

AMAZON COM INC  
Form 10-Q  
July 25, 2014  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014  
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  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  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  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

462,036,113 shares of common stock, par value \$0.01 per share, outstanding as of July 16, 2014

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Table of Contents

AMAZON.COM, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2014

INDEX

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1	<u>3</u>
	<u>3</u>
	<u>4</u>
	<u>5</u>
	<u>6</u>
	<u>7</u>
Item 2	<u>16</u>
Item 3	<u>28</u>
Item 4	<u>29</u>
<b>PART II. OTHER INFORMATION</b>	
Item 1	<u>31</u>
Item 1A	<u>31</u>
Item 2	<u>39</u>
Item 3	<u>39</u>
Item 4	<u>39</u>
Item 5	<u>39</u>
Item 6	<u>39</u>
<u>Signatures</u>	<u>40</u>

Table of Contents

## 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,	
	2014	2013	2014	2013	2014	2013
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$5,074	\$4,481	\$8,658	\$8,084	\$3,704	\$2,335
OPERATING ACTIVITIES:						
Net income (loss)	(126 )	(7 )	(18 )	75	181	(101 )
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	1,109	756	2,119	1,457	3,916	2,673
Stock-based compensation	391	298	711	526	1,318	978
Other operating expense (income), net	28	32	62	63	113	139
Losses (gains) on sales of marketable securities, net	(1 )	—	(1 )	—	1	(6 )
Other expense (income), net	(8 )	42	(57 )	110	(1 )	367
Deferred income taxes	(49 )	21	(234 )	(58 )	(332 )	(243 )
Excess tax benefits from stock-based compensation	—	—	(121 )	—	(199 )	(304 )
Changes in operating assets and liabilities:						
Inventories	92	(30 )	791	505	(1,124 )	(1,116 )
Accounts receivable, net and other	(299 )	(211 )	428	518	(936 )	(922 )
Accounts payable	(344 )	—	(5,018 )	(4,187 )	1,056	1,962
Accrued expenses and other	(15 )	(77 )	(746 )	(780 )	770	728
Additions to unearned revenue	894	516	1,986	1,200	3,477	2,217
Amortization of previously unearned revenue	(810 )	(460 )	(1,542 )	(921 )	(2,913 )	(1,840 )
Net cash provided by (used in) operating activities	862	880	(1,640 )	(1,492 )	5,327	4,532
INVESTING ACTIVITIES:						
Purchases of property and equipment, including internal-use software and website development	(1,290 )	(855 )	(2,370 )	(1,526 )	(4,288 )	(4,267 )
Acquisitions, net of cash acquired, and other	(67 )	(148 )	(66 )	(251 )	(127 )	(323 )
Sales and maturities of marketable securities and other investments	962	696	1,555	1,296	2,565	2,544
Purchases of marketable securities and other investments	(336 )	(1,113 )	(773 )	(1,888 )	(1,710 )	(3,774 )
Net cash provided by (used in) investing activities	(731 )	(1,420 )	(1,654 )	(2,369 )	(3,560 )	(5,820 )
FINANCING ACTIVITIES:						
Excess tax benefits from stock-based compensation	—	—	121	—	199	304
Proceeds from long-term debt and other	286	81	351	107	627	3,274
Repayments of long-term debt, capital lease, and finance lease obligations	(475 )	(290 )	(836 )	(473 )	(1,363 )	(748 )

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Net cash provided by (used in) financing activities	(189 )	(209 )	(364 )	(366 )	(537 )	2,830
Foreign-currency effect on cash and cash equivalents	41	(28 )	57	(153 )	123	(173 )
Net increase (decrease) in cash and cash equivalents	(17 )	(777 )	(3,601 )	(4,380 )	1,353	1,369
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$5,057</b>	<b>\$3,704</b>	<b>\$5,057</b>	<b>\$3,704</b>	<b>\$5,057</b>	<b>\$3,704</b>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid for interest on long-term debt	\$31	\$39	\$49	\$52	\$94	\$68
Cash paid for income taxes (net of refunds)	71	34	109	120	158	193
Property and equipment acquired under capital leases	920	447	1,636	787	2,716	1,233
Property and equipment acquired under build-to-suit leases	237	244	363	394	846	392

