able to realize the related tax benefit, changes in foreign currency exchange rates, entry into new businesses and geographies and changes to our existing businesses, acquisitions (including integrations) and investments, changes in our deferred tax assets and liabilities and their valuation, and changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations, including fundamental changes to the tax laws applicable to corporate multinationals. The U.S., many countries in the European Union, and a number of other countries are actively considering changes in this regard.

Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings and our effective tax rate would be adversely affected. We are also subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax liabilities against us. In addition, in October 2014, the European Commission opened a formal investigation to examine whether decisions by the tax authorities in

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Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries comply with European Union rules on state aid. If this matter is adversely resolved, Luxembourg may be required to assess, and we may be required to pay, additional amounts with respect to current and prior periods and our taxes in the future could increase. Although we believe our tax estimates are reasonable, the final outcome of tax audits, investigations, and any related litigation could be materially different from our historical income tax provisions and accruals. Developments in an audit, litigation, or the relevant laws, regulations, administrative practices, principles, and interpretations could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods. For instance, the IRS is seeking to increase our U.S. taxable income related to transfer pricing with our foreign subsidiaries for transactions undertaken in 2005 and 2006, and we are currently contesting the matter in U.S. Tax Court. In addition to the risk of additional tax for 2005 and 2006 transactions, if this litigation is adversely determined or if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, Amazon could be subject to significant additional tax liabilities.

Recent Accounting Pronouncements

See Item 1 of Part I, “Financial Statements — Note 1 — Accounting Policies — Recent Accounting Pronouncements.”

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Liquidity and Capital Resources

Cash flow information is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2015	2014	2015	2014	2015	2014
Operating activities	$2,610	$1,766	$3,108	$127	$9,823	$5,705
Investing activities	(1,377)	(946)	(4,600)	(2,600)	(7,065)	(3,444)
Financing activities	(730)	(412)	(2,073)	(777)	3,136	(720)

Our financial focus is on long-term, sustainable growth in free cash flow[1]. Free cash flow, a non-GAAP financial measure, was $5.4 billion for the trailing twelve months ended September 30, 2015, compared to $1.1 billion for the trailing twelve months ended September 30, 2014. See "Non-GAAP Financial Measures" for a reconciliation of free cash flow to cash provided by operating activities. The increase in free cash flow for the trailing twelve months ended September 30, 2015, compared to the comparable prior year period, was primarily due to higher operating cash flows.

Operating cash flows and free cash flows can be volatile and are sensitive to many factors, including changes in working capital[2], the timing and magnitude of capital expenditures, including our decision to finance property and equipment under capital leases and other finance lease arrangements, and our net income (loss). Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Our principal sources of liquidity are cash flows generated from operations and our cash, cash equivalents, and marketable securities balances, which, at fair value, were $14.4 billion and $17.4 billion as of September 30, 2015, and December 31, 2014. Amounts held in foreign currencies were $4.5 billion and $5.4 billion as of September 30, 2015, and December 31, 2014, and were primarily British Pounds, Chinese Yuan, Euros, and Japanese Yen.

Cash provided by (used in) operating activities was $2.6 billion and $1.8 billion for Q3 2015 and Q3 2014 and $3.1 billion and $127 million for the nine months ended September 30, 2015 and 2014. Our operating cash flows result primarily from cash received from our consumer, seller, and enterprise customers, advertising agreements, and our co-branded credit card agreements, offset by cash payments we make for products and services, employee compensation (less amounts capitalized related to internal use software that are reflected as cash used in investing activities), payment processing and related transaction costs, operating leases, and interest payments on our long-term obligations. Cash received from our consumer, seller, and enterprise customers, and other activities generally corresponds to our net sales. Because consumers primarily use credit cards to buy from us, our receivables from consumers settle quickly. The increase in operating cash flow for the trailing twelve months ended September 30, 2015, compared to the comparable prior year period, was primarily due to the increase in non-cash charges to net income (loss), including depreciation, amortization, and stock-based compensation, and an increase in working capital.

Cash provided by (used in) investing activities corresponds with cash capital expenditures, including leasehold improvements, internal-use software and website development costs, cash outlays for acquisitions, investments in other companies and intellectual property rights, and purchases, sales, and maturities of marketable securities. Cash provided by (used in) investing activities was $(1.4) billion and $(946) million for Q3 2015 and Q3 2014, and $(4.6) billion and $(2.6) billion for the nine months ended September 30, 2015 and 2014, with the variability caused primarily by changes in capital expenditures, purchases, maturities, and sales of marketable securities, and changes in cash paid for acquisitions. Cash capital expenditures were $1.2 billion and $1.4 billion during Q3 2015 and Q3 2014, and $3.3 billion and $3.7 billion for the nine months ended September 30, 2015 and 2014. This primarily reflects additional investments in support of continued business growth due to investments in technology infrastructure, the majority of which is to support AWS, and additional capacity to support our fulfillment operations. Capital expenditures included $127 million and $131 million for internal-use software and website development during Q3 2015 and Q3 2014, and $406 million and $400 million for the nine months ended September 30, 2015 and 2014. Stock-based compensation capitalized for internal-use software and website development costs does not affect cash flows. We made cash payments, net of acquired cash, related to acquisition and other investment activity of $105 million and $860 million during Q3 2015 and Q3 2014, and $478 million and $926 million for the nine months ended September 30, 2015 and 2014.

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(1) Free cash flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less cash expenditures for purchases of property and equipment, including internal-use software and website development, both of which are presented on our consolidated statements of cash flows. See “Non-GAAP Financial Measures” below for additional information as well as alternative free cash flow measures.

(2) Working capital consists of accounts receivable, inventory, and accounts payable.

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Additionally, on October 19, 2015, we acquired Elemental for total consideration of approximately $296 million.
Cash provided by (used in) financing activities was $(730) million and $(412) million for Q3 2015 and Q3 2014, and $(2.1) billion and $(777) million for the nine months ended September 30, 2015 and 2014. Cash outflows from financing activities result from principal payments on obligations related to capital and finance leases and repayments of long-term debt and other. Principal payments on obligations related to capital leases, finance leases, and repayments of long-term debt and other were $858 million and $440 million in Q3 2015 and Q3 2014, and $2.5 billion and $1.3 billion for the nine months ended September 30, 2015 and 2014. In addition, on November 27, 2015, $750 million of our unsecured senior notes mature. Property and equipment acquired under capital leases was $1.0 billion and $1.2 billion during Q3 2015 and Q3 2014, and $3.4 billion and $2.8 billion for the nine months ended September 30, 2015 and 2014. This reflects additional investments in support of continued business growth primarily due to investments in technology infrastructure for AWS. We expect this trend toward additional investment to continue over time. Cash inflows from financing activities primarily result from proceeds from long-term debt and other and tax benefits relating to excess stock-based compensation deductions. Proceeds from long-term debt and other were $33 million and $28 million in Q3 2015 and Q3 2014, and $260 million and $379 million for the nine months ended September 30, 2015 and 2014. Tax benefits relating to excess stock-based compensation deductions are presented as financing cash flows. Cash inflows from tax benefits related to stock-based compensation deductions were $95 million and $0 in Q3 2015 and Q3 2014, and $212 million and $121 million for the nine months ended September 30, 2015 and 2014.
We had no borrowings outstanding under our $2.0 billion Credit Agreement as of September 30, 2015. See Item 1 of Part I, "Financial Statements — Note 5 — Long-Term Debt" for additional information.
We recorded a tax provision of $161 million and a tax benefit of $205 million in Q3 2015 and Q3 2014, and a tax provision of $498 million and a tax benefit of $38 million for the nine months ended September 30, 2015 and 2014. Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings, and our effective tax rate would be adversely affected. We have tax benefits relating to excess stock-based compensation deductions that are being utilized to reduce our U.S. taxable income. In 2014, we also had accelerated depreciation deductions on qualifying property that reduced our U.S. taxable income as a result of U.S. legislation that expired in December 2014. Cash paid for income taxes (net of refunds) was $80 million and $38 million for Q3 2015 and Q3 2014, and $200 million and $148 million for the nine months ended September 30, 2015 and 2014. As of December 31, 2014, our federal net operating loss carryforward was approximately $1.9 billion and we had approximately $443 million of federal tax credits potentially available to offset future tax liabilities. Our federal tax credits are primarily related to the U.S. federal research and development credit, which expired in December 2014. As we utilize our federal net operating losses and tax credits, we expect cash paid for taxes to significantly increase. We endeavor to manage our global taxes on a cash basis, rather than on a financial reporting basis.
Our liquidity is also affected by restricted cash balances that are pledged as collateral for standby and trade letters of credit, guarantees, debt, and real estate leases. To the extent we process payments for third-party sellers or offer certain types of stored value to our customers, some jurisdictions may restrict our use of those funds. These restrictions would result in the reclassification of a portion of our cash and cash equivalents from "Cash and cash equivalents" to "Accounts receivable, net and other" on our consolidated balance sheets. As of September 30, 2015, and December 31, 2014, restricted cash, cash equivalents, and marketable securities were $239 million and $450 million.
See Item 1 of Part I, "Financial Statements — Note 3 — Commitments and Contingencies" for additional discussion of our principal contractual commitments, as well as our pledged assets. Purchase obligations and open purchase orders, consisting of inventory and significant non-inventory commitments, were $7.8 billion as of September 30, 2015. Purchase obligations and open purchase orders are generally cancellable in full or in part through the contractual provisions.
Because of our model we are able to turn our inventory quickly and have a cash-generating operating cycle[3]. On average, our high inventory velocity means we generally collect from consumers before our payments to suppliers

