AMAZON COM INC
Form 10-Q
April 24, 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 March 31, 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	91-1646860
(State or Other Jurisdiction of Incorporation or Organization)	(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

465,680,957 shares of common stock, par value $0.01 per share, outstanding as of April 15, 2015

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For the Quarterly Period Ended March 31, 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 March 31,		Twelve Months Ended March 31,	
	2015	2014	2015	2014
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$14,557	$8,658	$5,074	$4,481
OPERATING ACTIVITIES:				
Net income (loss)	(57)	108	(405)	299
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	1,426	1,010	5,162	3,563
Stock-based compensation	407	321	1,582	1,226
Other operating expense (income), net	44	35	139	117
Losses (gains) on sales of marketable securities, net	1	—	(3)	2
Other expense (income), net	91	(50)	203	48
Deferred income taxes	(2)	(185)	(136)	(261)
Excess tax benefits from stock-based compensation	(22)	(121)	94	(199)
Changes in operating assets and liabilities:				
Inventories	721	699	(1,172)	(1,245)
Accounts receivable, net and other	441	727	(1,324)	(849)
Accounts payable	(4,249)	(4,675)	2,184	1,400
Accrued expenses and other	(940)	(731)	500	708
Additions to unearned revenue	1,803	1,092	5,144	3,100
Amortization of previously unearned revenue	(1,163)	(732)	(4,123)	(2,564)
Net cash provided by (used in) operating activities	(1,499)	(2,502)	7,845	5,345
INVESTING ACTIVITIES:				
Purchases of property and equipment, including internal-use software and website development	(871)	(1,080)	(4,684)	(3,854)
Acquisitions, net of cash acquired, and other	(365)	—	(1,345)	(208)
Sales and maturities of marketable securities	375	593	3,131	2,299
Purchases of marketable securities	(986)	(437)	(3,091)	(2,487)
Net cash provided by (used in) investing activities	(1,847)	(924)	(5,989)	(4,250)
FINANCING ACTIVITIES:				
Excess tax benefits from stock-based compensation	22	121	(94)	199
Proceeds from long-term debt	183	65	6,478	426
Repayments of long-term debt	(316)	(70)	(760)	(272)
Principal repayments of capital lease obligations	(502)	(249)	(1,537)	(863)
Principal repayments of finance lease obligations	(39)	(42)	(132)	(47)
Net cash provided by (used in) financing activities	(652)	(175)	3,955	(557)
Foreign-currency effect on cash and cash equivalents	(322)	17	(648)	55

Net increase (decrease) in cash and cash equivalents	(4,320)	(3,584)	5,163	593
CASH AND CASH EQUIVALENTS, END OF PERIOD	$10,237	$5,074	$10,237	$5,074
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest on long-term debt	$17	$18	$90	$102
Cash paid for income taxes (net of refunds)	55	38	194	121
Property and equipment acquired under capital leases	954	716	4,246	2,243
Property and equipment acquired under build-to-suit leases	103	126	897	852

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 March 31, 2015	2014
Net product sales	$17,084	$15,705
Net service sales	5,633	4,036
Total net sales	22,717	19,741
Operating expenses (1):		
Cost of sales	15,395	14,055
Fulfillment	2,759	2,317
Marketing	1,083	870
Technology and content	2,754	1,991
General and administrative	427	327
Other operating expense (income), net	44	35
Total operating expenses	22,462	19,595
Income (loss) from operations	255	146
Interest income	11	11
Interest expense	(115)	(42)
Other income (expense), net	(130)	5
Total non-operating income (expense)	(234)	(26)
Income (loss) before income taxes	21	120
Provision for income taxes	(71)	(73)
Equity-method investment activity, net of tax	(7)	61
Net income (loss)	$(57)	$108
Basic earnings per share	$(0.12)	$0.23
Diluted earnings per share	$(0.12)	$0.23
Weighted average shares used in computation of earnings per share:		
Basic	465	460
Diluted	465	468

(1) Includes stock-based compensation as follows:

	2015	2014
Fulfillment	$90	$81
Marketing	35	27
Technology and content	233	169
General and administrative	49	44

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 March 31,	
	2015	2014
Net income (loss)	$(57)	$108
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax of $(1) and $0	(243)	27
Net change in unrealized gains on available-for-sale securities:		
Unrealized gains, net of tax of $0 and $(1)	1	1
Reclassification adjustment for losses included in “Other income (expense), net,” net of tax of $0 and $0	1	—
Net unrealized gains on available-for-sale securities	2	1
Total other comprehensive income (loss)	(241)	28
Comprehensive income (loss)	$(298)	$136

See accompanying notes to consolidated financial statements.

