

AMAZON COM INC  
Form 10-Q  
April 29, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2016  
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

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AMAZON.COM, INC.  
(Exact name of registrant as specified in its charter)

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Delaware 91-1646860  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
410 Terry Avenue North, Seattle, Washington 98109-5210  
(206) 266-1000  
(Address and telephone number, including area code, of registrant's principal executive offices)

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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

471,827,960 shares of common stock, par value \$0.01 per share, outstanding as of April 20, 2016

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AMAZON.COM, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2016

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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,	
	2016	2015	2016	2015
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 15,890	\$ 14,557	\$ 10,237	\$ 5,074
OPERATING ACTIVITIES:				
Net income (loss)	513	(57 )	1,166	(405 )
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	1,827	1,426	6,682	5,162
Stock-based compensation	544	407	2,257	1,582
Other operating expense (income), net	43	44	155	139
Losses (gains) on sales of marketable securities, net	2	1	6	(3 )
Other expense (income), net	(52 )	91	102	203
Deferred income taxes	11	(2 )	94	(136 )
Excess tax benefits from stock-based compensation	(207 )	(22 )	(305 )	94
Changes in operating assets and liabilities:				
Inventories	769	721	(2,138 )	(1,172 )
Accounts receivable, net and other	412	441	(1,784 )	(1,324 )
Accounts payable	(5,770 )	(4,249 )	2,773	2,184
Accrued expenses and other	(956 )	(940 )	893	500
Additions to unearned revenue	2,814	1,803	8,412	5,144
Amortization of previously unearned revenue	(2,110 )	(1,163 )	(7,055 )	(4,123 )
Net cash provided by (used in) operating activities	(2,160 )	(1,499 )	11,258	7,845
INVESTING ACTIVITIES:				
Purchases of property and equipment, including internal-use software and website development, net	(1,179 )	(871 )	(4,897 )	(4,684 )
Acquisitions, net of cash acquired, and other	(16 )	(365 )	(446 )	(1,345 )
Sales and maturities of marketable securities	1,138	375	3,788	3,131
Purchases of marketable securities	(636 )	(986 )	(3,741 )	(3,091 )
Net cash provided by (used in) investing activities	(693 )	(1,847 )	(5,296 )	(5,989 )
FINANCING ACTIVITIES:				
Excess tax benefits from stock-based compensation	207	22	305	(94 )
Proceeds from long-term debt and other	9	183	179	6,478
Repayments of long-term debt and other	(175 )	(316 )	(1,512 )	(760 )
Principal repayments of capital lease obligations	(801 )	(502 )	(2,761 )	(1,537 )
Principal repayments of finance lease obligations	(29 )	(39 )	(111 )	(132 )
Net cash provided by (used in) financing activities	(789 )	(652 )	(3,900 )	3,955
Foreign-currency effect on cash and cash equivalents	222	(322 )	171	(648 )
Net increase (decrease) in cash and cash equivalents	(3,420 )	(4,320 )	2,233	5,163

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CASH AND CASH EQUIVALENTS, END OF PERIOD	\$12,470	\$10,237	\$12,470	\$10,237
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest on long-term debt	\$2	\$17	\$310	\$90
Cash paid for interest on capital and finance lease obligations	47	32	168	102
Cash paid for income taxes (net of refunds)	139	55	357	194
Property and equipment acquired under capital leases	875	954	4,638	4,246
Property and equipment acquired under build-to-suit leases	351	103	793	897
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,	
	2016	2015
Net product sales	\$20,581	\$17,084
Net service sales	8,547	5,633
Total net sales	29,128	22,717
Operating expenses (1):		
Cost of sales	18,866	15,395
Fulfillment	3,687	2,759
Marketing	1,436	1,083
Technology and content	3,526	2,754
General and administrative	497	427
Other operating expense (income), net	45	44
Total operating expenses	28,057	22,462
Operating income	1,071	255
Interest income	21	11
Interest expense	(117 )	(115 )
Other income (expense), net	81	(130 )
Total non-operating income (expense)	(15 )	(234 )
Income (loss) before income taxes	1,056	21
Provision for income taxes	(475 )	(71 )
Equity-method investment activity, net of tax	(68 )	(7 )
Net income (loss)	\$513	\$(57 )
Basic earnings per share	\$1.09	\$(0.12 )
Diluted earnings per share	\$1.07	\$(0.12 )
Weighted-average shares used in computation of earnings per share:		
Basic	471	465
Diluted	481	465

(1) Includes stock-based compensation as follows:

Fulfillment	\$116	\$90
Marketing	56	35
Technology and content	317	233
General and administrative	55	49

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,	
	2016	2015
Net income (loss)	\$513	\$(57 )
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax of \$(24) and \$(1)	102	(243 )
Net change in unrealized gains (losses) on available-for-sale securities:		
Unrealized gains (losses), net of tax of \$0 and \$0	6	1
Reclassification adjustment for losses (gains) included in "Other income (expense), net," net of tax of \$(1) and \$0	1	1
Net unrealized gains (losses) on available-for-sale securities	7	2
Total other comprehensive income (loss)	109	(241 )
Comprehensive income (loss)	\$622	\$(298)
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, 2016	December 31, 2015
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,470	\$ 15,890
Marketable securities	3,389	3,918
Inventories	9,582	10,243
Accounts receivable, net and other	5,072	5,654
Total current assets	30,513	35,705
Property and equipment, net	23,308	21,838
Goodwill	3,785	3,759
Other assets	3,522	3,445
Total assets	\$ 61,128	\$ 64,747
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 14,990	\$ 20,397
Accrued expenses and other	9,431	10,372
Unearned revenue	3,766	3,118
Total current liabilities	28,187	33,887
Long-term debt	8,219	8,227
Other long-term liabilities	9,966	9,249
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 — 495 and 494		
Outstanding shares — 472 and 471	5	5
Treasury stock, at cost	(1,837	) (1,837 )
Additional paid-in capital	14,144	13,394
Accumulated other comprehensive loss	(614	) (723 )
Retained earnings	3,058	2,545
Total stockholders' equity	14,756	13,384
Total liabilities and stockholders' equity	\$ 61,128	\$ 64,747