come due. Inventory turnover[4] was 9 for Q3 2015 and Q3 2014. We expect variability in inventory turnover over time since it is affected by several factors, including our product mix, the mix of sales by us and by third-party sellers, our continuing focus on in-stock inventory availability and selection of product offerings, our investment in new geographies and product lines, and the extent to which we choose to utilize third-party fulfillment providers.

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(3) The operating cycle is number of days of sales in inventory plus number of days of sales in accounts receivable minus accounts payable days.

(4) Inventory turnover is the quotient of trailing twelve month cost of sales to average inventory over five quarter ends.

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We believe that cash flows generated from operations, our cash, cash equivalents, and marketable securities balances, and borrowing available under our credit agreements will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. See Item 1A of Part II, "Risk Factors." We continually evaluate opportunities to sell additional equity or debt securities, obtain credit facilities, obtain capital, finance, and operating lease arrangements, repurchase common stock, pay dividends, or repurchase, refinance, or otherwise restructure our debt for strategic reasons or to further strengthen our financial position.

The sale of additional equity or convertible debt securities would likely be dilutive to our shareholders. In addition, we will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services, and technologies, which might affect our liquidity requirements or cause us to issue additional equity or debt securities. There can be no assurance that additional lines-of-credit or financing instruments will be available in amounts or on terms acceptable to us, if at all.

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Results of Operations

Beginning in the first quarter of 2015, we changed our reportable segments to North America, International, and AWS. These segments reflect changes in the way the Company evaluates its business performance and manages its operations. See Item 1 of Part I, "Financial Statements — Note 8 — Segment Information."

Net Sales

Net sales include product and service sales. Product sales represent revenue from the sale of products and related shipping fees and digital media content where we record revenue gross. Service sales represent third-party seller fees earned (including commissions) and related shipping fees, digital content subscriptions, AWS sales, advertising services, and our co-branded credit card agreements. Amazon Prime membership fees are allocated between product sales and service sales and amortized over the life of the membership according to the estimated delivery of services.

Net sales information is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Sales:				
North America	$15,006	$11,699	$42,208	$33,499
International	8,267	7,711	23,577	22,936
AWS	2,085	1,169	5,474	3,224
Total consolidated	$25,358	$20,579	$71,259	$59,659
Year-over-year Percentage Growth:				
North America	28 %	23 %	26 %	24 %
International	7	14	3	17
AWS	78	43	70	50
Total consolidated	23	20	19	22
Year-over-year Percentage Growth, excluding effect of foreign exchange rates:				
North America	29 %	23 %	26 %	24 %
International	24	13	20	15
AWS	78	43	70	50
Total consolidated	30	20	26	22
Net Sales Mix:				
North America	59 %	57 %	59 %	56 %
International	33	37	33	39
AWS	8	6	8	5
Total consolidated	100 %	100 %	100 %	100 %

Sales increased 23% in Q3 2015 and 19% for the nine months ended September 30, 2015, compared to the comparable prior year periods. Changes in foreign currency exchange rates impacted net sales by $(1.3) billion and $13 million for Q3 2015 and Q3 2014, and by $(4.0) billion and $259 million for the nine months ended September 30, 2015 and 2014. For a discussion of the effect on sales growth of foreign exchange rates, see "Effect of Foreign Exchange Rates" below.

North America sales increased 28% in Q3 2015 and 26% for the nine months ended September 30, 2015, compared to the comparable prior year periods. The sales growth primarily reflects increased unit sales, including sales by marketplace sellers. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, from sales in faster growing categories such as electronics and other general merchandise, increased in-stock inventory availability, and increased selection of product offerings.

International sales increased 7% in Q3 2015 and 3% for the nine months ended September 30, 2015, compared to the comparable prior year periods. The sales growth primarily reflects increased unit sales, including sales by marketplace sellers, offset by the unfavorable effect of foreign exchange rates. Changes in foreign currency exchange rates impacted International net sales by $(1.3) billion and $21 million for Q3 2015 and Q3 2014, and $(3.9) billion and

$292 million for the nine months ended September 30, 2015 and 2014. Increased unit sales were driven largely by our continued efforts to reduce prices for our

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customers, including from our shipping offers, from sales in faster growing categories such as electronics and other general merchandise, increased in-stock inventory availability, and increased selection of product offerings.

AWS sales increased 78% in Q3 2015 and 70% for the nine months ended September 30, 2015, compared to the comparable prior year periods. The sales growth primarily reflects increased customer usage, partially offset by pricing changes. Pricing changes were driven largely by our continued efforts to reduce prices for our customers.

Segment Operating Income (Loss)

Segment operating income (loss) is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Segment Operating Income (Loss)				
North America	$528	$(60)	$1,747	$559
International	(56)	(174)	(151)	(208)
AWS	521	98	1,177	420

The increase in North America segment operating income in absolute dollars in Q3 2015 and for the nine months ended September 30, 2015, compared to the comparable prior year periods, is primarily due to increased unit sales, including sales by marketplace sellers, partially offset by increased levels of operating expenses to expand our fulfillment capacity and spending on technology infrastructure. There was a favorable impact from foreign exchange rates of $11 million and $24 million for Q3 2015 and for the nine months ended September 30, 2015.

The decrease in International segment operating loss in absolute dollars in Q3 2015 and for the nine months ended September 30, 2015, compared to the comparable prior year periods, is primarily due to increased unit sales, including sales by marketplace sellers, partially offset by increased levels of operating expenses to expand our fulfillment capacity and spending on technology infrastructure and marketing efforts. There was an unfavorable impact from foreign exchange rates of $64 million and $232 million for Q3 2015 and for the nine months ended September 30, 2015.

The increase in AWS segment operating income in absolute dollars in Q3 2015 and for the nine months ended September 30, 2015, compared to the comparable prior year periods, is primarily due to increased customer usage and cost structure productivity, partially offset by pricing changes and increased spending on technology infrastructure, which was primarily driven by additional investments to support the business growth. There was a favorable impact from foreign exchange rates of $78 million and $204 million for Q3 2015 and for the nine months ended September 30, 2015.

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Supplemental Information

Supplemental information about outbound shipping results for our North America and International segments is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Outbound Shipping Activity:				
Shipping revenue (1)(2)(3)	$1,494	$1,048	$4,192	$2,786
Shipping costs (4)	(2,720)	(2,020)	(7,369)	(5,661)
Net shipping cost	$(1,226)	$(972)	$(3,177)	$(2,875)
Year-over-year Percentage Growth:				
Shipping revenue	43 %	45 %	50 %	39 %
Shipping costs	35	32	30	32
Net shipping cost	26	20	11	25
Percent of Net Sales: (5)				
Shipping revenue	6.4 %	5.4 %	6.4 %	5.0 %
Shipping costs	(11.7)	(10.4)	(11.2)	(10.0)
Net shipping cost	(5.3)%	(5.0)%	(4.8)%	(5.0)%

(1) Excludes amounts charged on shipping activities by third-party sellers where we do not provide the fulfillment service.