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

	March 31, 2015	December 31, 2014
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$10,237	$14,557
Marketable securities	3,544	2,859
Inventories	7,369	8,299
Accounts receivable, net and other	4,772	5,612
Total current assets	25,922	31,327
Property and equipment, net	17,736	16,967
Goodwill	3,491	3,319
Other assets	2,926	2,892
Total assets	$50,075	$54,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$11,917	$16,459
Accrued expenses and other	8,840	9,807
Unearned revenue	2,420	1,823
Total current liabilities	23,177	28,089
Long-term debt	8,257	8,265
Other long-term liabilities	7,768	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 — 489 and 488		
Outstanding shares — 466 and 465	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	11,565	11,135
Accumulated other comprehensive loss	(752)	(511)
Retained earnings	1,892	1,949
Total stockholders' equity	10,873	10,741
Total liabilities and stockholders' equity	$50,075	$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 (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 Q1 2015, we excluded stock awards of 17 million.

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

	Three Months Ended March 31,	
	2015	2014
Shares used in computation of basic earnings per share	465	460
Total dilutive effect of outstanding stock awards	—	8
Shares used in computation of diluted earnings per share	465	468

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Note 2 — CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

As of March 31, 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 March 31, 2015, or December 31, 2014.

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):

	March 31, 2015				December 31, 2014
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value	Total Estimated Fair Value
Cash	$3,986	$—	$—	$3,986	$4,155
Level 1 securities:					
Money market funds	6,428	—	—	6,428	10,718
Equity securities	1	1	—	2	4
Level 2 securities:					
Foreign government and agency securities	68	—	—	68	80
U.S. government and agency securities	3,006	2	(2)	3,006	2,406
Corporate debt securities	408	2	—	410	401
Asset-backed securities	72	—	—	72	69
Other fixed income securities	31	—	—	31	33
	$14,000	$5	$(2)	$14,003	$17,866
Less restricted cash, cash equivalents, and marketable securities (1)				(222)	(450)
Total cash, cash equivalents, and marketable securities				$13,781	$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."

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The following table summarizes the contractual maturities of our cash equivalents and marketable fixed-income securities as of March 31, 2015 (in millions):

	Amortized Cost	Estimated Fair Value
Due within one year	$8,552	$8,552
Due after one year through five years	1,135	1,137
Due after five years through ten years	148	148
Due after ten years	178	178
Total	$10,013	$10,015

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, and data center facilities. Rental expense under operating lease agreements was $266 million and $219 million for Q1 2015 and Q1 2014.

The following summarizes our principal contractual commitments, excluding open orders for purchases that support normal operations, as of March 31, 2015 (in millions):

	Nine Months Ended December 31,	Year Ended December 31,					
	2015	2016	2017	2018	2019	Thereafter	Total
Operating and capital commitments:							
Debt principal and interest	$1,676	$323	$1,322	$310	$1,272	$9,403	$14,306
Capital lease obligations, including interest	1,752	1,991	1,348	271	128	100	5,590
Finance lease obligations, including interest	93	125	128	131	133	1,197	1,807
Operating leases	670	778	720	631	549	2,372	5,720
Unconditional purchase obligations (1)	418	568	500	249	38	3	1,776
Other commitments (2) (3)	755	335	154	121	96	1,089	2,550
Total commitments	$5,364	$4,120	$4,172	$1,713	$2,216	$14,164	$31,749

(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 $726 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 March 31, 2015, and December 31, 2014, we have pledged or otherwise restricted $369 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.

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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, as supplemented by the following:

In November 2012, Lexington Luminance LLC filed a complaint against Amazon.com, Inc. and Amazon Digital Services, Inc. in the United States District Court for the District of Massachusetts. The complaint alleges, among other things, that certain light-emitting diodes in certain Kindle devices infringe U.S. Patent No. 6,936,851, entitled "Semiconductor Light-Emitting Device And Method For Manufacturing Same." The complaint seeks an unspecified amount of damages and an injunction or, in the absence of an injunction, a compulsory ongoing royalty. In March 2014, the Court invalidated the plaintiff's patent and dismissed the case with prejudice, and the plaintiff appealed the judgment to the United States Court of Appeals for the Federal Circuit. In February 2015, the Federal Circuit reversed the judgment of the district court. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