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net product sales	\$15,251	\$12,752	\$30,956	\$26,023
Net services sales	4,089	2,952	8,125	5,751
Total net sales	19,340	15,704	39,081	31,774
Operating expenses (1):				
Cost of sales	13,399	11,209	27,453	23,010
Fulfillment	2,382	1,837	4,699	3,633
Marketing	943	675	1,813	1,307
Technology and content	2,226	1,586	4,217	2,969
General and administrative	377	286	704	531
Other operating expense (income), net	28	32	63	64
Total operating expenses	19,355	15,625	38,949	31,514
Income (loss) from operations	(15)	) 79	132	260
Interest income	11	9	21	19
Interest expense	(45)	) (33)	) (87)	) (66)
Other income (expense), net	22	(38)	) 27	(115)
Total non-operating income (expense)	(12)	) (62)	) (39)	) (162)
Income (loss) before income taxes	(27)	) 17	93	98
Benefit (provision) for income taxes	(94)	) (13)	) (167)	) 6
Equity-method investment activity, net of tax	(5)	) (11)	) 56	(29)
Net income (loss)	\$(126)	) \$(7)	) \$(18)	) \$75
Basic earnings per share	\$(0.27)	) \$(0.02)	) \$(0.04)	) \$0.16
Diluted earnings per share	\$(0.27)	) \$(0.02)	) \$(0.04)	) \$0.16
Weighted average shares used in computation of earnings per share:				
Basic	461	456	460	455
Diluted	461	456	460	463

(1) Includes stock-based compensation as follows:

Fulfillment	\$104	\$81	\$184	\$142
Marketing	32	24	59	40
Technology and content	206	155	375	274
General and administrative	49	38	93	70

See accompanying notes to consolidated financial statements.

Table of Contents

AMAZON.COM, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2013	2014	2013	
Net income (loss)	\$ (126	) \$ (7	) \$ (18	) \$ 75	
Other comprehensive income (loss):					
Foreign currency translation adjustments, net of tax of \$0, \$(4), \$1 and \$(13)	11	7	39	(71	)
Net change in unrealized gains on available-for-sale securities:					
Unrealized gains (losses), net of tax of \$0, \$3, \$(1) and \$4	3	(7	) 4	(9	)
Reclassification adjustment for losses (gains) included in "Other income (expense), net," net of tax of \$0, \$0, \$0 and \$0		) —	(1	) —	
Net unrealized gains (losses) on available-for-sale securities	2	(7	) 3	(9	)
Total other comprehensive income (loss)	13	—	42	(80	)
Comprehensive income (loss)	\$ (113	) \$ (7	) \$ 24	) \$ (5	)
See accompanying notes to consolidated financial statements.					

Table of Contents

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

	June 30, 2014 (unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$5,057	\$8,658
Marketable securities	2,929	3,789
Inventories	6,644	7,411
Accounts receivable, net and other	4,125	4,767
Total current assets	18,755	24,625
Property and equipment, net	14,089	10,949
Goodwill	2,677	2,655
Other assets	2,377	1,930
Total assets	\$37,898	\$40,159
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$10,457	\$15,133
Accrued expenses and other	6,688	6,688
Unearned revenue	1,606	1,159
Total current liabilities	18,751	22,980
Long-term debt	3,119	3,191
Other long-term liabilities	5,426	4,242
Commitments and contingencies		
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 — 486 and 483		
Outstanding shares — 462 and 459	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	10,405	9,573
Accumulated other comprehensive loss	(143)	(185)
Retained earnings	2,172	2,190
Total stockholders' equity	10,602	9,746
Total liabilities and stockholders' equity	\$37,898	\$40,159
See accompanying notes to consolidated financial statements.		



Table of Contents

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 2014 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 2013 Annual Report on Form 10-K.