(2) Includes a portion of amounts earned from Amazon Prime memberships.

(3) Includes amounts earned from Fulfillment by Amazon programs related to shipping services.

(4) Includes sortation and delivery center costs.

(5) Includes North America and International segment net sales.

We expect our cost of shipping to continue to increase to the extent our customers accept and use our shipping offers at an increasing rate, our product mix shifts to the electronics and other general merchandise category, we reduce shipping rates, we use more expensive shipping methods, and we offer additional services. We seek to mitigate costs of shipping over time in part through achieving higher sales volumes, optimizing placement of fulfillment centers, negotiating better terms with our suppliers, and achieving better operating efficiencies. We believe that offering low prices to our customers is fundamental to our future success, and one way we offer lower prices is through shipping offers.

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We have aggregated our North America and International segment products and services into groups of similar products and services and provided the supplemental disclosure of net sales (in millions) below. We evaluate whether additional disclosure is appropriate when a product or service category begins to approach a significant level of net sales. For the periods presented no individual product or service represented more than 10% of net sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Sales:				
North America				
Media	$2,963	$2,734	$8,552	$8,022
Electronics and other general merchandise	11,840	8,793	33,077	24,988
Other (1)	203	172	579	489
Total North America	$15,006	$11,699	$42,208	$33,499
International				
Media	$2,320	$2,510	$6,734	$7,532
Electronics and other general merchandise	5,901	5,160	16,705	15,260
Other (1)	46	41	138	144
Total International	$8,267	$7,711	$23,577	$22,936
Year-over-year Percentage Growth:				
North America				
Media	8 %	5 %	7 %	10 %
Electronics and other general merchandise	35	31	32	29
Other	18	20	19	19
Total North America	28	23	26	24
International				
Media	(8)%	4 %	(11)%	5 %
Electronics and other general merchandise	14	20	9	24
Other	10	(18)	(4)	(1)
Total International	7	14	3	17
Year-over-year Percentage Growth, excluding the effect of foreign exchange rates:				
North America				
Media	9 %	5 %	7 %	10 %
Electronics and other general merchandise	35	31	33	29
Other	18	20	18	19
Total North America	29	23	26	24
International				
Media	6 %	3 %	4 %	4 %
Electronics and other general merchandise	32	19	28	22
Other	26	(19)	11	(3)
Total International	24	13	20	15

(1) Includes sales from non-retail activities, such as certain advertising services and our co-branded credit card agreements.

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Operating Expenses

Information about operating expenses with and without stock-based compensation is as follows (in millions):

	Three Months Ended September 30,						Nine Months Ended September 30,				
	2015			2014			2015			2014	
	As Reported	Stock-Based Compensation	Net	As Reported	Stock-Based Compensation	Net	As Reported	Stock-Based Compensation	Net	As Reported	Sto Co
Operating Expenses:											
Cost of sales	$16,755	$—	$16,755	$14,627	$—	$14,627	$47,310	$—	$47,310	$42,080	$—
Fulfillment	3,230	(122)	3,108	2,643	(93)	2,550	8,865	(344)	8,521	7,342	(27
Marketing	1,264	(48)	1,216	993	(32)	961	3,496	(133)	3,363	2,806	(91
Technology and content	3,197	(309)	2,888	2,423	(204)	2,219	8,971	(861)	8,110	6,639	(57
General and administrative	463	(65)	398	406	(48)	358	1,357	(175)	1,182	1,110	(14
Other operating expense (income), net	43	—	43	31	—	31	136	—	136	94	—
Total operating expenses	$24,952	$(544)	$24,408	$21,123	$(377)	$20,746	$70,135	$(1,513)	$68,622	$60,071	$(1
Year-over-year Percentage Growth:											
Fulfillment	22 %		22 %	30 %		30 %	21 %		21 %	30 %	
Marketing	27		26	43		43	25		24	40	
Technology and content	32		30	40		40	35		34	41	
General and administrative	14		12	46		46	22		22	37	
Percent of Net Sales:											
Fulfillment	12.7 %		12.3 %	12.8 %		12.4 %	12.4 %		12.0 %	12.3 %	
Marketing	5.0		4.8	4.8		4.7	4.9		4.7	4.7	
Technology and content	12.6		11.4	11.8		10.8	12.6		11.4	11.1	
General and administrative	1.8		1.6	2.0		1.7	1.9		1.7	1.9	

Operating expenses without stock-based compensation are non-GAAP financial measures. See "Non-GAAP Financial Measures" below.

During Q3 2014, we recorded charges estimated at $170 million primarily related to Fire phone inventory valuation and supplier commitment costs, the majority of which is included in the North America segment.

Cost of Sales

Cost of sales consists primarily of the purchase price of consumer products, digital media content where we record revenue gross, including Prime Instant Video, packaging supplies, inbound and outbound shipping costs, including sortation and delivery centers, and related equipment costs. Shipping costs to receive products from our suppliers are included in our inventory, and recognized as cost of sales upon sale of products to our customers.

The increase in cost of sales in absolute dollars in Q3 2015 and for the nine months ended September 30, 2015, compared to the comparable prior year periods, is primarily due to increased product and shipping costs resulting from increased sales.

Costs to operate our AWS segment are primarily classified as “Technology and content” as we leverage a shared infrastructure that supports both our internal technology requirements and external sales to AWS customers.

Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing our North America and International fulfillment and customer service centers. While AWS payment processing and related transaction costs are included in fulfillment, AWS costs are primarily classified as “Technology and content.” Fulfillment costs as a percentage of net sales may vary due to several factors, such as payment processing and related transaction costs, our level of productivity and accuracy, changes in volume, size, and weight of units received and fulfilled, timing of fulfillment capacity expansion, the extent we utilize fulfillment services provided by third parties, mix of products and services sold, and our ability to affect customer service contacts per unit by implementing improvements in our operations and enhancements to our customer self-service

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features. Additionally, because payment processing and fulfillment costs associated with seller transactions are based on the gross purchase price of underlying transactions, and payment processing and related transaction and fulfillment costs are higher as a percentage of sales versus our retail sales, sales by our sellers have higher fulfillment costs as a percent of net sales.

The increase in fulfillment costs in absolute dollars in Q3 2015 and for the nine months ended September 30, 2015, compared to the comparable prior year periods, is primarily due to variable costs corresponding with increased physical and digital product and service sales volume, inventory levels, and sales mix; costs from expanding fulfillment capacity; and payment processing and related transaction costs.

We seek to expand our fulfillment capacity to accommodate a greater selection and in-stock inventory levels and to meet anticipated shipment volumes from sales of our own products as well as sales by third parties for which we provide the fulfillment services. We regularly evaluate our facility requirements.

Marketing

We direct customers to our websites primarily through a number of targeted online marketing channels, such as our Associates program, sponsored search, portal advertising, email marketing campaigns, direct sales, and other initiatives. Our marketing expenses are largely variable, based on growth in sales and changes in rates. To the extent there is increased or decreased competition for these traffic sources, or to the extent our mix of these channels shifts, we would expect to see a corresponding change in our marketing expense.

The increase in marketing costs in absolute dollars in Q3 2015 and for the nine months ended September 30, 2015, compared to the comparable prior year periods, is primarily due to increased spending on online marketing channels, as well as payroll and related expenses, including AWS direct sales related expenses.

While costs associated with Amazon Prime memberships and other shipping offers are not included in marketing expense, we view these offers as effective worldwide marketing tools, and intend to continue offering them indefinitely.

Technology and Content

Technology costs consist principally of research and development activities including payroll and related expenses for employees involved in application, production, maintenance, operation, and platform development for new and existing products and services, as well as AWS and other technology infrastructure costs. Content costs consist principally of payroll and related expenses for employees involved in category expansion, editorial content, buying, and merchandising selection. Digital media content where we record revenue gross, including Prime Instant Video, is included in cost of sales.