Beginning in August 2013, a number of complaints were filed alleging, among other things, that Amazon.com, Inc. and several of its subsidiaries failed to compensate hourly workers for time spent waiting in security lines and otherwise violated federal and state wage and hour statutes and common law. In August 2013, Busk v. Integrity Staffing Solutions, Inc. and Amazon.com, Inc. was filed in the United States District Court for the District of Nevada, and Vance v. Amazon.com, Inc., Zappos.com Inc., another affiliate of Amazon.com, Inc., and Kelly Services, Inc. was filed in the United States District Court for the Western District of Kentucky. In September 2013, Allison v. Amazon.com, Inc. and Integrity Staffing Solutions, Inc. was filed in the United States District Court for the Western District of Washington, and Johnson v. Amazon.com, Inc. and an affiliate of Amazon.com, Inc. was filed in the United States District Court for the Western District of Kentucky. In October 2013, Davis v. Amazon.com, Inc., an affiliate of Amazon.com, Inc., and Integrity Staffing Solutions, Inc. was filed in the United States District Court for the Middle District of Tennessee. The plaintiffs variously purport to represent a nationwide class of certain current and former employees under the Fair Labor Standards Act and/or state-law-based subclasses for certain current and former employees in states including Arizona, California, Pennsylvania, South Carolina, Kentucky, Washington, and Nevada, and one complaint asserts nationwide breach of contract and unjust enrichment claims. The complaints seek an unspecified amount of damages, interest, injunctive relief, and attorneys' fees. We have been named in several other similar cases. In December 2014, the Supreme Court ruled in Busk that time spent waiting for and undergoing security screening is not compensable working time under the federal wage and hour statute. In February 2015, the courts in those actions alleging only federal law claims entered stipulated orders dismissing those actions without prejudice. We dispute any remaining allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In October 2013, Mobile Telecommunications Technologies, LLC filed a complaint against Amazon.com, Inc. for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that our network operation centers and our mobile devices, such as Kindle Fire models based on the Android operating system that provide XMPP-compliant messaging services and applications, infringe U.S. Patent No. 5,809,428, entitled "Method And Device For Processing Undelivered Data Messages In A Two-Way Wireless Communications System." The complaint also alleges that Amazon's mobile devices infringe U.S. Patent No. 5,754,946, entitled "Nationwide Communication System," and that Amazon.com, Inc. infringes U.S. Patent No. 5,786,748, entitled "Method And Apparatus For Giving Notification Of Express Mail Delivery," by providing tracking and notification services to customers who purchase products directly from Amazon.com, Inc. The complaint seeks an unspecified amount of damages, enhanced damages, attorneys' fees, costs, interest, and injunctive relief. In April 2015, plaintiff disclosed in a pretrial order that it seeks $184.3 million in money damages from Amazon. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In October 2013, Tuxis Technologies, LLC filed a complaint against Amazon.com, Inc. for patent infringement in the United States District Court for District of Delaware. The complaint alleges, among other things, that "the Amazon.com website" with "recommendation features" infringes U.S. Patent No. 6,055,513, entitled "Methods And Apparatus For Intelligent Selection Of Goods And Services In Telephonic And Electronic Commerce." The complaint seeks an unspecified amount of damages, attorneys' fees, costs, and interest. In March 2015, the court invalidated all of the claims asserted against us and dismissed the case with prejudice.

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 monetary 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. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

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In January 2015, Azure Networks, LLC filed a complaint against Amazon.com, Inc. in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that the use of Wi-Fi Direct wireless technology by Kindle Fire, Fire TV, and Fire TV Stick infringes nine United States patents: Nos. 7,756,129 and 8,675,590, entitled “Personal Area Network with Automatic Attachment and Detachment”; No. 8,582,571, entitled “Personal Area Network Apparatus”; and Nos. 8,582,570, 8,588,196, 8,588,231, 8,589,599, 8,683,092, and 8,732,347, entitled “Automatic Attachment and Detachment for Hub and Peripheral Devices.” The complaint seeks an unspecified amount of damages, enhanced damages, interest, and attorneys’ fees. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In March 2015, Zitovault, LLC filed a complaint against Amazon.com, Inc., Amazon.com, LLC, Amazon Web Services, Inc., and Amazon Web Services, LLC for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges that Elastic Compute Cloud, Virtual Private Cloud, Elastic Load Balancing, Auto-Scaling, and Elastic Beanstalk infringe U.S. Patent No. 6,484,257, entitled “System and Method for Maintaining N Number of Simultaneous Cryptographic Sessions Using a Distributed Computing Environment.” The 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 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

During the three months ended March 31, 2015, we acquired certain companies for an aggregate purchase price of $341 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 activity for the three months ended March 31, 2014 was not material.