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 2016 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 2015 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 allocation of stock-based compensation and “Other operating expense (income), net” to segment results within “Note 7 — Segment Information.” These revised segment results reflect the way the Company evaluates its business performance and manages its operations. Current deferred tax assets and current deferred tax liabilities were reclassified as non-current. See “Recent Accounting Pronouncements” below. We also reclassified our capitalized debt issuance costs from “Other assets” to “Long-term debt” as a result of the adoption of new accounting guidance. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Principles of Consolidation

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

Use of Estimates

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

Earnings per Share

Basic earnings per share is calculated using our weighted-average outstanding common shares. Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method. In periods when we have a net loss, stock awards are excluded from our calculation of earnings per share as their inclusion would have an antidilutive effect. In Q1 2015, we excluded stock awards of 17 million.

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

	Three Months Ended March 31, 2016	2015
Shares used in computation of basic earnings per share	471	465
Total dilutive effect of outstanding stock awards	10	—
Shares used in computation of diluted earnings per share	481	465

**Recent Accounting Pronouncements**

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

In November 2015, the FASB issued an ASU amending the accounting for income taxes and requiring all deferred tax assets and liabilities to be classified as non-current on the consolidated balance sheets. The ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The ASU may be adopted either prospectively or retrospectively. We adopted this ASU in Q1 2016 and retrospectively adjusted prior periods. Upon adoption, current deferred tax assets of \$769 million and current deferred tax liabilities of \$13 million in our December 31, 2015 consolidated balance sheet were reclassified as non-current.

In February 2016, the FASB issued an ASU amending the accounting for leases. The new guidance requires the recognition of lease assets and liabilities for operating leases with terms of more than 12 months, in addition to those currently recorded, on our consolidated balance sheets. Presentation of leases within the consolidated statements of operations and consolidated statements of cash flows will be generally consistent with the current lease accounting guidance. The ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of the ASU; however, we expect the ASU will have a material impact on our consolidated financial statements, primarily to the consolidated balance sheets and related disclosures.

In March 2016, the FASB issued an ASU amending the accounting for stock-based compensation and requiring excess tax benefits and deficiencies to be recognized as a component of income tax expense rather than equity. This guidance also requires excess tax benefits to be presented as an operating activity on the statement of cash flows and allows an entity to make an accounting policy election to either estimate expected forfeitures or to account for them as they occur. The ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of the ASU; however, we expect the ASU will have a material impact on our consolidated financial statements.

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

As of March 31, 2016, and December 31, 2015, 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

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observable market data. We did not hold any cash, cash equivalents, or marketable securities categorized as Level 3 assets as of March 31, 2016, or December 31, 2015.

The following tables summarize, 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, 2016			December 31, 2015	
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value	Total Estimated Fair Value
Cash	\$7,602	\$ —	\$ —	\$7,602	\$6,201
Level 1 securities:					
Money market funds	5,179	—	—	5,179	8,025
Equity securities	3	11	—	14	15
Level 2 securities:					
Foreign government and agency securities	59	—	—	59	49
U.S. government and agency securities	2,704	3	(2)	2,705	5,167
Corporate debt securities	455	2	(1)	456	477
Asset-backed securities	111	—	(1)	110	117
Other fixed income securities	45	—	—	45	42
	\$16,158	\$ 16	\$ (4)	\$ 16,170	\$ 20,093
Less: Restricted cash, cash equivalents, and marketable securities (1)				(311)	(285)
Total cash, cash equivalents, and marketable securities				\$ 15,859	\$ 19,808

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, cash equivalents, and marketable securities with use restrictions of less than twelve months as “Accounts receivable, net and other” and of twelve months or longer as non-current “Other assets” on our consolidated balance sheets. See “Note 3 — Commitments and Contingencies.”

The following table summarizes the contractual maturities of our cash equivalents and marketable fixed-income securities as of March 31, 2016 (in millions):

	Amortized Cost	Estimated Fair Value
Due within one year	\$ 7,135	\$ 7,137
Due after one year through five years	1,175	1,176
Due after five years through ten years	92	92
Due after ten years	151	149
Total	\$ 8,553	\$ 8,554

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

We also hold equity warrant assets giving us the right to acquire stock of other companies. As of March 31, 2016, and December 31, 2015, these warrants had a fair value of \$95 million and \$16 million, and are recorded within “Other assets” on our consolidated balance sheets. The related gain (loss) recorded in “Other income (expense), net” was \$5 million and \$2 million in Q1 2016 and Q1 2015. These assets are primarily classified as Level 2 assets.

### 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

\$322 million and \$266 million for Q1 2016 and Q1 2015.

