AMAZON COM INC
Form 10-Q
July 24, 2015

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 June 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	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

467,710,218 shares of common stock, par value $0.01 per share, outstanding as of July 15, 2015

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For the Quarterly Period Ended June 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 June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$10,237	$5,074	$14,557	$8,658	$5,057	$3,704
OPERATING ACTIVITIES:						
Net income (loss)	92	(126)	35	(18)	(188)	181
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	1,504	1,109	2,930	2,119	5,557	3,916
Stock-based compensation	563	391	969	711	1,755	1,318
Other operating expense (income), net	42	28	87	62	153	113
Losses (gains) on sales of marketable securities, net	1	(1)	2	(1)	(1)	1
Other expense (income), net	18	(8)	109	(57)	229	(1)
Deferred income taxes	(43)	(49)	(45)	(234)	(130)	(332)
Excess tax benefits from stock-based compensation	(95)	—	(117)	(121)	(1)	(199)
Changes in operating assets and liabilities:						
Inventories	(27)	92	693	791	(1,291)	(1,124)
Accounts receivable, net and other	(430)	(299)	11	428	(1,456)	(936)
Accounts payable	373	(344)	(3,876)	(5,018)	2,901	1,056
Accrued expenses and other	(129)	(15)	(1,068)	(746)	387	770
Additions to unearned revenue	1,397	894	3,200	1,986	5,647	3,477
Amortization of previously unearned revenue	(1,269)	(810)	(2,432)	(1,542)	(4,582)	(2,913)
Net cash provided by (used in) operating activities	1,997	862	498	(1,640)	8,980	5,327
INVESTING ACTIVITIES:						
Purchases of property and equipment, including internal-use software and website development	(1,213)	(1,290)	(2,084)	(2,370)	(4,607)	(4,288)
Acquisitions, net of cash acquired, and other	(8)	(67)	(374)	(66)	(1,287)	(127)
Sales and maturities of marketable securities	470	962	845	1,555	2,639	2,565
Purchases of marketable securities	(625)	(336)	(1,610)	(773)	(3,379)	(1,710)
Net cash provided by (used in) investing activities	(1,376)	(731)	(3,223)	(1,654)	(6,634)	(3,560)
FINANCING ACTIVITIES:						
Excess tax benefits from stock-based compensation	95	—	117	121	1	199
Proceeds from long-term debt	44	286	226	351	6,236	627
Repayments of long-term debt	(215)	(178)	(531)	(247)	(797)	(334)
Principal repayments of capital lease obligations	(580)	(285)	(1,082)	(535)	(1,832)	(969)
Principal repayments of finance lease obligations	(35)	(12)	(74)	(54)	(155)	(60)
Net cash provided by (used in) financing activities	(691)	(189)	(1,344)	(364)	3,453	(537)
Foreign-currency effect on cash and cash equivalents	102	41	(219)	57	(587)	123

Net increase (decrease) in cash and cash equivalents	32	(17)	(4,288)	(3,601)	5,212	1,353
CASH AND CASH EQUIVALENTS, END OF PERIOD	$10,269	$5,057	$10,269	$5,057	$10,269	$5,057
SUPPLEMENTAL CASH FLOW INFORMATION:						
Cash paid for interest on long-term debt	$152	$31	$169	$49	$212	$94
Cash paid for income taxes (net of refunds)	65	71	119	109	188	158
Property and equipment acquired under capital leases	1,384	920	2,338	1,636	4,710	2,716
Property and equipment acquired under build-to-suit leases	153	237	256	363	813	846

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net product sales	$17,104	$15,251	$34,187	$30,956
Net service sales	6,081	4,089	11,714	8,125
Total net sales	23,185	19,340	45,901	39,081
Operating expenses (1):				
Cost of sales	15,160	13,399	30,555	27,453
Fulfillment	2,876	2,382	5,634	4,699
Marketing	1,150	943	2,233	1,813
Technology and content	3,020	2,226	5,774	4,217
General and administrative	467	377	894	704
Other operating expense (income), net	48	28	92	63
Total operating expenses	22,721	19,355	45,182	38,949
Income (loss) from operations	464	(15)	719	132
Interest income	12	11	23	21
Interest expense	(114)	(45)	(228)	(87)
Other income (expense), net	—	22	(131)	27
Total non-operating income (expense)	(102)	(12)	(336)	(39)
Income (loss) before income taxes	362	(27)	383	93
Provision for income taxes	(266)	(94)	(337)	(167)
Equity-method investment activity, net of tax	(4)	(5)	(11)	56
Net income (loss)	$92	$(126)	$35	$(18)
Basic earnings per share	$0.20	$(0.27)	$0.07	$(0.04)
Diluted earnings per share	$0.19	$(0.27)	$0.07	$(0.04)
Weighted average shares used in computation of earnings per share:				
Basic	467	461	466	460
Diluted	476	461	475	460

(1) Includes stock-based compensation as follows:

Fulfillment	$132	$104	$222	$184
Marketing	50	32	84	59
Technology and content	319	206	552	375
General and administrative	62	49	111	93

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss)	$92	$(126)	$35	$(18)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax of $1, $0, $0, and $1	128	11	(114)	39
Net change in unrealized gains on available-for-sale securities:				
Unrealized gains, net of tax of $(8), $0, $(8), and $(1)	6	3	7	4
Reclassification adjustment for losses included in “Other income (expense), net,” net of tax of $0, $0, $(1), and $0	1	(1)	1	(1)
Net unrealized gains on available-for-sale securities	7	2	8	3
Total other comprehensive income (loss)	135	13	(106)	42
Comprehensive income (loss)	$227	$(113)	$(71)	$24

See accompanying notes to consolidated financial statements.