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	$298
Indemnification holdback	43
	$341
Allocation	
Goodwill	$211
Intangible assets (1):	
Contract-based	1
Technology-based	149
Customer-related	4
	154
Property and equipment	1
Deferred tax assets	27
Other assets acquired	20
Deferred tax liabilities	(53)
Other liabilities assumed	(19)
	$341

(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 over their estimated useful lives.

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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 $1 million and $(15) million for the three months ended March 31, 2015. The following pro forma financial information presents our results as if the current year acquisitions had occurred at the beginning of 2014 (in millions):

	Three Months Ended March 31,	
	2015	2014
Net sales	$22,721	$19,742
Net income (loss)	$(58)	$88

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 in 2015 by segment (in millions):

	North America	International	AWS	Consolidated
Goodwill - January 1, 2015	$1,978	$735	$606	$3,319
New acquisitions	40	17	154	211
Other adjustments (1)	(3)	(36)	—	(39)
Goodwill - March 31, 2015	$2,015	$716	$760	$3,491

(1) Primarily includes changes in foreign exchange rates.

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 March 31, 2015, and December 31, 2014, the unamortized discount on the Notes was $95 million and $96 million. We also have other long-term debt with a carrying amount, including the current portion, of $729 million and $881 million as of March 31, 2015, and December 31, 2014. The face value of our total long-term debt obligations is as follows (in millions):

	March 31, 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	729	881
Total debt	9,729	9,881
Less current portion of long-term debt	(1,377)	(1,520)
Face value of long-term debt	$8,352	$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%.

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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 $9.4 billion and $9.1 billion as of March 31, 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 4.9% and 5.5% as of March 31, 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 March 31, 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 March 31, 2015.

Note 6 — STOCKHOLDERS' EQUITY

Stock Award Activity

Common shares outstanding plus shares underlying outstanding stock awards totaled 483 million as of March 31, 2015, and 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 three months ended March 31, 2015.

The following table summarizes our restricted stock unit activity for the three months ended March 31, 2015 (in millions):

	Number of Units	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2014	17.4	$285
Units granted	1.4	359
Units vested	(0.8)	216
Units forfeited	(0.6)	289
Outstanding as of March 31, 2015	17.4	$294

Scheduled vesting for outstanding restricted stock units as of March 31, 2015, is as follows (in millions):

	Nine Months Ended December 31,	Year Ended December 31,					
	2015	2016	2017	2018	2019	Thereafter	Total
Scheduled vesting—restricted stock units	4.9	6.0	3.7	2.1	0.5	0.2	17.4

As of March 31, 2015, there was $2.2 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.

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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 pretax 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 was $71 million and $73 million in Q1 2015 and Q1 2014. Cash paid for income taxes (net of refunds) was $55 million and $38 million in Q1 2015 and Q1 2014.

As of March 31, 2015, and December 31, 2014, tax contingencies were $726 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 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 or thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes. While we have not yet received a final assessment from the FTA, in September 2012, we received proposed tax assessment notices for calendar years 2006 through 2010 relating to the allocation of income between foreign jurisdictions. The notices propose additional French tax of approximately $250 million, including interest and penalties through the date of the assessment. We disagree with the proposed 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.

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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 changes in 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. In conjunction with creating a separate reportable segment for AWS, we have made other allocation changes among the North America and International segments to reflect the relative contribution provided to both segments. 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. This segment includes export sales from these internationally-focused websites (including export sales from these sites to customers in the U.S. and Canada), but excludes export sales from our North American websites.

AWS

The AWS segment consists of amounts earned from sales of compute, storage, database, and other AWS service offerings for start-ups, enterprises, government agencies, and academic institutions.

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Information on reportable segments and reconciliation to consolidated net income (loss) is as follows (in millions):

	Three Months Ended March 31,	
	2015	2014
North America		
Net sales	$13,406	$10,808
Segment operating expenses (1)	12,889	10,518
Segment operating income (loss)	$517	$290
International		
Net sales	$7,745	$7,883
Segment operating expenses (1)	7,821	7,916
Segment operating income (loss)	$(76)	$(33