## 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 lives 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 recognize a net loss, we exclude the impact of outstanding stock awards from the diluted loss per share calculation as their inclusion would have an antidilutive effect.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Shares used in computation of basic earnings per share	461	456	460	455
Total dilutive effect of outstanding stock awards	—	—	—	8
Shares used in computation of diluted earnings per share	461	456	460	463

## Equity-method Investments

Equity investments are accounted for using the equity method of accounting if the investment gives us the ability to exercise significant influence, but not control, over an investee. The total of our investments in equity-method investees, including identifiable intangible assets, deferred tax liabilities, and goodwill, is included within “Other assets” on our consolidated balance sheets. Our share of the earnings or losses as reported by equity-method investees,

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7

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Table of Contents

related intangible assets, and related gains or losses, if any, are classified as “Equity-method investment activity, net of tax” on our consolidated statements of operations. Our share of the net income or loss of our equity-method investees includes operating and non-operating gains and charges, which can have a significant impact on our reported equity-method investment activity and the carrying value of those investments. In the event that net losses of the investee reduce our equity-method investment carrying amount to zero, additional net losses may be recorded if other investments in the investee, not accounted for under the equity method, are at-risk even if we have not committed to provide financial support to the investee. We regularly evaluate these investments, which are not carried at fair value, for other-than-temporary impairment. We also consider whether our equity-method investments generate sufficient cash flows from their operating or financing activities to meet their obligations and repay their liabilities when they come due.

We record purchases, including incremental purchases, of shares in equity-method investees at cost. Reductions in our ownership percentage of an investee, including through dilution, are generally valued at fair value, with the difference between fair value and our recorded cost reflected as a gain or loss in our equity-method investment activity. In the event we no longer have the ability to exercise significant influence over an equity-method investee, we would discontinue accounting for the investment under the equity method.

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”) amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. We are currently evaluating the impact this ASU will have on our consolidated financial statements.

**Note 2 — CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES**

As of June 30, 2014, and December 31, 2013, 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 as of June 30, 2014 or December 31, 2013.

Table of Contents

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, 2014			December 31, 2013	
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value	Total Estimated Fair Value
Cash	\$2,962	\$—	\$—	\$2,962	\$3,008
Level 1 securities:					
Money market funds	2,462	—	—	2,462	5,914
Equity securities	2	1	—	3	4
Level 2 securities:					
Foreign government and agency securities	358	2	—	360	758
U.S. government and agency securities	1,799	2	(2)	1,799	2,222
Corporate debt securities	681	4	—	685	741
Asset-backed securities	68	—	—	68	65
Other fixed income securities	36	—	—	36	36
	\$8,368	\$9	\$(2)	\$8,375	\$12,748
Less: Restricted cash, cash equivalents, and marketable securities (1)				(389)	(301)
Total cash, cash equivalents, and marketable securities				\$7,986	\$12,447

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 (1)sellers in certain jurisdictions. We classify cash 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 equivalent and marketable fixed-income securities as of June 30, 2014 (in millions):

	Amortized Cost	Estimated Fair Value
Due within one year	\$3,598	\$3,599
Due after one year through five years	1,462	1,467
Due after five years through ten years	126	126
Due after ten years	218	218
	\$5,404	\$5,410

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 financing leases for equipment and office, fulfillment center, and data center facilities. Rental expense under operating lease agreements was \$229 million and \$180 million for Q2 2014 and Q2 2013, and \$448 million and \$348 million for the six months ended June 30, 2014 and 2013.



Table of Contents

The following summarizes our principal contractual commitments, excluding open orders for purchases that support normal operations, as of June 30, 2014 (in millions):

	Six Months	Year Ended December 31,					Total
	Ended December 31, 2014	2015	2016	2017	2018	Thereafter	
Operating and capital commitments:							
Debt principal and interest	\$276	\$1,485	\$81	\$1,081	\$69	\$1,375	\$4,367
Capital leases, including interest	1,012	1,482	693	186	98	129	3,600
Financing lease obligations, including interest	34	68	69	70	72	658	971
Operating leases	423	752	714	636	563	2,472	5,560
Unconditional purchase obligations (1)	304	517	250	214	61	47	1,393
Other commitments (2) (3)	525	583	269	149	119	1,325	2,970
Total commitments	\$2,574	\$4,887	\$2,076	\$2,336	\$982	\$6,006	\$18,861

(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 what the total obligation may be 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 digital content liabilities associated with long-term digital content assets with initial terms greater than one year.