We seek to efficiently invest in several areas of technology and content so we may continue to enhance the customer experience and improve our process efficiency through rapid technology developments while operating at an ever increasing scale. Our technology and content investment and capital spending projects often support a variety of product and service offerings due to geographic expansion and the cross-functionality of our systems and operations. We expect spending in technology and content to increase over time as we continue to add employees and technology infrastructure. The increase in technology and content costs in absolute dollars in Q3 2015 and for the nine months ended September 30, 2015, compared to the comparable prior year periods, is primarily due to increased spending on technology infrastructure principally allocated to our AWS segment, and an increase in payroll and related costs associated with expanding our products and services.

Technology infrastructure costs consist of servers, networking equipment, and data center related depreciation, rent, utilities, and payroll expenses. These costs are allocated to segments based on usage. During Q3 2015, we expanded our technology infrastructure principally by increasing our capacity for AWS service offerings globally, compared to the comparable prior year period. Additionally, the costs associated with operating and maintaining our expanded infrastructure have increased over time, corresponding with increased usage. We expect these trends to continue over time as we invest in technology infrastructure to support increased usage. See Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview” of our 2014 Annual Report on Form 10-K for a discussion of how management views advances in technology and the importance of innovation.

The increase in payroll and related costs is primarily due to the expansion of new and existing product categories and service offerings, including AWS, and initiatives to expand our ecosystem of products and services.

During Q3 2015 and Q3 2014, we capitalized $157 million (including $30 million of stock-based compensation) and $157 million (including $26 million of stock-based compensation) of costs associated with internal-use software and website development. For the nine months ended September 30, 2015 and 2014, we capitalized $494 million (including $88 million of stock-based compensation) and $477 million (including $77 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was $159 million and $138 million for Q3 2015 and Q3 2014, and $468 million and $411 million for the nine months ended September 30, 2015 and 2014.

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General and Administrative

The increase in general and administrative costs in absolute dollars in Q3 2015 and for the nine months ended September 30, 2015, compared to the comparable prior year periods, is primarily due to increases in payroll and related expenses.

Stock-Based Compensation

Stock-based compensation was $544 million and $377 million during Q3 2015 and Q3 2014, and $1.5 billion and $1.1 billion for the nine months ended September 30, 2015 and 2014. The increase is primarily due to an increase in the number of stock-based compensation awards granted to existing and new employees.

Other Operating Expense (Income), Net

Other operating expense (income), net was $43 million and $31 million for Q3 2015 and Q3 2014, and $136 million and $94 million for the nine months ended September 30, 2015 and 2014 and was primarily related to the amortization of intangible assets.

Income (Loss) from Operations

For the reasons discussed above, income (loss) from operations increased to $406 million in Q3 2015, from $(544) million in Q3 2014, and increased to $1.1 billion for the nine months ended September 30, 2015, from $(412) million for the nine months ended September 30, 2014.

We believe that income from operations is a more meaningful measure than gross profit and gross margin due to the diversity of our product categories and services.

Interest Income and Expense

Our interest income was $13 million and $9 million during Q3 2015 and Q3 2014, and $37 million and $31 million for the nine months ended September 30, 2015 and 2014. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Our interest income corresponds with the average balance of invested funds based on the prevailing rates, which vary depending on the geographies and currencies in which they are invested.

Interest expense was $116 million and $49 million during Q3 2015 and Q3 2014, and $344 million and $136 million for the nine months ended September 30, 2015 and 2014. The increase is primarily due to increases in our long-term debt, and capital and finance lease arrangements.

Other Income (Expense), Net

Other income (expense), net was $(56) million and $(50) million during Q3 2015 and Q3 2014, and $(187) million and $(23) million for the nine months ended September 30, 2015 and 2014. The primary component of other income (expense), net is related to foreign-currency gains (losses).

Income Taxes

Our tax provision or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to significant variation due to several factors, including variability in our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, acquisitions (including integrations) and investments, audit-related developments, foreign currency gains (losses), changes in law, regulations, and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

In 2015, our effective tax rate will be significantly affected by the favorable impact of earnings in lower tax rate jurisdictions and the adverse effect of losses incurred in certain foreign jurisdictions for which we may not realize a tax benefit. Income earned in lower tax jurisdictions is primarily related to our European operations, which are headquartered in Luxembourg. Losses for which we may not realize a related tax benefit, primarily due to losses of foreign subsidiaries, reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate. We record valuation allowances against the deferred tax assets associated with losses for which we may not realize a related tax

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benefit. Our effective tax rate may also be adversely impacted by the amount of our pre-tax income, or loss, relative to our income tax expense, nondeductible expenses, and changes in tax law such as the expiration of the U.S. federal credit for research and development expenditures at the end of 2014.

Our income tax provision for the nine months ended September 30, 2015 was $498 million, which included $37 million of discrete tax items primarily attributed to acquisition integrations. Our income tax benefit for the nine months ended September 30, 2014 was $38 million, which included $82 million of discrete tax items primarily attributable to audit-related developments.

Equity-Method Investment Activity, Net of Tax

Equity-method investment activity, net of tax, was $(7) million and $(8) million during Q3 2015 and Q3 2014, and $(18) million and $47 million for the nine months ended September 30, 2015 and 2014. The primary component of this activity during the nine months ended September 30, 2014 was our share of a gain recorded by LivingSocial related to the sale of its Korean operations. This gain was partially offset by operating losses incurred by LivingSocial during the period.

Effect of Foreign Exchange Rates

The effect on income (loss) from operations from changes in foreign exchange rates versus the U.S. Dollar is as follows (in millions):

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2015			2014			2015			2014		
	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported
Net sales	$26,673	$(1,315)	$25,358	$20,566	$13	$20,579	$75,254	$(3,995)	$71,259	$59,400	$259	$59,659
Operating expenses	26,292	(1,340)	24,952	21,111	12	21,123	74,126	(3,991)	70,135	59,863	208	60,071
Income (loss) from operations	381	25	406	(545)	1	(544)	1,128	(4)	1,124	(463)	51	(412)

(1) Represents the outcome that would have resulted had foreign exchange rates in the reported period been the same as those in effect in the comparable prior year period for operating results.

(2) Represents the increase or decrease in reported amounts resulting from changes in foreign exchange rates from those in effect in the comparable prior year period for operating results.

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Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other SEC regulations define and prescribe the conditions for use of certain non-GAAP financial information. Our measures of “Free cash flow,” operating expenses with and without stock-based compensation, and the effect of foreign exchange rates on our consolidated statements of operations, meet the definition of non-GAAP financial measures.

We provide multiple measures of free cash flow, and ratios based on them, because we believe these measures provide additional perspective on the impact of acquiring property and equipment with cash and through capital and finance leases.

Free Cash Flow

Free cash flow is cash flow from operations reduced by “Purchases of property and equipment, including internal-use software and website development,” which are included in cash flow from investing activities. The following is a reconciliation of free cash flow to the most comparable GAAP cash flow measure, “Net cash provided by (used in) operating activities,” for the trailing twelve months ended September 30, 2015 and 2014 (in millions):

	Twelve Months Ended September 30,	
	2015	2014
Net cash provided by (used in) operating activities	$9,823	$5,705
Purchases of property and equipment, including internal-use software and website development	(4,424)	(4,628)
Free cash flow	$5,399	$1,077
Net cash provided by (used in) investing activities	$(7,065)	$(3,444)
Net cash provided by (used in) financing activities	$3,136	$(720)

Free Cash Flow Less Lease Principal Repayments

Free cash flow less lease principal repayments is free cash flow reduced by “Principal repayments of capital lease obligations,” and “Principal repayments of finance lease obligations,” which are included in cash flow from financing activities. Free cash flow less lease principal repayments approximates the actual payments of cash for our capital and finance leases. The following is a reconciliation of free cash flow less lease principal repayments to the most comparable GAAP cash flow measure, “Net cash provided by (used in) operating activities,” for the trailing twelve months ended September 30, 2015 and 2014 (in millions):