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

	June 30, 2015	December 31, 2014
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$10,269	$14,557
Marketable securities	3,732	2,859
Inventories	7,470	8,299
Accounts receivable, net and other	4,920	5,612
Total current assets	26,391	31,327
Property and equipment, net	19,479	16,967
Goodwill	3,523	3,319
Other assets	3,047	2,892
Total assets	$52,440	$54,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$12,391	$16,459
Accrued expenses and other	8,959	9,807
Unearned revenue	2,562	1,823
Total current liabilities	23,912	28,089
Long-term debt	8,250	8,265
Other long-term liabilities	8,510	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 — 491 and 488		
Outstanding shares — 468 and 465	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	12,233	11,135
Accumulated other comprehensive loss	(617)	(511)
Retained earnings	1,984	1,949
Total stockholders' equity	11,768	10,741
Total liabilities and stockholders' equity	$52,440	$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 Q2 2014 and for the six months ended June 30, 2014, we excluded stock awards of 8 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Shares used in computation of basic earnings per share	467	461	466	460
Total dilutive effect of outstanding stock awards	9	—	9	—
Shares used in computation of diluted earnings per share	476	461	475	460

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Note 2 — CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

As of June 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 June 30, 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):

	June 30, 2015				December 31, 2014
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value	Total Estimated Fair Value
Cash	$4,368	$—	$—	$4,368	$4,155
Level 1 securities:					
Money market funds	6,056	—	—	6,056	10,718
Equity securities	4	18	—	22	4
Level 2 securities:					
Foreign government and agency securities	63	—	—	63	80
U.S. government and agency securities	3,037	2	(2)	3,037	2,406
Corporate debt securities	468	1	(1)	468	401
Asset-backed securities	111	—	—	111	69
Other fixed income securities	44	—	—	44	33
	$14,151	$21	$(3)	$14,169	$17,866
Less restricted cash, cash equivalents, and marketable securities (1)				(168)	(450)
Total cash, cash equivalents, and marketable securities				$14,001	$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 June 30, 2015 (in millions):

	Amortized Cost	Estimated Fair Value
Due within one year	$8,230	$8,230
Due after one year through five years	1,218	1,218
Due after five years through ten years	145	145
Due after ten years	186	186
Total	$9,779	$9,779

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 $267 million and $229 million for Q2 2015 and Q2 2014, and $533 million and $448 million for the six months ended June 30, 2015 and 2014.

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

	Six Months Ended December 31,	Year Ended December 31,					
	2015	2016	2017	2018	2019	Thereafter	Total
Operating and capital commitments:							
Debt principal and interest	$1,392	$323	$1,322	$310	$1,272	$9,403	$14,022
Capital lease obligations, including interest	1,459	2,436	1,795	461	182	126	6,459
Finance lease obligations, including interest	93	134	137	140	142	1,339	1,985
Operating leases	500	861	798	709	620	2,600	6,088
Unconditional purchase obligations (1)	278	581	455	318	101	15	1,748
Other commitments (2) (3)	578	355	223	151	113	1,110	2,530
Total commitments	$4,300	$4,690	$4,730	$2,089	$2,430	$14,593	$32,832

(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 $854 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 June 30, 2015, and December 31, 2014, we have pledged or otherwise restricted $311 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 and in Item 1 of Part I, “Financial Statements — Note 3 — Commitments and Contingencies — Legal Proceedings” of our Quarterly Report on Form 10-Q for the Period Ended March 31, 2015, as supplemented by the following:

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. In July 2015, the court granted our motion for judgment on the pleadings and invalidated the patents-in-suit. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In December 2013, ContentGuard Holdings, Inc. 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 certain digital rights management software used by various Kindle Fire software applications, including the Kindle Reader and Amazon Instant Video, infringe seven U.S. Patents: Nos. 6,963,859, entitled “Content Rendering Repository”; 7,523,072, entitled “System For Controlling The Distribution And Use Of Digital Works”; 7,269,576, entitled “Content Rendering Apparatus”; 8,370,956, entitled “System And Method For Rendering Digital Content In Accordance With Usage Rights Information”; 8,393,007, entitled “System And Method For Distributing Digital Content In Accordance With Usage Rights Information”; 7,225,160, entitled “Digital Works Having Usage Rights And Method For Creating The Same”; and 8,583,556, entitled “Method For Providing A Digital Asset For Distribution.” In January 2014, ContentGuard filed an amended complaint that, among other things, added HTC Corporation and HTC America as defendants. The complaint seeks an unspecified amount of damages, an injunction, enhanced damages, attorneys’ fees, costs, and interest. In May 2015, ContentGuard’s damages expert opined that in the event of a finding of liability Amazon could be subject to up to $230 million in damages. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