(3) Excludes \$590 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, 2014, and December 31, 2013, we have pledged or otherwise restricted \$550 million and \$482 million of our cash, marketable securities, and certain property and equipment as collateral for standby and trade letters of credit, guarantees, debt, 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 2013 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, 2014, as supplemented by the following:

In April 2011, Walker Digital LLC filed several complaints against Amazon.com, Inc. for patent infringement in the United States District Court for the District of Delaware. The complaints allege that we infringe several of the plaintiff's U.S. patents by, among other things, providing "cross benefits" to customers through our promotions (U.S. Patent Nos. 7,831,470 and 7,827,056), using a customer's identified original product to offer a substitute product (U.S. Patent No. 7,236,942), using our product recommendations and personalization features to offer complementary products together (U.S. Patent Nos. 6,601,036 and 6,138,105), enabling customers to subscribe to a delivery schedule for products they routinely use at reduced prices (U.S. Patent No. 5,970,470), and offering personalized advertising based on customers' preferences identified using a data pattern (U.S. Patent No. 7,933,893). Another complaint, filed in the same court in October 2011, alleges that we infringe plaintiff's U.S. Patent No. 8,041,711 by offering personalized advertising based on customer preferences that associate data with resource locators. Another complaint, filed in the same court in February 2012, alleges that we infringe plaintiff's U.S. Patent No. 8,112,359 by using product

information received from customers to identify and offer substitute products using a manufacturer database. In January 2013, the plaintiff filed another complaint in the same court alleging that we infringe U.S. Patent No. 6,381,582 by allowing customers to make local payments for products ordered online. All of the complaints seek monetary damages, interest, injunctive relief, costs, and attorneys' fees. In March 2013, the complaints asserting U.S. Patent Nos. 7,236,942 and 7,933,893 were voluntarily dismissed with prejudice. In April 2013, the case asserting U.S. Patent No.

Table of Contents

8,041,711 was stayed pending final resolution of the reexamination of that patent. In June 2013, the court granted defendants' motions to dismiss the complaints asserting U.S. Patent Nos. 7,831,470, 7,827,056, and 8,112,359 for lack of standing. In July 2013, we filed motions seeking entry of a final judgment dismissing those claims with prejudice and for attorneys' fees, and plaintiff filed notices of appeal from the June 2013 order granting the motions to dismiss. In October 2013, the court ruled that its dismissals are with prejudice, and Walker has appealed those rulings. In March 2014, the court stayed the case asserting U.S. Patent Nos. 6,601,036 and 6,138,105 pending the appeal of the cases asserting U.S. Patent Nos. 7,831,470, 7,827,056, and 7,236,942. We dispute the remaining allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In December 2011, Round Rock Research, LLC filed a complaint against Amazon.com, Inc. in the United States District Court for the District of Delaware. The complaint alleges, among other things, that "RFID products" and "Kindle products with unlicensed DRAM" infringe: U.S. Patent Nos. 5,500,650 and 5,627,544, entitled "Data Communication Method Using Identification Protocol"; U.S. Patent No. 5,974,078, entitled "Modulated Spread Spectrum In RF Identification Systems Method"; U.S. Patent No. 6,459,726, entitled "Backscatter Interrogators, Communication Systems And Backscatter Communication Methods"; U.S. Patent No. RE41,531, entitled "Communications Systems For Radio Frequency Identification (RFID)"; U.S. Patent Nos. 6,975,556 and 7,106,646, entitled "Circuit And Method For Controlling A Clock Synchronizing Circuit For Low Power Refresh Operation"; U.S. Patent No. 7,221,020, entitled "Method To Construct A Self Aligned Recess Gate For DRAM Access Devices"; and U.S. Patent No. 7,389,369, entitled "Active Termination Control." In February 2012, the plaintiff filed an amended complaint that further alleges, among other things, that Kindle products allegedly including "unlicensed flash memory" infringe U.S. Patent No. 5,801,985, entitled "Memory System Having Programmable Control Parameters" and U.S. Patent No. 5,880,996, entitled "Memory System Having Non-Volatile Data Storage Structure For Memory Control Parameters And Method." In April 2012, the plaintiff filed a second amended complaint further alleging, among other things, that "RFID products" infringe U.S. Patent No. 5,266,925, entitled "Electronic Tag Interrogation Method," U.S. Patent No. 5,583,850, entitled "Data Communication System Using Identification Protocol," U.S. Patent No. 5,986,570, entitled "Method For Resolving Signal Collisions Between Multiple RFID Transponders In A Field," U.S. Patent No. 7,265,674, entitled "Thin, Flexible RFID Labels, And Methods And Apparatus For Use," and U.S. Patent No. RE41,562, entitled "System And Method For Electronic Tracking Of Units Associated With A Batch." The second amended complaint seeks an unspecified amount of damages, enhanced damages, interest, costs, and attorneys' fees. In April 2012, the case was stayed pending reexamination of ten of the asserted patents. In April 2014, Round Rock dismissed without prejudice its claims concerning U.S. Patent Nos. 6,975,556, 7,106,646, 7,221,020, and 7,389,369. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In March 2012, OIP Technologies, Inc. filed a complaint against Amazon.com, Inc. for patent infringement in the United States District Court for the Northern District of California. The complaint alleged, among other things, that certain aspects of our pricing methods infringed U.S. Patent No. 7,970,713, entitled "Method And Apparatus For Automatic Pricing In Electronic Commerce." The complaint sought three times an unspecified amount of damages, attorneys' fees, and interest. In September 2012, the court invalidated the plaintiff's patent and dismissed the case with prejudice. In September 2012, OIP appealed the judgment of the district court to the United States Court of Appeals for the Federal Circuit, which, in November 2012, stayed all proceedings pending its decision in a separate case that raises a related question of law and, in June 2013, continued the stay pending a decision by the United States Supreme Court. In July 2014, the court of appeals lifted the stay. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In April 2014, Spansion LLC filed complaints for patent infringement against Amazon.com, Inc. in both the United States District Court for the Northern District of California and the United States International Trade Commission. The complaints allege, among other things, that the Amazon Kindle Paperwhite infringes U.S. Patent No. 6,246,611, entitled "System For Erasing A Memory Cell," and U.S. Patent No. 6,744,666, entitled "Method And System To Minimize Page Programming Time For Flash Memory Devices." The district court complaint seeks an unspecified amount of damages, enhanced damages, attorneys' fees, interest, and injunctive relief. The International Trade Commission complaint seeks an exclusion order preventing the importation of Kindle Paperwhites into the United States, as well as a cease-and-desist order barring sale of Kindle Paperwhites after importation. In June 2014, the