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The following summarizes our principal contractual commitments, excluding open orders for purchases that support normal operations, as of March 31, 2016 (in millions):

	Nine Months Ended December 31, 2016	Year Ended December 31,					Total
		2017	2018	2019	2020	Thereafter	
Debt principal and interest	\$ 367	\$1,322	\$310	\$1,272	\$246	\$ 9,157	\$12,674
Capital lease obligations, including interest (1)	2,519	2,833	1,577	425	185	93	7,632
Finance lease obligations, including interest (2)	130	173	177	180	183	1,563	2,406
Operating leases	1,030	982	872	769	687	2,599	6,939
Unconditional purchase obligations (3)	483	597	445	200	72	28	1,825
Other commitments (4) (5)	820	418	283	216	176	1,583	3,496
Total commitments	\$ 5,349	\$6,325	\$3,664	\$3,062	\$1,549	\$ 15,023	\$34,972

Excluding interest, current capital lease obligations of \$3.2 billion and \$3.0 billion are recorded within “Accrued (1) expenses and other” as of March 31, 2016, and December 31, 2015, and \$4.2 billion are recorded within “Other long-term liabilities” as of March 31, 2016, and December 31, 2015.

Excluding interest, current finance lease obligations of \$103 million and \$99 million are recorded within “Accrued (2) expenses and other” as of March 31, 2016, and December 31, 2015, and \$1.8 billion and \$1.7 billion are recorded within “Other long-term liabilities” as of March 31, 2016, and December 31, 2015.

Includes unconditional purchase obligations related to long-term agreements to acquire and license digital media content that are not reflected on the consolidated balance sheets. For those agreements with variable terms, we do (3) 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.

Includes the estimated timing and amounts of payments for rent and tenant improvements associated with (4) build-to-suit lease arrangements and equipment lease arrangements that have not been placed in service and digital media content liabilities associated with long-term digital media content assets with initial terms greater than one year.

(5) Excludes \$1.3 billion 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, 2016, and December 31, 2015, we have pledged or otherwise restricted \$440 million and \$418 million of our cash, cash equivalents, and marketable securities, and certain property and equipment as collateral for standby and trade letters of credit, guarantees, debt relating to certain international operations, real estate leases, and amounts due to third-party sellers in certain jurisdictions.

Legal Proceedings

The Company is involved from time to time in claims, proceedings, and litigation, including the matters described in Item 8 of Part II, “Financial Statements and Supplementary Data — Note 7 — Commitments and Contingencies — Legal Proceedings” of our 2015 Annual Report on Form 10-K, as supplemented by the following:

In November 2007, an Austrian copyright collection society, Austro-Mechana, filed lawsuits against Amazon.com International Sales, Inc., Amazon EU S.à r.l., Amazon.de GmbH, Amazon.com GmbH, and Amazon Logistik in the Commercial Court of Vienna, Austria and in the District Court of Munich, Germany seeking to collect a tariff on blank digital media sold by our EU-based retail websites to customers located in Austria. In July 2008, the German court stayed the German case pending a final decision in the Austrian case. In July 2010, the Austrian court ruled in favor of Austro-Mechana and ordered us to report all sales of products to which the tariff potentially applies for a determination of damages. We contested Austro-Mechana’s claim and in September 2010 commenced an appeal in the

Commercial Court of Vienna. We lost this appeal and in March 2011 commenced an appeal in the Supreme Court of Austria. In October 2011, the Austrian Supreme Court referred the case to the European Court of Justice (“ECJ”). In July 2013, the ECJ ruled that EU law does not preclude application of the tariff where certain conditions are met and directed the case back to the Austrian Supreme Court for further proceedings. In October 2013, the Austrian Supreme Court referred the case back to the Commercial Court of Vienna for further fact finding to determine whether the tariff on blank digital media meets the conditions set by the ECJ. In August 2015, the Commercial Court of Vienna ruled that the Austrian tariff regime does not meet the conditions the ECJ set and dismissed

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Austro-Mechana's claims. In September 2015, Austro-Mechana appealed that judgment to the Higher Commercial Court of Vienna. In December 2015, the Higher Commercial Court of Vienna confirmed that the Austrian tariff regime does not meet the conditions the ECJ set and dismissed Austro-Mechana's appeal. In February 2016, Austro-Mechana appealed that judgment to the Austrian Supreme Court. A number of additional actions have been filed making similar allegations. In December 2012, a German copyright collection society, Zentralstelle für private Überspielungsrechte ("ZPU"), filed a complaint against Amazon EU S.à r.l., Amazon Media EU S.à r.l., Amazon Services Europe S.à r.l., Amazon Payments Europe SCA, Amazon Europe Holding Technologies SCS, and Amazon Eurasia Holdings S.à r.l. in the District Court of Luxembourg seeking to collect a tariff on blank digital media sold by the Amazon.de retail website to customers located in Germany. In January 2013, a Belgian copyright collection society, AUVIBEL, filed a complaint against Amazon EU S.à r.l. in the Court of First Instance of Brussels, Belgium, seeking to collect a tariff on blank digital media sold by the Amazon.fr retail website to customers located in Belgium. In November 2013, the Belgian court ruled in favor of AUVIBEL and ordered us to report all sales of products to which the tariff potentially applies for a determination of damages. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In June 2012, Hand Held Products, Inc., a subsidiary of Honeywell, filed a complaint against Amazon.com, Inc., AMZN Mobile, LLC, AmazonFresh, LLC, A9.com, Inc., A9 Innovations, LLC, and Quidsi, Inc. in the United States District Court for the District of Delaware. The complaint alleges, among other things, that the use of mobile barcode reader applications, including Amazon Mobile, Amazon Price Check, Flow, and AmazonFresh, infringes U.S. Patent No. 6,015,088, entitled "Decoding Of Real Time Video Imaging." The complaint seeks an unspecified amount of damages, interest, and an injunction. In March 2016, the district court granted our motion for summary judgment of non-infringement and dismissed the case with prejudice. In April 2016, Hand Held Products appealed the district court's judgment to the United States Court of Appeals for the Federal Circuit. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

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. In March 2016, the United States District Court for the Western District of Kentucky dismissed the *Vance* case with prejudice. In April 2016, the plaintiffs appealed the district court's judgment to the United States Court of Appeals for the Federal Circuit. We dispute any remaining allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

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 6 — Income Taxes.”