	Twelve Months Ended September 30,	
	2015	2014
Net cash provided by (used in) operating activities	$9,823	$5,705
Purchases of property and equipment, including internal-use software and website development	(4,424)	(4,628)
Principal repayments of capital lease obligations	(2,144)	(1,103)
Principal repayments of finance lease obligations	(163)	(73)
Free cash flow less lease principal repayments	$3,092	$(99)
Net cash provided by (used in) investing activities	$(7,065)	$(3,444)
Net cash provided by (used in) financing activities	$3,136	$(720)

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Free Cash Flow Less Finance Lease Principal Repayments and Capital Acquired Under Capital Leases

Free cash flow less finance lease principal repayments and capital acquired under capital leases is free cash flow reduced by "Principal repayments of finance lease obligations," which are included in cash flow from financing activities, and property and equipment acquired under capital leases. In this measure, property and equipment acquired under capital leases is reflected as if these assets had been purchased for cash, which is not the case as these assets have been leased. The following is a reconciliation of free cash flow less finance lease principal repayments and capital acquired under capital leases to the most comparable GAAP cash flow measure, "Net cash provided by (used in) operating activities," for the trailing twelve months ended September 30, 2015 and 2014 (in millions):

	Twelve Months Ended September 30,	
	2015	2014
Net cash provided by (used in) operating activities	$9,823	$5,705
Purchases of property and equipment, including internal-use software and website development	(4,424)	(4,628)
Property and equipment acquired under capital leases	(4,599)	(3,347)
Principal repayments of finance lease obligations	(163)	(73)
Free cash flow less finance lease principal repayments and capital acquired under capital leases	$637	$(2,343)
Net cash provided by (used in) investing activities	$(7,065)	$(3,444)
Net cash provided by (used in) financing activities	$3,136	$(720)

All of these free cash flow measures have limitations as they omit certain components of the overall cash flow statement and do not represent the residual cash flow available for discretionary expenditures. For example, these measures of free cash flow do not incorporate the portion of payments representing principal reductions of debt or cash payments for business acquisitions. Additionally, our mix of property and equipment acquisitions with cash or other financing options may change over time. Therefore, we believe it is important to view free cash flow measures only as a complement to our entire consolidated statements of cash flows.

Operating Expenses, Excluding Stock-based Compensation

Operating expenses with and without stock-based compensation is provided to show the impact of stock-based compensation, which is non-cash and excluded from our internal operating plans and measurement of financial performance (although we consider the dilutive impact to our shareholders when awarding stock-based compensation and value such awards accordingly). In addition, unlike other centrally-incurred operating costs, stock-based compensation is not allocated to segment results and therefore excluding it from operating expenses is consistent with our segment presentation in our footnotes to the consolidated financial statements.

Operating expenses without stock-based compensation has limitations since it does not include all expenses primarily related to our workforce. More specifically, if we did not pay out a portion of our compensation in the form of stock-based compensation, our cash salary expense included in the "Fulfillment," "Marketing," "Technology and content," and "General and administrative" line items would be higher.

Effect of Foreign Exchange Rates

Information regarding the effect of foreign exchange rates, versus the U.S. Dollar, on our income (loss) from operations is provided to show reported period operating results had the foreign exchange rates remained the same as those in effect in the comparable prior year period.

Guidance

We provided guidance on October 22, 2015, in our earnings release furnished on Form 8-K as set forth below. These forward-looking statements reflect Amazon.com's expectations as of October 22, 2015, and are subject to substantial uncertainty. Our results are inherently unpredictable and may be materially affected by many factors, such as fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet and online commerce, as well as those outlined in Item 1A of Part II, "Risk Factors."

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Fourth Quarter 2015 Guidance

- Net sales are expected to be between $33.50 billion and $36.75 billion, or to grow between 14% and 25% compared with fourth quarter 2014.
- Operating income is expected to be between $80 million and $1.28 billion, compared to $591 million in fourth quarter 2014.
- This guidance includes approximately $620 million for stock-based compensation and amortization of intangible assets, and it assumes, among other things, that no additional business acquisitions, investments, restructurings, or legal settlements are concluded and that there are no further revisions to stock-based compensation estimates.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk for the effect of interest rate changes, foreign currency fluctuations, and changes in the market values of our investments. Information relating to quantitative and qualitative disclosures about market risk is set forth below and in Item 2 of Part I, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.”

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our long-term debt. Our long-term debt is carried at amortized cost and fluctuations in interest rates do not impact our consolidated financial statements. However, the fair value of our debt, which pays interest at a fixed rate, will generally fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. All of our cash equivalent and marketable fixed income securities are designated as available-for-sale and, accordingly, are presented at fair value on our consolidated balance sheets. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Fixed income securities may have their fair market value adversely affected due to a rise in interest rates, and we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates.

Foreign Exchange Risk

During Q3 2015, net sales from our International segment accounted for 33% of our consolidated revenues. Net sales and related expenses generated from our internationally-focused websites, as well as those relating to www.amazon.ca and www.amazon.com.mx (which are included in our North America segment), are denominated in the functional currencies of the corresponding websites and primarily include British Pounds, Chinese Yuan, Euros, and Japanese Yen. The results of operations of, and certain of our intercompany balances associated with, our internationally-focused websites are exposed to foreign exchange rate fluctuations. Upon consolidation, as foreign exchange rates vary, net sales and other operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. For example, as a result of fluctuations in foreign exchange rates throughout the period compared to rates in effect the prior year, International segment revenues in Q3 2015 decreased by $1.3 billion in comparison with Q3 2014.

We have foreign exchange risk related to foreign-denominated cash, cash equivalents, and marketable securities (“foreign funds”). Based on the balance of foreign funds as of September 30, 2015, of $4.5 billion, an assumed 5%, 10%, and 20% adverse change to foreign exchange would result in fair value declines of $225 million, $450 million, and $900 million. All investments are classified as “available-for-sale.” Fluctuations in fair value are recorded in “Accumulated other comprehensive loss,” a separate component of stockholders’ equity.

We have foreign exchange risk related to our intercompany balances denominated in various foreign currencies. Based on the intercompany balances as of September 30, 2015, an assumed 5%, 10%, and 20% adverse change to foreign exchange would result in losses of $205 million, $430 million, and $970 million, recorded to “Other income (expense), net.”

See Item 2 of Part I, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Effect of Foreign Exchange Rates” for additional information on the effect on reported results of changes in foreign exchange rates.

Investment Risk

As of September 30, 2015, our recorded basis in equity investments was $277 million. These investments primarily relate to equity-method and cost-method investments in private companies. We review our investments for impairment when events and circumstances indicate that the decline in fair value of such assets below the carrying value is other-than-temporary. Our analysis includes review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data. The current global economic climate provides additional uncertainty. Valuations of private companies are inherently more complex due to the lack of readily available market data. As such, we believe that market sensitivities are not practicable.

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Item 4. Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934 (the “1934 Act”), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings
See Item 1 of Part I, “Financial Statements — Note 3 — Commitments and Contingencies — Legal Proceedings.”

Item 1A. Risk Factors
Please carefully consider the following risk factors. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected. In addition, the current global economic climate amplifies many of these risks.

We Face Intense Competition

Our businesses are rapidly evolving and intensely competitive, and we have many competitors in different industries, including retail, e-commerce services, digital content and electronic devices, and web and infrastructure computing services. Some of our current and potential competitors have greater resources, longer histories, more customers, and/or greater brand recognition. They may secure better terms from vendors, adopt more aggressive pricing, and devote more resources to technology, infrastructure, fulfillment, and marketing.

Competition may intensify as our competitors enter into business combinations or alliances and established companies in other market segments expand to become competitive with our business. In addition, new and enhanced technologies, including search, web and infrastructure computing services, digital content, and electronic devices, may increase our competition. The Internet facilitates competitive entry and comparison shopping, and increased competition may reduce our sales and profits.

Our Expansion Places a Significant Strain on our Management, Operational, Financial, and Other Resources

We are rapidly and significantly expanding our global operations, including increasing our product and service offerings and scaling our infrastructure to support our retail and services businesses. This expansion increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. We may not be able to manage growth effectively, which could damage our reputation, limit our growth, and negatively affect our operating results.