district court case was stayed pending resolution of the International Trade Commission action. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In June 2014, SimpleAir, Inc. 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 Amazon Device Messaging and Simple Notification Service infringe U.S Patent Nos. 7,035,914, 8,090,803, 8,572,279, 8,601,154, and 8,639,838, all of which are entitled "System and Method for Transmission of Data." The complaint seeks an unspecified amount of damages, pre-judgment interest, costs, attorneys' fees, enhanced damages, and injunctive relief. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In June 2014, Enterprise Systems Technologies S.a.r.l. 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 Amazon's sale of consumer electronics from Apple, Samsung, and Motorola infringes U.S. Patent No. 5,870,610, entitled "Autoconfigurable Method And

Table of Contents

System Having Automated Downloading,” U.S. Patent No. 6,785,381, entitled “Telephone Having Improved Hands Free Operation Audio Quality And Method Of Operation Thereof,” U.S. Patent No. 6,549,366, entitled “Headset/Radio Audio Sensing Jack,” and U.S. Patent No. 7,454,201, entitled “System For Providing Messages Through A Private Network And Mobile Station.” The complaint further alleges that Kindle Fire HDX devices infringe U.S. Patent No. 6,236,642, entitled “Apparatus And Method For Network Resource Preservation.” The complaint seeks an unspecified amount of damages, interest, costs, and attorneys’ fees. 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 loss is not possible and we may be unable to estimate the possible loss or range of loss that could potentially result from the application of non-monetary remedies.

See also “Note 7 — Income Taxes.”

Note 4 — EQUITY-METHOD INVESTMENTS

LivingSocial’s summarized condensed financial information, as provided to us by LivingSocial, is as follows (in millions):

	Six Months Ended June 30,	
	2014	2013
Statements of Operations:		
Revenue	\$ 152	\$ 205