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## Note 4 — LONG-TERM DEBT

In December 2014 and November 2012, we issued \$6.0 billion and \$3.0 billion of unsecured senior notes, of which \$8.3 billion is outstanding, as described in the table below (collectively, the “Notes”). As of March 31, 2016, and December 31, 2015, the unamortized discount on the Notes was \$96 million and \$97 million. We also have other long-term debt with a carrying amount, including the current portion, of \$155 million and \$312 million as of March 31, 2016, and December 31, 2015. The face value of our total long-term debt obligations is as follows (in millions):

	March 31, December	
	2016	31, 2015
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	155	312
Total debt	8,405	8,562
Less current portion of long-term debt	(90 )	(238 )
Face value of long-term debt	\$ 8,315	\$ 8,324

(1) Issued in November 2012, effective interest rates of the 2017 and 2022 Notes were 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 \$8.9 billion and \$8.5 billion as of March 31, 2016, and December 31, 2015, which is based on quoted prices for our publicly-traded debt as of those dates.

The other debt, including the current portion, had a weighted-average interest rate of 3.40% and 3.74% as of March 31, 2016, and December 31, 2015. 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, 2016, and December 31, 2015.

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, 2016, and December 31, 2015.

## Note 5 — STOCKHOLDERS’ EQUITY

## Stock Repurchase Activity

In February 2016, the Board of Directors authorized a program to repurchase up to \$5 billion of our common stock, with no fixed expiration. This stock repurchase authorization replaces the previous \$2 billion stock repurchase authorization, approved by the Board of Directors in 2010. There were no repurchases of common stock in Q1 2016 or Q1 2015.



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## Stock Award Activity

Common shares outstanding plus shares underlying outstanding stock awards totaled 490 million as of March 31, 2016 and December 31, 2015. 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, 2016.

The following table summarizes our restricted stock unit activity for the three months ended March 31, 2016 (in millions):

	Number of Units	Weighted-Average Grant-Date Fair Value
Outstanding as of December 31, 2015	18.9	\$ 362
Units granted	0.9	566
Units vested	(1.0 )	271
Units forfeited	(0.6 )	374
Outstanding as of March 31, 2016	18.2	\$ 377

Scheduled vesting for outstanding restricted stock units as of March 31, 2016, is as follows (in millions):

	Nine Months Ended December 31, 2016	Year Ended December 31, 2017	2018	2019	2020	Thereafter	Total
Scheduled vesting—restricted stock units	6.3	6.8	3.8	1.9	0.2	0.2	18.2

As of March 31, 2016, there was \$2.9 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 6 — 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 2016, our effective tax rate will be affected by the adverse impact of nondeductible expenses, state income taxes, and losses incurred in certain foreign jurisdictions for which we may not realize a related tax benefit, partially offset by the favorable effect of the U.S. federal research and development credit. We expect a decline in the proportion of losses for which we may not realize a related tax benefit in 2016. These losses are primarily due to losses of foreign subsidiaries, which 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 impacted by the amount of pre-tax income relative to income tax expense and changes in tax law. We will generate income in lower tax

jurisdictions primarily related to our European operations, which are headquartered in Luxembourg. Our income tax provision was \$475 million and \$71 million in Q1 2016 and Q1 2015. Cash paid for income taxes (net of refunds) was \$139 million and \$55 million in Q1 2016 and Q1 2015. As of March 31, 2016, and December 31, 2015, tax contingencies were \$1.3 billion and \$1.2 billion. We expect the total amount of tax contingencies will grow in 2016. 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

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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, Italy, Japan, Luxembourg, and the United Kingdom. We are under, or may be subject to, audit or examination and additional assessments in respect of these particular jurisdictions for 2003 and thereafter.

#### Note 7 — SEGMENT INFORMATION

We have organized our operations into three segments: North America, International, and AWS. 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 expenses 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. In Q1 2016, we began allocating stock-based compensation and "Other operating expense (income), net" to our segment results. In our segment results, these amounts are combined and titled "Stock-based compensation and other." There are no internal revenue transactions between our reportable segments. These segments reflect the way the Company evaluates its business performance and manages its operations.

#### North America

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

#### International

The International segment primarily consists of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through internationally-focused websites such as [www.amazon.com.au](http://www.amazon.com.au),

www.amazon.com.br, www.amazon.cn, www.amazon.fr, www.amazon.de, www.amazon.in, www.amazon.it, www.amazon.co.jp, www.amazon.nl, www.amazon.es, and www.amazon.co.uk. This segment includes export sales from these internationally-focused websites (including export sales from these sites to customers in the U.S., Mexico, and Canada), but excludes export sales from our North American websites.