Our Expansion into New Products, Services, Technologies, and Geographic Regions Subjects Us to Additional Business, Legal, Financial, and Competitive Risks

We may have limited or no experience in our newer market segments, and our customers may not adopt our new offerings. These offerings may present new and difficult technology challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures or other quality issues. In addition, profitability, if any, in our newer activities may be lower than in our older activities, and we may not be successful enough in these newer activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth, and negatively affect our operating results.

We May Experience Significant Fluctuations in Our Operating Results and Growth Rate

We may not be able to accurately forecast our growth rate. We base our expense levels and investment plans on sales estimates. A significant portion of our expenses and investments is fixed, and we may not be able to adjust our spending quickly enough if our sales are less than expected.

Our revenue growth may not be sustainable, and our percentage growth rates may decrease. Our revenue and operating profit growth depends on the continued growth of demand for the products and services offered by us or our sellers, and our business is affected by general economic and business conditions worldwide. A softening of demand, whether caused by changes in customer preferences or a weakening of the U.S. or global economies, may result in decreased revenue or growth.

Our sales and operating results will also fluctuate for many other reasons, including due to risks described elsewhere in this section and the following:

- our ability to retain and increase sales to existing customers, attract new customers, and satisfy our customers’ demands;
- our ability to retain and expand our network of sellers;

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- our ability to offer products on favorable terms, manage inventory, and fulfill orders;
- the introduction of competitive websites, products, services, price decreases, or improvements;
- changes in usage or adoption rates of the Internet, e-commerce, electronic devices, and web services, including outside the U.S.;
- timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure;
- the success of our geographic, service, and product line expansions;
- the extent to which we finance, and the terms of any such financing for, our current operations and future growth;
- the outcomes of legal proceedings and claims, which may include significant monetary damages or injunctive relief and could have a material adverse impact on our operating results;
- variations in the mix of products and services we sell;
- variations in our level of merchandise and vendor returns;
- the extent to which we offer free shipping, continue to reduce prices worldwide, and provide additional benefits to our customers;
- the extent to which we invest in technology and content, fulfillment, and other expense categories;
- increases in the prices of fuel and gasoline, as well as increases in the prices of other energy products and commodities like paper and packing supplies;
- the extent to which our equity-method investees record significant operating and non-operating items;
- the extent to which operators of the networks between our customers and our websites successfully charge fees to grant our customers unimpaired and unconstrained access to our online services;
- our ability to collect amounts owed to us when they become due;
- the extent to which use of our services is affected by spyware, viruses, phishing and other spam emails, denial of service attacks, data theft, computer intrusions, outages, and similar events; and
- terrorist attacks and armed hostilities.

Our International Operations Expose Us to a Number of Risks

Our international activities are significant to our revenues and profits, and we plan to further expand internationally. In certain international market segments, we have relatively little operating experience and may not benefit from any first-to-market advantages or otherwise succeed. It is costly to establish, develop, and maintain international operations and websites, and promote our brand internationally. Our international operations may not be profitable on a sustained basis.

In addition to risks described elsewhere in this section, our international sales and operations are subject to a number of risks, including:

- local economic and political conditions;
- government regulation of e-commerce and other services, electronic devices, and competition, and restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs), nationalization, and restrictions on foreign ownership;
- restrictions on sales or distribution of certain products or services and uncertainty regarding liability for products, services, and content, including uncertainty as a result of less Internet-friendly legal systems, local laws, lack of legal precedent, and varying rules, regulations, and practices regarding the physical and digital distribution of media products and enforcement of intellectual property rights;
- business licensing or certification requirements, such as for imports, exports, web services, and electronic devices;
- limitations on the repatriation and investment of funds and foreign currency exchange restrictions;
- limited fulfillment and technology infrastructure;
- shorter payable and longer receivable cycles and the resultant negative impact on cash flow;
- laws and regulations regarding consumer and data protection, privacy, network security, encryption, payments, and restrictions on pricing or discounts;
- lower levels of use of the Internet;
- lower levels of consumer spending and fewer opportunities for growth compared to the U.S.;

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- lower levels of credit card usage and increased payment risk;
- difficulty in staffing, developing, and managing foreign operations as a result of distance, language, and cultural differences;
- different employee/employer relationships and the existence of works councils and labor unions;
- compliance with the U.S. Foreign Corrupt Practices Act and other applicable U.S. and foreign laws prohibiting corrupt payments to government officials and other third parties;
- laws and policies of the U.S. and other jurisdictions affecting trade, foreign investment, loans, and taxes; and
- geopolitical events, including war and terrorism.

As international e-commerce and other online and web services grow, competition will intensify. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, the local customer, as well as their more established local brand names. We may not be able to hire, train, retain, and manage required personnel, which may limit our international growth.

The People's Republic of China ("PRC") and India regulate Amazon's and its affiliates' businesses and operations in country through regulations and license requirements that may restrict (i) foreign investment in and operation of the Internet, IT infrastructure, data centers, retail, delivery, and other sectors, (ii) Internet content, and (iii) the sale of media and other products and services. For example, in order to meet local ownership and regulatory licensing requirements, www.amazon.cn is operated by PRC companies that are indirectly owned, either wholly or partially, by PRC nationals. In addition, we provide certain technology services in conjunction with third parties that hold PRC licenses to provide services. In India, the government restricts the ownership or control of Indian companies by foreign entities involved in online multi-brand retail trading activities. For www.amazon.in, we provide certain marketing tools and logistics services to third party sellers to enable them to sell online and deliver to customers. Although we believe these structures and activities comply with existing laws, they involve unique risks, and the PRC is actively considering changes in its foreign investment rules that could impact these structures and activities. There are substantial uncertainties regarding the interpretation of PRC and Indian laws and regulations, and it is possible that the government will ultimately take a view contrary to ours. In addition, our Chinese and Indian businesses and operations may be unable to continue to operate if we or our affiliates are unable to access sufficient funding or in China enforce contractual relationships with respect to management and control of such businesses. If our international activities were found to be in violation of any existing or future PRC, Indian or other laws or regulations or if interpretations of those laws and regulations were to change, our businesses in those countries could be subject to fines and other financial penalties, have licenses revoked, or be forced to shut down entirely.

If We Do Not Successfully Optimize and Operate Our Fulfillment and Data Centers, Our Business Could Be Harmed

If we do not adequately predict customer demand or otherwise optimize and operate our fulfillment and data centers successfully, it could result in excess or insufficient fulfillment or data center capacity, or result in increased costs, impairment charges, or both, or harm our business in other ways. As we continue to add fulfillment, warehouse, and data center capability or add new businesses with different requirements, our fulfillment and data center networks become increasingly complex and operating them becomes more challenging. There can be no assurance that we will be able to operate our networks effectively.

In addition, a failure to optimize inventory in our fulfillment centers will increase our net shipping cost by requiring long-zone or partial shipments. Orders from several of our websites are fulfilled primarily from a single location, and we have only a limited ability to reroute orders to third parties for drop-shipping. We and our co-sourcers may be unable to adequately staff our fulfillment and customer service centers. If the other businesses on whose behalf we perform inventory fulfillment services deliver product to our fulfillment centers in excess of forecasts, we may be unable to secure sufficient storage space and may be unable to optimize our fulfillment centers.

We rely on a limited number of shipping companies to deliver inventory to us and completed orders to our customers. If we are not able to negotiate acceptable terms with these companies or they experience performance problems or other difficulties, it could negatively impact our operating results and customer experience. In addition, our ability to receive inbound inventory efficiently and ship completed orders to customers also may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism, acts of God, and similar factors.

Third parties either drop-ship or otherwise fulfill an increasing portion of our customers’ orders, and we are increasingly reliant on the reliability, quality, and future procurement of their services. Under some of our commercial agreements, we maintain the inventory of other companies, thereby increasing the complexity of tracking inventory and operating our fulfillment centers. Our failure to properly handle such inventory or the inability of these other companies to accurately forecast product demand would result in unexpected costs and other harm to our business and reputation.