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

In December 2014, Smartflash LLC and Smartflash Technologies Limited filed a complaint against Amazon.com, Inc., Amazon.com, LLC, AMZN Mobile, LLC, Amazon Web Services, Inc. and Audible, Inc. for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that Amazon Appstore, Amazon Instant Video, Amazon Music, Audible Audiobooks, the Amazon Mobile Ad Network, certain Kindle and Fire devices, Kindle e-bookstore, Amazon’s proprietary Android operating system, and the servers involved in operating Amazon Appstore, Amazon Instant Video, Amazon Music, the Fire TV app, Audible Audiobooks, Cloud Drive, Cloud Player, Amazon Web Services, and Amazon Mobile Ad Network infringe seven related U.S. Patents: Nos. 7,334,720; 7,942,317; 8,033,458; 8,061,598; 8,118,221; 8,336,772; and 8,794,516, all entitled “Data Storage and Access Systems.” In May 2015, the case was stayed until further notice. The complaint seeks an unspecified amount of damages, an injunction, enhanced damages, attorneys’ fees, costs, and interest. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In June 2015, the European Commission opened a proceeding against Amazon.com, Inc. and Amazon EU S.à.r.l. to investigate whether provisions in Amazon’s contracts with European publishers violate European competition rules.

We believe we comply with European competition rules and are cooperating with the Commission.

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.”

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Note 4 — ACQUISITIONS, GOODWILL, AND ACQUIRED INTANGIBLE ASSETS

During the six months ended June 30, 2015, we acquired certain companies for an aggregate purchase price of $349 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 six months ended June 30, 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	$303
Indemnification holdback	46
	$349
Allocation	
Goodwill	$218
Intangible assets (1):	
Contract-based	1
Technology-based	155
Customer-related	4
	160
Property and equipment	1
Deferred tax assets	27
Other assets acquired	20
Deferred tax liabilities	(54)
Other liabilities assumed	(23)
	$349

(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.

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 $29 million for the six months ended June 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 current year acquisitions had occurred at the beginning of 2014 (in millions):

	Six Months Ended June 30,	
	2015	2014
Net sales	$45,904	$39,082
Net income (loss)	$32	$(45)

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.

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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	41	17	160	218
Other adjustments (1)	(2)	(15)	3	(14)
Goodwill - June 30, 2015	$2,017	$737	$769	$3,523

(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 have completed the required annual testing of goodwill for impairment for all reporting units as of April 1, 2015 and have determined that goodwill is not impaired.

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 June 30, 2015, and December 31, 2014, the unamortized discount on the Notes was $93 million and $96 million. We also have other long-term debt with a carrying amount, including the current portion, of $602 million and $881 million as of June 30, 2015, and December 31, 2014. The face value of our total long-term debt obligations is as follows (in millions):

	June 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	602	881
Total debt	9,602	9,881
Less current portion of long-term debt	(1,259)	(1,520)
Face value of long-term debt	$8,343	$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 $9.0 billion and $9.1 billion as of June 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 4.3% and 5.5% as of June 30, 2015, and December 31, 2014. We used the net proceeds from the issuance of this debt primarily to fund certain international

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operations. The estimated fair value of the other long-term debt, which is based on Level 2 inputs, approximated its carrying value as of June 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 June 30, 2015.

Note 6 — STOCKHOLDERS' EQUITY

Stock Award Activity

Common shares outstanding plus shares underlying outstanding stock awards totaled 488 million as of June 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 six months ended June 30, 2015.

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

	Number of Units	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2014	17.4	$285
Units granted	7.2	380
Units vested	(2.8)	243
Units forfeited	(1.4)	298
Outstanding as of June 30, 2015	20.4	$323

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

	Six Months Ended December 31,	Year Ended December 31,					
	2015	2016	2017	2018	2019	Thereafter	Total
Scheduled vesting—restricted stock units	2.9	6.6	6.8	2.9	0.9	0.3	20.4

As of June 30, 2015, there was $3.2 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 1.2 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

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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 for the six months ended June 30, 2015 was $337 million, which included $41 million of discrete tax items primarily attributed to acquisition integrations. Our income tax provision for the six months ended June 30, 2014 was $167 million, which included $91 million of discrete tax items primarily attributable to audit-related developments. Cash paid for income taxes (net of refunds) was $65 million and $71 million in Q2 2015 and Q2 2014, and $119 million and $109 million for the six months ended June 30, 2015 and 2014.

As of June 30, 2015, and December 31, 2014, tax contingencies were $854 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 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.

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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 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. 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
North America				
Net sales	$13,796	$10,994	$27,202	$21,802
Segment operating expenses (1)	13,093	10,665	25,982	21,183
Segment operating income (loss)	$703	$329	$1,220	$619
International				
Net sales	$7,565	$7,341	$15,310	$15,224
Segment operating expenses (1)	7,584	7,343	15,405	15,259
Segment operating income (loss)	$(19)	$(2)	$(95)	$(35)