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## AWS

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

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

	Three Months Ended March 31,	
	2016	2015
North America		
Net sales	\$16,996	\$13,406
Segment operating expenses	16,072	12,889
Segment operating income (loss) before stock-based compensation and other	924	517
Stock-based compensation and other	336	263
Operating income (loss)	\$588	\$254
International		
Net sales	\$9,566	\$7,745
Segment operating expenses	9,546	7,821
Segment operating income (loss) before stock-based compensation and other	20	(76 )
Stock-based compensation and other	141	118
Operating income (loss)	\$(121 )	\$(194 )
AWS		
Net sales	\$2,566	\$1,566
Segment operating expenses	1,850	1,301
Segment operating income (loss) before stock-based compensation and other	716	265
Stock-based compensation and other	112	70
Operating income (loss)	\$604	\$195
Consolidated		
Net sales	\$29,128	\$22,717
Segment operating expenses	27,468	22,011
Segment operating income (loss) before stock-based compensation and other	1,660	706
Stock-based compensation and other	589	451
Operating income (loss)	1,071	255
Total non-operating income (expense)	(15 )	(234 )
Provision for income taxes	(475 )	(71 )
Equity-method investment activity, net of tax	(68 )	(7 )
Net income (loss)	\$513	\$(57 )

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

	Three Months Ended March 31,	
	2016	2015
Net Sales:		
Media	\$5,688	\$5,289
Electronics and other general merchandise	20,545	15,628
AWS	2,566	1,566
Other (1)	329	234



Consolidated

\$29,128 \$22,717

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

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

#### Forward-Looking Statements

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

For additional information, see Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview" of our 2015 Annual Report on Form 10-K.

#### Critical Accounting Judgments

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, see Item 8 of Part II, "Financial Statements and Supplementary Data — Note 1 — Description of Business and Accounting Policies," of our 2015 Annual Report on Form 10-K and Item 1 of Part I, "Financial Statements — Note 1 — Accounting Policies," of this Form 10-Q. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

#### Inventories

Inventories, consisting of products available for sale, are primarily accounted for using the first-in first-out method, and are valued at the lower of cost or market value. This valuation requires us to make judgments, based on currently-available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category. These assumptions about future disposition of inventory are inherently uncertain and changes in our estimates and assumptions may cause us to realize material write-downs in the future. As a measure of sensitivity, for every 1% of additional inventory valuation allowance as of March 31, 2016, we would have recorded an additional cost of sales of approximately \$110 million.

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

#### Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. The measurement date of our annual goodwill impairment test is

April 1. In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired,

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a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions. Certain estimates of discounted cash flows involve businesses and geographies with limited financial history and developing revenue models. Changes in these forecasts could significantly change the amount of impairment recorded, if any. During the quarter, management monitored the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test. For the periods presented, no triggering events were identified that required an interim impairment test. As a measure of sensitivity, a 10% decrease in the fair value of any of our reporting units as of April 1, 2015, would have had no impact on the carrying value of our goodwill. Financial and credit market volatility directly impacts the fair value measurement through our weighted-average cost of capital that we use to determine a discount rate and through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether credit or stock price changes are short-term in nature or a longer-term trend. We have not made any significant changes to the accounting methodology used to evaluate goodwill for impairment. Changes in our estimated future cash flows and asset fair values may cause us to realize material impairment charges in the future. As a measure of sensitivity, a prolonged 20% decrease from our March 31, 2016 closing stock price would not be an indicator of possible impairment.

**Stock-Based Compensation**

We measure compensation cost for stock awards at fair value and recognize it as compensation expense over the service period for awards expected to vest. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock and the fair value of stock options is estimated on the date of grant using a Black-Scholes model. The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including employee level, economic conditions, time remaining to vest, and historical forfeiture experience. We update our estimated forfeiture rate quarterly. We have not made any significant changes to the accounting methodology used to evaluate stock-based compensation. Changes in our estimates and assumptions may cause us to realize material changes in stock-based compensation expense in the future. As a measure of sensitivity, a 1% change to our estimated forfeiture rate would have had an approximately \$55 million impact on our Q1 2016 operating income. Our estimated forfeiture rate as of March 31, 2016, and December 31, 2015, was 28%.

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

**Income Taxes**

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

Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings and our effective tax rate would be adversely affected. We are also currently subject to audit in various jurisdictions, and these jurisdictions may assess additional income tax liabilities against us. Developments in an audit, litigation, or the relevant laws, regulations, administrative practices, principles, and interpretations

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could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods. For instance, the IRS is seeking to increase our U.S. taxable income related to transfer pricing with our foreign subsidiaries for transactions undertaken in 2005 and 2006, and we are currently contesting the matter in U.S. Tax Court. In addition to the risk of additional tax for 2005 and 2006 transactions, if this litigation is adversely determined or if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, 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. Although we believe our tax estimates are reasonable, the final outcome of tax audits, investigations, and any related litigation could be materially different from our historical income tax provisions and accruals.

Recent Accounting Pronouncements

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

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## Liquidity and Capital Resources

Cash flow information is as follows (in millions):

	Three Months		Twelve Months	
	Ended		Ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Cash provided by (used in):				
Operating activities	\$(2,160)	\$(1,499)	\$11,258	\$7,845
Investing activities	(693 )	(1,847 )	(5,296 )	(5,989 )
Financing activities	(789 )	(652 )	(3,900 )	3,955

Our principal sources of liquidity are cash flows generated from operations and our cash, cash equivalents, and marketable securities balances, which, at fair value, were \$15.9 billion and \$19.8 billion as of March 31, 2016, and December 31, 2015. Amounts held in foreign currencies were \$5.8 billion and \$7.3 billion as of March 31, 2016, and December 31, 2015, and were primarily Euros, Japanese Yen, and British Pounds.