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The Seasonality of Our Business Places Increased Strain on Our Operations

We expect a disproportionate amount of our net sales to occur during our fourth quarter. If we do not stock or restock popular products in sufficient amounts such that we fail to meet customer demand, it could significantly affect our revenue and our future growth. If we overstock products, we may be required to take significant inventory markdowns or write-offs and incur commitment costs, which could reduce profitability. We may experience an increase in our net shipping cost due to complimentary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our websites within a short period of time due to increased holiday demand, we may experience system interruptions that make our websites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. In addition, we may be unable to adequately staff our fulfillment and customer service centers during these peak periods and delivery and other fulfillment companies and customer service co-sourcers may be unable to meet the seasonal demand. We also face risks described elsewhere in this Item 1A relating to fulfillment center optimization and inventory.

We generally have payment terms with our retail vendors that extend beyond the amount of time necessary to collect proceeds from our consumer customers. As a result of holiday sales, as of December 31 of each year, our cash, cash equivalents, and marketable securities balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). This operating cycle results in a corresponding increase in accounts payable as of December 31. Our accounts payable balance generally declines during the first three months of the year, resulting in a corresponding decline in our cash, cash equivalents, and marketable securities balances.

Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Commercial Agreements, Strategic Alliances, and Other Business Relationships

We provide e-commerce and other services to businesses through commercial agreements, strategic alliances, and business relationships. Under these agreements, we provide web services, technology, fulfillment, computing, digital storage, and other services, as well as enable sellers to offer products or services through our websites. These arrangements are complex and require substantial infrastructure capacity, personnel, and other resource commitments, which may limit the amount of business we can service. We may not be able to implement, maintain, and develop the components of these commercial relationships, which may include web services, fulfillment, customer service, inventory management, tax collection, payment processing, hardware, content, and third-party software, and engaging third parties to perform services. The amount of compensation we receive under certain of our commercial agreements is partially dependent on the volume of the other company's sales. Therefore, if the other company's offering is not successful, the compensation we receive may be lower than expected or the agreement may be terminated. Moreover, we may not be able to enter into additional commercial relationships and strategic alliances on favorable terms. We also may be subject to claims from businesses to which we provide these services if we are unsuccessful in implementing, maintaining, or developing these services.

As our agreements terminate, we may be unable to renew or replace these agreements on comparable terms, or at all. We may in the future enter into amendments on less favorable terms or encounter parties that have difficulty meeting their contractual obligations to us, which could adversely affect our operating results.

Our present and future e-commerce services agreements, other commercial agreements, and strategic alliances create additional risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- impairment of other relationships;
- variability in revenue and income from entering into, amending, or terminating such agreements or relationships; and
- difficulty integrating under the commercial agreements.

Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Acquisitions and Investments

We have acquired and invested in a number of companies, and we may acquire or invest in or enter into joint ventures with additional companies. These transactions create risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- problems retaining key personnel;

- additional operating losses and expenses of the businesses we acquired or in which we invested;
- the potential impairment of tangible and intangible assets and goodwill, including as a result of acquisitions;

- the potential impairment of customer and other relationships of the company we acquired or in which we invested or our own customers as a result of any integration of operations;
- the difficulty of incorporating acquired technology and rights into our offerings and unanticipated expenses related to such integration;
- the difficulty of integrating a new company's accounting, financial reporting, management, information and information security, human resource, and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- for investments in which an investee's financial performance is incorporated into our financial results, either in full or in part, the dependence on the investee's accounting, financial reporting, and similar systems, controls, and processes;
- the difficulty of implementing at companies we acquire the controls, procedures, and policies appropriate for a larger public company;
- potential unknown liabilities associated with a company we acquire or in which we invest; and
- for foreign transactions, additional risks related to the integration of operations across different cultures and languages, and the economic, political, and regulatory risks associated with specific countries.

As a result of future acquisitions or mergers, we might need to issue additional equity securities, spend our cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce our profitability and harm our business. In addition, valuations supporting our acquisitions and strategic investments could change rapidly given the current global economic climate. We could determine that such valuations have experienced impairments or other-than-temporary declines in fair value which could adversely impact our financial results.

We Have Foreign Exchange Risk

The results of operations of, and certain of our intercompany balances associated with, our international websites and product and service offerings are exposed to foreign exchange rate fluctuations. Upon translation, operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. We also hold cash equivalents and/or marketable securities in foreign currencies including British Pounds, Chinese Yuan, Euros, and Japanese Yen. If the U.S. Dollar strengthens compared to these currencies, cash equivalents, and marketable securities balances, when translated, may be materially less than expected and vice versa.

The Loss of Key Senior Management Personnel Could Negatively Affect Our Business

We depend on our senior management and other key personnel, particularly Jeffrey P. Bezos, our President, CEO, and Chairman. We do not have "key person" life insurance policies. The loss of any of our executive officers or other key employees could harm our business.

We Could Be Harmed by Data Loss or Other Security Breaches

As a result of our services being web-based and the fact that we process, store, and transmit large amounts of data, including personal information, for our customers, failure to prevent or mitigate data loss or other security breaches, including breaches of our vendors' technology and systems, could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us, and otherwise harm our business. We use third party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, and other functions. Some subsidiaries had past security breaches, and, although they did not have a material adverse effect on our operating results, there can be no assurance of a similar result in the future. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, such measures cannot provide absolute security.

We Face Risks Related to System Interruption and Lack of Redundancy

We experience occasional system interruptions and delays that make our websites and services unavailable or slow to respond and prevent us from efficiently fulfilling orders or providing services to third parties, which may reduce our net sales and the attractiveness of our products and services. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure, and take other steps to improve the efficiency of our systems, it could cause system interruptions or delays and adversely affect our operating results.

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Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins, and similar events or disruptions. Any of these events could cause system interruption, delays, and loss of critical data, and could prevent us from accepting and fulfilling customer orders and providing services, which could make our product and service offerings less attractive and subject us to liability. Our systems are not fully redundant and our disaster recovery planning may not be sufficient. In addition, we may have inadequate insurance coverage to compensate for any related losses. Any of these events could damage our reputation and be expensive to remedy.

We Face Significant Inventory Risk

In addition to risks described elsewhere in this Item 1A relating to fulfillment center and inventory optimization by us and third parties, we are exposed to significant inventory risks that may adversely affect our operating results as a result of seasonality, new product launches, rapid changes in product cycles and pricing, defective merchandise, changes in consumer demand and consumer spending patterns, changes in consumer tastes with respect to our products, and other factors. We endeavor to accurately predict these trends and avoid overstocking or understocking products we manufacture and/or sell. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. In addition, when we begin selling or manufacturing a new product, it may be difficult to establish vendor relationships, determine appropriate product or component selection, and accurately forecast demand. The acquisition of certain types of inventory or components may require significant lead-time and prepayment and they may not be returnable. We carry a broad selection and significant inventory levels of certain products, such as consumer electronics, and we may be unable to sell products in sufficient quantities or during the relevant selling seasons. Any one of the inventory risk factors set forth above may adversely affect our operating results.

We May Not Be Able to Adequately Protect Our Intellectual Property Rights or May Be Accused of Infringing Intellectual Property Rights of Third Parties

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade secret protection, and confidentiality and/or license agreements with our employees, customers, and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which our products and services are made available. We also may not be able to acquire or maintain appropriate domain names in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights.

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our proprietary rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

Other parties also may claim that we infringe their proprietary rights. We have been subject to, and expect to continue to be subject to, claims and legal proceedings regarding alleged infringement by us of the intellectual property rights of third parties. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us, or the payment of damages, including to satisfy indemnification obligations. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. In addition, we may not be able to obtain or utilize on terms that are favorable to us, or at all, licenses or other rights with respect to intellectual property we do not own. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

Our digital content offerings depend in part on effective digital rights management technology to control access to digital content. If the digital rights management technology that we use is compromised or otherwise malfunctions, we could be subject to claims, and content providers may be unwilling to include their content in our service.

