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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015
or

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

For the transition period from to .
Commission File No. 000-22513

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

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

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

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

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

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

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

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

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

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

Item 1. Financial Statements
AMAZON.COM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

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

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

See accompanying notes to consolidated financial statements.

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

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

(1) Includes stock-based compensation as follows:

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

Note 1 — ACCOUNTING POLICIES

Unaudited Interim Financial Information

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

Prior Period Reclassifications

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

Principles of Consolidation

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

Use of Estimates

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

Earnings per Share

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

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

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

Recent Accounting Pronouncements

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

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

Note 2 — CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

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

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

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

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

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

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

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

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

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

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

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

Note 3 — COMMITMENTS AND CONTINGENCIES

Commitments

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

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

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

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

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

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

Pledged Assets

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

Legal Proceedings

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

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

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

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

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

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

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

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

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

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

See also "Note 7 — Income Taxes."

Note 4 — ACQUISITIONS, GOODWILL, AND ACQUIRED INTANGIBLE ASSETS

2015 Acquisition Activity

During the nine months ended September 30, 2015, we acquired certain companies for an aggregate purchase price of $393 million. The primary reasons for these acquisitions, none of which was individual