Cash provided by (used in) operating activities was \$(2.2) billion and \$(1.5) billion for Q1 2016 and Q1 2015. Our operating cash flows result primarily from cash received from our consumer, seller, developer, enterprise, and content creator customers, advertising agreements, and our co-branded credit card agreements, offset by cash payments we make for products and services, employee compensation (less amounts capitalized related to internal use software that are reflected as cash used in investing activities), payment processing and related transaction costs, operating leases, and interest payments on our long-term obligations. Cash received from our customers and other activities generally corresponds to our net sales. Because consumers primarily use credit cards to buy from us, our receivables from consumers settle quickly. The increase in operating cash flow for the trailing twelve months ended March 31, 2016, compared to the comparable prior year period, was primarily due to increase in net income (loss), excluding non-cash charges such as depreciation, amortization, and stock-based compensation, offset by changes in working capital. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Cash provided by (used in) investing activities corresponds with cash capital expenditures, including leasehold improvements, internal-use software and website development costs, cash outlays for acquisitions, investments in other companies and intellectual property rights, and purchases, sales, and maturities of marketable securities. Cash provided by (used in) investing activities was \$(693) million and \$(1.8) billion for Q1 2016 and Q1 2015, with the variability caused primarily by our decision to purchase or lease property and equipment, purchases, maturities, and sales of marketable securities, and changes in cash paid for acquisitions. Cash capital expenditures were \$1.2 billion and \$871 million during Q1 2016 and Q1 2015. This primarily reflects additional investments in support of continued business growth due to investments in technology infrastructure (the majority of which is to support AWS) and additional capacity to support our fulfillment operations. Capital expenditures included \$111 million and \$129 million for internal-use software and website development during Q1 2016 and Q1 2015. Stock-based compensation capitalized for internal-use software and website development costs does not affect cash flows. We made cash payments, net of acquired cash, related to acquisition and other investment activity of \$16 million and \$365 million during Q1 2016 and Q1 2015.

Cash provided by (used in) financing activities was \$(789) million and \$(652) million for Q1 2016 and Q1 2015. Cash outflows from financing activities result from principal repayments on obligations related to capital leases and finance leases and repayments of long-term debt and other. Principal repayments on obligations related to capital leases and finance leases and repayments of long-term debt and other were \$1.0 billion and \$857 million in Q1 2016 and Q1 2015. Property and equipment acquired under capital leases was \$875 million and \$954 million during Q1 2016 and Q1 2015, reflecting investments in support of continued business growth primarily due to investments in technology infrastructure for AWS. We expect this trend toward additional investment to continue over time. Cash inflows from financing activities primarily result from proceeds from long-term debt and other and tax benefits relating to excess stock-based compensation deductions. Proceeds from long-term debt and other were \$9 million and \$183 million in

Q1 2016 and Q1 2015. Tax benefits relating to excess stock-based compensation deductions are presented as financing cash flows. Cash inflows from tax benefits related to stock-based compensation deductions were \$207 million and \$22 million in Q1 2016 and Q1 2015.

We had no borrowings outstanding under our \$2.0 billion Credit Agreement as of March 31, 2016. See Item 1 of Part I, “Financial Statements — Note 4 — Long-Term Debt” for additional information.

We recorded net tax provisions of \$475 million and \$71 million in Q1 2016 and Q1 2015. Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings, and our effective tax rate would be adversely affected. We have tax benefits relating to excess stock-



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based compensation deductions and accelerated depreciation deductions that are being utilized to reduce our U.S. taxable income. In December 2015, U.S. legislation was enacted that extended accelerated depreciation deductions on qualifying property through 2019. Cash taxes paid (net of refunds) were \$139 million and \$55 million for Q1 2016 and Q1 2015. As of December 31, 2015, our federal net operating loss carryforward was approximately \$1.1 billion and we had approximately \$622 million of federal tax credits potentially available to offset future tax liabilities. Our federal tax credits are primarily related to the U.S. federal research and development credit, which was made permanent in 2015. As we utilize our federal net operating losses and tax credits, we expect cash paid for taxes to significantly increase. We endeavor to manage our global taxes on a cash basis, rather than on a financial reporting basis.

Our liquidity is also affected by restricted cash balances that are pledged as collateral for standby and trade letters of credit, guarantees, debt, and real estate leases. To the extent we process payments for third-party sellers or offer certain types of stored value to our customers, some jurisdictions may restrict our use of those funds. These restrictions would result in the reclassification of a portion of our cash and cash equivalents from “Cash and cash equivalents” to restricted cash, which is classified within “Accounts receivable, net and other” on our consolidated balance sheets. As of March 31, 2016, and December 31, 2015, restricted cash, cash equivalents, and marketable securities were \$311 million and \$285 million. See Item 1 of Part I, “Financial Statements — Note 3 — Commitments and Contingencies” for additional discussion of our principal contractual commitments, as well as our pledged assets. Purchase obligations and open purchase orders, consisting of inventory and significant non-inventory commitments, were \$6.5 billion as of March 31, 2016. Purchase obligations and open purchase orders are generally cancellable in full or in part through the contractual provisions.

On average, our high inventory velocity means we generally collect from consumers before our payments to suppliers come due. Inventory turnover<sup>1</sup> was 9 for Q1 2016 and Q1 2015. We expect variability in inventory turnover over time since it is affected by several factors, including our product mix, the mix of sales by us and by third-party sellers, our continuing focus on in-stock inventory availability and selection of product offerings, our investment in new geographies and product lines, and the extent to which we choose to utilize third-party fulfillment providers. We believe that cash flows generated from operations and our cash, cash equivalents, and marketable securities balances, as well as borrowing available under our credit agreements, will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. See Item 1A of Part II, “Risk Factors.” We continually evaluate opportunities to sell additional equity or debt securities, obtain credit facilities, obtain capital, finance, and operating lease arrangements, repurchase common stock, pay dividends, or repurchase, refinance, or otherwise restructure our debt for strategic reasons or to further strengthen our financial position.

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

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

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## Results of Operations

We have organized our operations into three segments: North America, International, and AWS. In the first quarter of 2016, we began allocating stock-based compensation and “Other operating expense (income), net” to our segment results. These segments reflect the way the Company evaluates its business performance and manages its operations. See Item 1 of Part I, “Financial Statements — Note 7 — Segment Information.”

## Net Sales

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

	Three Months Ended March 31,		
	2016	2015	
Net Sales:			
North America	\$ 16,996	\$ 13,406	
International	9,566	7,745	
AWS	2,566	1,566	
Total consolidated	\$ 29,128	\$ 22,717	
Year-over-year Percentage Growth:			
North America	27	% 24	%
International	24	(2	)
AWS	64	49	
Total consolidated	28	15	
Year-over-year Percentage Growth, excluding the effect of foreign exchange rates:			
North America	27	% 24	%
International	26	14	
AWS	64	49	
Total consolidated	29	22	
Net Sales Mix:			
North America	58	% 59	%
International	33	34	
AWS	9	7	
Total consolidated	100	% 100	%

Sales increased 28% in Q1 2016 compared to the comparable prior year period. Changes in foreign currency exchange rates impacted net sales by \$(210) million and \$(1.3) billion for Q1 2016 and Q1 2015. For a discussion of the effect on sales growth of foreign exchange rates, see “Effect of Foreign Exchange Rates” below.

North America sales increased 27% in Q1 2016, compared to the comparable prior year period. The sales growth primarily reflects increased unit sales, including sales by marketplace sellers. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, sales in faster growing categories such as electronics and other general merchandise, increased in-stock inventory availability, and increased selection of product offerings.

International sales increased 24% in Q1 2016, compared to the comparable prior year period. The sales growth primarily reflects increased unit sales, including sales by marketplace sellers. Changes in foreign currency exchange rates impacted International net sales by \$(177) million and \$(1.3) billion for Q1 2016 and Q1 2015. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, sales in faster growing categories such as electronics and other general merchandise, increased in-stock inventory availability, and increased selection of product offerings.



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AWS sales increased 64% in Q1 2016, compared to the comparable prior year period. The sales growth primarily reflects increased customer usage, partially offset by pricing changes. Pricing changes were driven largely by our continued efforts to reduce prices for our customers.

## Operating Income (Loss)

Operating income (loss) by segment is as follows (in millions):

	Three Months Ended March 31,	
	2016	2015
Operating Income (Loss):		
North America	\$588	\$254
International	(121 )	(194 )
AWS	604	195
Total consolidated	\$1,071	\$255

Operating income (loss) increased to \$1.1 billion in Q1 2016, from \$255 million in Q1 2015. We believe that operating income (loss) is a more meaningful measure than gross profit and gross margin due to the diversity of our product categories and services.

The increase in North America operating income in absolute dollars in Q1 2016, compared to the comparable prior year period, is primarily due to increased unit sales, including sales by marketplace sellers, partially offset by increased levels of operating expenses to expand our fulfillment capacity and spending on technology infrastructure. There was a favorable impact from foreign exchange rates of \$5 million for Q1 2016.

The decrease in International operating loss in absolute dollars in Q1 2016, compared to the comparable prior year period, is primarily due to increased unit sales, including sales by marketplace sellers, partially offset by increased levels of operating expenses to expand our fulfillment capacity, spending on technology infrastructure and marketing efforts. There was a favorable impact from foreign exchange rates of \$21 million for Q1 2016.

The increase in AWS operating income in absolute dollars in Q1 2016, compared to the comparable prior year period, is primarily due to increased customer usage and cost structure productivity, partially offset by pricing changes and increased spending on technology infrastructure, which was primarily driven by additional investments to support the business growth. There was a favorable impact from foreign exchange rates of \$24 million for Q1 2016.

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## Supplemental Information

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

	Three Months Ended	
	March 31,	
	2016	2015
Outbound Shipping Activity:		
Shipping revenue (1)(2)(3)	\$1,820	\$1,299
Shipping costs (4)	(3,275 )	(2,309 )
Net shipping cost	\$(1,455)	\$(1,010)
Year-over-year Percentage Growth:		
Shipping revenue	40	% 53 %
Shipping costs	42	26
Net shipping cost	44	3

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

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

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

(4) Includes sortation and delivery center costs.

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

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

	Three Months Ended March 31,			
	2016	2015		
Net Sales:				
North America				
Media	\$3,208	\$2,969		
Electronics and other general merchandise	13,511	10,250		
Other (1)	277	187		
Total North America	\$16,996	\$13,406		
International				
Media	\$2,480	\$2,320		
Electronics and other general merchandise	7,034	5,378		
Other (1)	52	47		
Total International	\$9,566	\$7,745		
Year-over-year Percentage Growth:				
North America				
Media	8	% 5	%	
Electronics and other general merchandise	32	31		
Other	48	22		
Total North America	27	24		
International				
Media	7	% (12	)%	
Electronics and other general merchandise	31	4		
Other	12	(12 )		
Total International	24	(2 )		
Year-over-year Percentage Growth, excluding the effect of foreign exchange rates:				
North America				
Media	8	% 5	%	
Electronics and other general merchandise	32	31		
Other	48	22		
Total North America	27	24		
International				
Media	9	% 2	%	
Electronics and other general merchandise	33	21		
Other	15	2		
Total International	26	14		

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

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## Operating Expenses

Information about operating expenses follows (in millions):

	Three Months Ended			
	March 31,			
	2016	2015		
Operating Expenses:				
Cost of sales	\$18,866	\$15,395		
Fulfillment	3,687	2,759		
Marketing	1,436	1,083		
Technology and content	3,526	2,754		
General and administrative	497	427		
Other operating expense (income), net	45	44		
Total operating expenses	\$28,057	\$22,462		
Year-over-year Percentage Growth:				
Cost of sales	23	% 10	%	
Fulfillment	34	19		
Marketing	33	25		
Technology and content	28	38		
General and administrative	16	31		
Other operating expense (income), net	2	27		
Percent of Net Sales:				
Cost of sales	64.8	% 67.8	%	
Fulfillment	12.7	12.1		
Marketing	4.9	4.8		
Technology and content	12.1	12.1		
General and administrative	1.7	1.9		
Other operating expense (income), net	0.2	0.2		

## Cost of Sales

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

The increase in cost of sales in absolute dollars in Q1 2016, compared to the comparable prior year period, is primarily due to increased product and shipping costs resulting from increased sales.

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

## Fulfillment

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





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and fulfillment costs are higher as a percentage of sales versus our retail sales, sales by our sellers have higher fulfillment costs as a percent of net sales.

The increase in fulfillment costs in absolute dollars in Q1 2016, compared to the comparable prior year period, is primarily due to variable costs corresponding with increased physical and digital product and service sales volume, inventory levels, and sales mix; costs from expanding fulfillment capacity; and payment processing and related transaction costs.

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

### Marketing

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

The increase in marketing costs in absolute dollars in Q1 2016, compared to the comparable prior year period, is primarily due to increased spending on online marketing channels, as well as payroll and related expenses.

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

### Technology and Content

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

We seek to invest efficiently in several areas of technology and content so we may continue to enhance the customer experience and improve our process efficiency through rapid technology developments while operating at an ever increasing scale. Our technology and content investment and capital spending projects often support a variety of product and service offerings due to geographic expansion and the cross-functionality of our systems and operations. We expect spending in technology and content to increase over time as we continue to add employees and technology infrastructure. The increase in technology and content costs in absolute dollars in Q1 2016, compared to the comparable prior year period, is primarily due to increased spending on technology infrastructure principally allocated to our AWS segment, and an increase in payroll and related costs associated with expanding our products and services.

Technology infrastructure expenses consist of servers, networking equipment, and data center related depreciation, rent, utilities, and payroll expenses. These costs are allocated to segments based on usage. During Q1 2016, we expanded our technology infrastructure principally by increasing our capacity for AWS service offerings globally, compared to the comparable prior year period. Additionally, the costs associated with operating and maintaining our expanded infrastructure have increased over time, corresponding with increased usage. We expect these trends to continue over time as we invest in technology infrastructure to support increased usage. See Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview” of our 2015 Annual Report on Form 10-K for a discussion of how management views advances in technology and the importance of innovation.

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

During Q1 2016 and Q1 2015, we capitalized \$135 million (including \$24 million of stock-based compensation) and \$153 million (including \$24 million of stock-based compensation) of costs associated with internal-use software and

website development. Amortization of previously capitalized amounts was \$161 million and \$152 million for Q1 2016 and Q1 2015.

**General and Administrative**

The increase in general and administrative costs in absolute dollars in Q1 2016, compared to the comparable prior year period, is primarily due to increases in payroll and related expenses.

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Other Operating Expense (Income), Net

Other operating expense (income), net was \$45 million and \$44 million for Q1 2016 and Q1 2015, and was primarily related to the amortization of intangible assets.

Interest Income and Expense

Our interest income was \$21 million and \$11 million during Q1 2016 and Q1 2015. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Our interest income corresponds with the average balance of invested funds based on the prevailing rates, which vary depending on the geographies and currencies in which they are invested.

Interest expense was \$117 million and \$115 million during Q1 2016 and Q1 2015. The increase is primarily due to increases in our long-term debt, and capital and finance lease arrangements.

Other Income (Expense), Net

Other income (expense), net was \$81 million and \$(130) million during Q1 2016 and Q1 2015. The primary component of other income (expense), net is related to foreign-currency gains (losses).

Income Taxes

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

Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to significant variation due to several factors, including variability in our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, acquisitions (including integrations) and investments, audit-related developments, foreign currency gains (losses), changes in law, regulations, and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized.

Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

In 2016, our effective tax rate will be affected by the adverse impact of nondeductible expenses, state income tax, and losses incurred in certain foreign jurisdictions for which we may not realize a related tax benefit, partially offset by the favorable effect of the U.S. federal research and development credit. We expect a decline in the proportion of losses for which we may not realize a related tax benefit in 2016. These losses are primarily due to losses of foreign subsidiaries, which 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 impacted by the amount of pre-tax income relative to income tax expense and changes in tax law. We will generate income in lower tax jurisdictions primarily related to our European operations, which are headquartered in Luxembourg.

Our income tax provision was \$475 million and \$71 million in Q1 2016 and Q1 2015.

Equity-Method Investment Activity, Net of Tax

Equity-method investment activity, net of tax, was \$(68) million and \$(7) million during Q1 2016 and Q1 2015. The primary components of this activity were impairments recorded in Q1 2016 and our equity-method investment losses during both periods.

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## Effect of Foreign Exchange Rates

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

	Three Months Ended March 31,					
	2016			2015		
	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported
Net sales	\$29,338	\$ (210 )	\$ 29,128	\$24,005	\$ (1,288 )	\$ 22,717
Operating expenses	28,317	(260 )	28,057	23,727	(1,265	