We Have a Rapidly Evolving Business Model and Our Stock Price Is Highly Volatile

We have a rapidly evolving business model. The trading price of our common stock fluctuates significantly in response to, among other risks, the risks described elsewhere in this Item 1A, as well as:

- changes in interest rates;
- conditions or trends in the Internet and the industry segments we operate in;

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- quarterly variations in operating results;
- fluctuations in the stock market in general and market prices for Internet-related companies in particular;
- changes in financial estimates by us or securities analysts and recommendations by securities analysts;
- changes in our capital structure, including issuance of additional debt or equity to the public;
- changes in the valuation methodology of, or performance by, other e-commerce or technology companies; and
- transactions in our common stock by major investors and certain analyst reports, news, and speculation.

Volatility in our stock price could adversely affect our business and financing opportunities and force us to increase our cash compensation to employees or grant larger stock awards than we have historically, which could hurt our operating results or reduce the percentage ownership of our existing stockholders, or both.

Government Regulation Is Evolving and Unfavorable Changes Could Harm Our Business

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet, e-commerce, electronic devices, and other services. Existing and future laws and regulations may impede our growth. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, electronic device certification, electronic waste, energy consumption, environmental regulation, electronic contracts and other communications, competition, consumer protection, web services, the provision of online payment services, information reporting requirements, unencumbered Internet access to our services, the design and operation of websites, the characteristics and quality of products and services, and the commercial operation of unmanned aircraft systems. It is not clear how existing laws governing issues such as property ownership, libel, and personal privacy apply to the Internet, e-commerce, digital content, and web services. Jurisdictions may regulate consumer-to-consumer online businesses, including certain aspects of our seller programs. Unfavorable regulations and laws could diminish the demand for our products and services and increase our cost of doing business.

We Could Be Subject to Additional Sales Tax or Other Indirect Tax Liabilities

U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales taxes with respect to remote sales. However, an increasing number of states have considered or adopted laws or administrative practices that attempt to impose obligations on out-of-state retailers to collect taxes on their behalf. We support a Federal law that would allow states to require sales tax collection under a nationwide system. More than half of our revenue is already earned in jurisdictions where we collect sales tax or its equivalent. A successful assertion by one or more states or foreign countries requiring us to collect taxes where we do not do so could result in substantial tax liabilities, including for past sales, as well as penalties and interest. In addition, if the tax authorities in jurisdictions where we already collect sales tax or other indirect taxes were successfully to challenge our positions, our tax liability could increase substantially.

We Could be Subject to Additional Income Tax Liabilities

We are subject to income taxes in the U.S. (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, losses incurred in jurisdictions for which we are not able to realize the related tax benefit, changes in foreign currency exchange rates, entry into new businesses and geographies and changes to our existing businesses, acquisitions (including integrations) and investments, changes in our deferred tax assets and liabilities and their valuation, and changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations, including fundamental changes to the tax laws applicable to corporate multinationals. The U.S., many countries in the European Union, and a number of other countries are actively considering changes in this regard.

Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings and our effective tax rate would be adversely affected. We are also subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax liabilities against us. In addition, in October 2014, the European Commission opened a formal investigation to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries comply with European Union rules on state aid. If this matter is adversely resolved, Luxembourg may be required to assess, and we may be required to pay, additional amounts with respect to current and prior periods and our taxes in the future could increase. Although we believe our tax estimates are reasonable, the final outcome of tax audits, investigations, and any related litigation could be materially different from our historical income tax provisions and accruals. Developments in an audit, litigation, or the relevant laws, regulations, administrative practices, principles, and interpretations could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods. For instance, the IRS is seeking to increase our U.S. taxable income related to transfer pricing with our foreign subsidiaries for transactions undertaken in 2005 and 2006, and we are currently contesting the matter in U.S. Tax Court. In addition to the risk of additional tax for 2005 and 2006 transactions, if this litigation is adversely determined or if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, Amazon could be subject to significant additional tax liabilities.

Our Supplier Relationships Subject Us to a Number of Risks

We have significant suppliers, including licensors, and in some cases, limited or single-sources of supply, that are important to our sourcing, services, manufacturing, and any related ongoing servicing of merchandise and content. We do not have long-term arrangements with most of our suppliers to guarantee availability of merchandise, content, components, or services, particular payment terms, or the extension of credit limits. If our current suppliers were to stop selling or licensing merchandise, content, components, or services to us on acceptable terms, or delay delivery, including as a result of one or more supplier bankruptcies due to poor economic conditions, as a result of natural disasters, or for other reasons, we may be unable to procure alternatives from other suppliers in a timely and efficient manner and on acceptable terms, or at all. In addition, if our suppliers or other vendors violate applicable laws, regulations, our code of standards and responsibilities, or implement practices regarded as unethical, unsafe, or hazardous to the environment, it could damage our reputation, limit our growth, and negatively affect our operating results.

We May be Subject to Risks Related to Government Contracts and Related Procurement Regulations

Our contracts with U.S., as well as state, local, and foreign, government entities are subject to various procurement regulations and other requirements relating to their formation, administration, and performance. We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contract, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause.

We May Be Subject to Product Liability Claims if People or Property Are Harmed by the Products We Sell

Some of the products we sell or manufacture may expose us to product liability claims relating to personal injury, death, or environmental or property damage, and may require product recalls or other actions. Certain third parties also sell products using our e-commerce platform that may increase our exposure to product liability claims, such as if these sellers do not have sufficient protection from such claims. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our agreements with our vendors and sellers do not indemnify us from product liability.

We Are Subject to Payments-Related Risks

We accept payments using a variety of methods, including credit card, debit card, credit accounts (including promotional financing), gift cards, direct debit from a customer’s bank account, consumer invoicing, physical bank check, and payment upon delivery. For existing and future payment options we offer to our customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in significant costs and reduce the ease of use of our payments products), as well as fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide certain Amazon-branded payment methods and payment processing services, including the processing of credit cards, debit cards, electronic checks, and promotional financing. In each case, it could disrupt our business if these companies become unwilling or unable to provide these services to us. We also offer co-branded credit card programs, which could adversely affect our operating results if terminated. We are also subject to payment card association operating rules, including data security rules, certification requirements, and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

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In addition, we provide regulated services in certain jurisdictions because we enable customers to keep account balances with us and transfer money to third parties, and because we provide services to third parties to facilitate payments on their behalf. In these jurisdictions, we may be subject to requirements for licensing, regulatory inspection, bonding and capital maintenance, the use, handling, and segregation of transferred funds, consumer disclosures, and authentication. We are also subject to or voluntarily comply with a number of other laws and regulations relating to payments, money laundering, international money transfers, privacy and information security, and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to additional requirements and civil and criminal penalties, or forced to cease providing certain services.

We Could Be Liable for Fraudulent or Unlawful Activities of Sellers

The law relating to the liability of providers of online payment services is currently unsettled. In addition, governmental agencies could require changes in the way this business is conducted. Under our seller programs, we may be unable to prevent sellers from collecting payments, fraudulently or otherwise, when buyers never receive the products they ordered or when the products received are materially different from the sellers' descriptions. Under our A2Z Guarantee, we reimburse buyers for payments up to certain limits in these situations, and as our marketplace seller sales grow, the cost of this program will increase and could negatively affect our operating results. We also may be unable to prevent sellers on our sites or through other seller sites from selling unlawful goods, selling goods in an unlawful manner, or violating the proprietary rights of others, and could face civil or criminal liability for unlawful activities by our sellers.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See exhibits listed under the Exhibit Index below.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMAZON.COM, INC. (REGISTRANT)

By: /s/ Shelley Reynolds
Shelley Reynolds
Vice President, Worldwide Controller
(Principal Accounting Officer)

Dated: October 22, 2015

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EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000).
3.2	Restated Bylaws of the Company (incorporated by reference to the Company's Current Report on Form 8-K, filed February 18, 2009).
31.1	Certification of Jeffrey P. Bezos, Chairman and Chief Executive Officer of Amazon.com, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Brian T. Olsavsky, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Jeffrey P. Bezos, Chairman and Chief Executive Officer of Amazon.com, Inc., pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Brian T. Olsavsky, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., pursuant to 18 U.S.C. Section 1350.
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL: (i) Consolidated Statements of Cash Flows, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Balance Sheets, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags.