

FORM 10-K

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 000-22513

None

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒ x

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

Large accelerated filer ☒ Accelerated filer ☐  
Non-accelerated filer ☐ Smaller reporting company ☐  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2018	\$693,894,417,636
Number of shares of common stock outstanding as of January 23, 2019	491,202,890

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DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant’s definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2019, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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AMAZON.COM, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2018

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AMAZON.COM, INC.

PART I

Item 1. Business

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on expectations, estimates, and projections as of the date of this filing. Actual results may differ materially from those expressed in forward-looking statements. See Item 1A of Part I — “Risk Factors.”

Amazon.com, Inc. was incorporated in 1994 in the state of Washington and reincorporated in 1996 in the state of Delaware. Our principal corporate offices are located in Seattle, Washington. We completed our initial public offering in May 1997 and our common stock is listed on the Nasdaq Global Select Market under the symbol “AMZN.”

As used herein, “Amazon.com,” “we,” “our,” and similar terms include Amazon.com, Inc. and its subsidiaries, unless the context indicates otherwise.

General

We seek to be Earth’s most customer-centric company. We are guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking. In each of our segments, we serve our primary customer sets, consisting of consumers, sellers, developers, enterprises, and content creators. In addition, we provide services, such as advertising.

We have organized our operations into three segments: North America, International, and Amazon Web Services (“AWS”). These segments reflect the way the Company evaluates its business performance and manages its operations. Information on our net sales is contained in Item 8 of Part II, “Financial Statements and Supplementary Data — Note 10 — Segment Information.” The financial results of Whole Foods Market, Inc. (“Whole Foods Market”) have been included in our consolidated financial statements from the date of acquisition on August 28, 2017.

Consumers

We serve consumers through our online and physical stores and focus on selection, price, and convenience. We design our stores to enable hundreds of millions of unique products to be sold by us and by third parties across dozens of product categories. Customers access our offerings through our websites, mobile apps, Alexa, and physically visiting our stores. We also manufacture and sell electronic devices, including Kindle e-readers, Fire tablets, Fire TVs, and Echo devices, and we develop and produce media content. We strive to offer our customers the lowest prices possible through low everyday product pricing and shipping offers, and to improve our operating efficiencies so that we can continue to lower prices for our customers. We also provide easy-to-use functionality, fast and reliable fulfillment, and timely customer service. In addition, we offer Amazon Prime, a membership program that includes unlimited free shipping on over 100 million items, access to unlimited streaming of thousands of movies and TV episodes, and other benefits.

We fulfill customer orders in a number of ways, including through: North America and International fulfillment and delivery networks that we operate; co-sourced and outsourced arrangements in certain countries; digital delivery; and through our physical stores. We operate customer service centers globally, which are supplemented by co-sourced arrangements. See Item 2 of Part I, “Properties.”

Sellers

We offer programs that enable sellers to grow their businesses, sell their products in our stores, and fulfill orders through us. We are not the seller of record in these transactions. We earn fixed fees, a percentage of sales, per-unit activity fees, interest, or some combination thereof, for our seller programs.

Developers and Enterprises

We serve developers and enterprises of all sizes, including start-ups, government agencies, and academic institutions, through our AWS segment, which offers a broad set of global compute, storage, database, and other service offerings.

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### Content Creators

We serve authors and independent publishers with Kindle Direct Publishing, an online service that lets independent authors and publishers choose a royalty option and make their books available in the Kindle Store, along with Amazon's own publishing arm, Amazon Publishing. We also offer programs that allow authors, musicians, filmmakers, skill and app developers, and others to publish and sell content.

### Competition

Our businesses encompass a large variety of product types, service offerings, and delivery channels. The worldwide marketplace in which we compete is evolving rapidly and intensely competitive, and we face a broad array of competitors from many different industry sectors around the world. Our current and potential competitors include: (1) physical, e-commerce, and omnichannel retailers, publishers, vendors, distributors, manufacturers, and producers of the products we offer and sell to consumers and businesses; (2) publishers, producers, and distributors of physical, digital, and interactive media of all types and all distribution channels; (3) web search engines, comparison shopping websites, social networks, web portals, and other online and app-based means of discovering, using, or acquiring goods and services, either directly or in collaboration with other retailers; (4) companies that provide e-commerce services, including website development, advertising, fulfillment, customer service, and payment processing; (5) companies that provide fulfillment and logistics services for themselves or for third parties, whether online or offline; (6) companies that provide information technology services or products, including on-premises or cloud-based infrastructure and other services; and (7) companies that design, manufacture, market, or sell consumer electronics, telecommunication, and electronic devices. We believe that the principal competitive factors in our retail businesses include selection, price, and convenience, including fast and reliable fulfillment. Additional competitive factors for our seller and enterprise services include the quality, speed, and reliability of our services and tools, as well as customers' ability and willingness to change business practices. Some of our current and potential competitors have greater resources, longer histories, more customers, greater brand recognition, and greater control over inputs critical to our various businesses. They may secure better terms from suppliers, adopt more aggressive pricing, pursue restrictive distribution agreements that restrict our access to supply, direct consumers to their own offerings instead of ours, lock-in potential customers with restrictive terms, and devote more resources to technology, infrastructure, fulfillment, and marketing. Each of our businesses is also subject to rapid change and the development of new business models and the entry of new and well-funded competitors. Other companies also may enter into business combinations or alliances that strengthen their competitive positions.

### Intellectual Property

We regard our trademarks, service marks, copyrights, patents, domain names, trade dress, trade secrets, proprietary technologies, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade-secret protection, and confidentiality and/or license agreements with our employees, customers, partners, and others to protect our proprietary rights. We have registered, or applied for the registration of, a number of U.S. and international domain names, trademarks, service marks, and copyrights. Additionally, we have filed U.S. and international patent applications covering certain of our proprietary technology. We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights to third parties.

### Seasonality

Our business is affected by seasonality, which historically has resulted in higher sales volume during our fourth quarter, which ends December 31. We recognized 32%, 34%, and 31% of our annual revenue during the fourth quarter of 2016, 2017, and 2018. Fourth quarter 2017 results include revenue attributable to Whole Foods Market, which we acquired on August 28, 2017.

### Employees

We employed approximately 647,500 full-time and part-time employees as of December 31, 2018. However, employment levels fluctuate due to seasonal factors affecting our business. Additionally, we utilize independent contractors and temporary personnel to supplement our workforce. We have works councils, statutory employee representation obligations, and union agreements in certain countries outside the United States and at certain of our studio operations within the United States. We consider our employee relations to be good. Competition for qualified

personnel in our industry has historically been intense, particularly for software engineers, computer scientists, and other technical staff.

Available Information

Our investor relations website is [amazon.com/ir](https://amazon.com/ir) and we encourage investors to use it as a way of easily finding information about us. We promptly make available on this website, free of charge, the reports that we file or furnish with the

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Securities and Exchange Commission (“SEC”), corporate governance information (including our Code of Business Conduct and Ethics), and select press releases.

## Executive Officers and Directors

The following tables set forth certain information regarding our Executive Officers and Directors as of January 23, 2019:

## Executive Officers of the Registrant

Name	Age	Position
Jeffrey P. Bezos	55	President, Chief Executive Officer, and Chairman of the Board
Jeffrey M. Blackburn	49	Senior Vice President, Business Development
Andrew R. Jassy	51	CEO Amazon Web Services
Brian T. Olsavsky	55	Senior Vice President and Chief Financial Officer
Shelley L. Reynolds	54	Vice President, Worldwide Controller, and Principal Accounting Officer
Jeffrey A. Wilke	52	CEO Worldwide Consumer
David A. Zapolsky	55	Senior Vice President, General Counsel, and Secretary

Jeffrey P. Bezos. Mr. Bezos has been Chairman of the Board of Amazon.com since founding it in 1994 and Chief Executive Officer since May 1996. Mr. Bezos served as President of the Company from founding until June 1999 and again from October 2000 to the present.

Jeffrey M. Blackburn. Mr. Blackburn has served as Senior Vice President, Business Development, since April 2006.

Andrew R. Jassy. Mr. Jassy has served as CEO Amazon Web Services since April 2016, and Senior Vice President, Amazon Web Services, from April 2006 until April 2016.

Brian T. Olsavsky. Mr. Olsavsky has served as Senior Vice President and Chief Financial Officer since June 2015, Vice President, Finance for the Global Consumer Business from December 2011 to June 2015, and numerous financial leadership roles across Amazon with global responsibility since April 2002.

Shelley L. Reynolds. Ms. Reynolds has served as Vice President, Worldwide Controller, and Principal Accounting Officer since April 2007.

Jeffrey A. Wilke. Mr. Wilke has served as CEO Worldwide Consumer since April 2016, Senior Vice President, Consumer Business, from February 2012 until April 2016, and as Senior Vice President, North America Retail, from January 2007 until February 2012.

David A. Zapolsky. Mr. Zapolsky has served as Senior Vice President, General Counsel, and Secretary since May 2014, Vice President, General Counsel, and Secretary from September 2012 to May 2014, and as Vice President and Associate General Counsel for Litigation and Regulatory matters from April 2002 until September 2012.

## Board of Directors

Name	Age	Position
Jeffrey P. Bezos	55	President, Chief Executive Officer, and Chairman of the Board
Tom A. Alberg	78	Managing Director, Madrona Venture Group
Jamie S. Gorelick	68	Partner, Wilmer Cutler Pickering Hale and Dorr LLP
Daniel P. Huttenlocher	60	Dean and Vice Provost, Cornell Tech at Cornell University
Judith A. McGrath	66	Senior Advisor, Astronauts Wanted * No experience necessary
Jonathan J. Rubinstein	62	Former co-CEO, Bridgewater Associates, LP
Thomas O. Ryder	74	Retired, Former Chairman, Reader’s Digest Association, Inc.
Patricia Q. Stonesifer	62	President and Chief Executive Officer, Martha’s Table
Wendell P. Weeks	59	Chief Executive Officer, Corning Incorporated

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### Item 1A. Risk Factors

Please carefully consider the following risk factors. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected. In addition, the current global economic climate amplifies many of these risks.

#### We Face Intense Competition

Our businesses are rapidly evolving and intensely competitive, and we have many competitors in different industries, including physical, e-commerce, and omnichannel retail, e-commerce services, digital content and electronic devices, web and infrastructure computing services, and transportation and logistics services, and across geographies, including cross-border competition. Some of our current and potential competitors have greater resources, longer histories, more customers, and/or greater brand recognition, particularly with our newly-launched products and services and in our newer geographic regions. They may secure better terms from vendors, adopt more aggressive pricing, and devote more resources to technology, infrastructure, fulfillment, and marketing.

Competition may intensify, including with the development of new business models and the entry of new and well-funded competitors, and as our competitors enter into business combinations or alliances and established companies in other market segments expand to become competitive with our business. In addition, new and enhanced technologies, including search, web and infrastructure computing services, digital content, and electronic devices, may increase our competition. The Internet facilitates competitive entry and comparison shopping, and increased competition may reduce our sales and profits.

#### Our Expansion Places a Significant Strain on our Management, Operational, Financial, and Other Resources

We are rapidly and significantly expanding our global operations, including increasing our product and service offerings and scaling our infrastructure to support our retail and services businesses. This expansion increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. We may not be able to manage growth effectively, which could damage our reputation, limit our growth, and negatively affect our operating results.

#### Our Expansion into New Products, Services, Technologies, and Geographic Regions Subjects Us to Additional Business, Legal, Financial, and Competitive Risks

We may have limited or no experience in our newer market segments, and our customers may not adopt our offerings. These offerings may present new and difficult technology challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures or other quality issues. In addition, profitability, if any, in our newer activities may be lower than in our older activities, and we may not be successful enough in these newer activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth, and negatively affect our operating results.

#### We May Experience Significant Fluctuations in Our Operating Results and Growth Rate

We may not be able to accurately forecast our growth rate. We base our expense levels and investment plans on sales estimates. A significant portion of our expenses and investments is fixed, and we may not be able to adjust our spending quickly enough if our sales are less than expected.

Our revenue growth may not be sustainable, and our percentage growth rates may decrease. Our revenue and operating profit growth depends on the continued growth of demand for the products and services offered by us or our sellers, and our business is affected by general economic and business conditions worldwide. A softening of demand, whether caused by changes in customer preferences or a weakening of the U.S. or global economies, may result in decreased revenue or growth.

Our sales and operating results will also fluctuate for many other reasons, including due to risks described elsewhere in this section and the following:

- our ability to retain and increase sales to existing customers, attract new customers, and satisfy our customers' demands;
- our ability to retain and expand our network of sellers;
- our ability to offer products on favorable terms, manage inventory, and fulfill orders;



the introduction of competitive stores, websites, products, services, price decreases, or improvements;  
• changes in usage or adoption rates of the Internet, e-commerce, electronic devices, and web services, including outside the U.S.;

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- timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure;
- the success of our geographic, service, and product line expansions;
- the extent to which we finance, and the terms of any such financing for, our current operations and future growth;
- the outcomes of legal proceedings and claims, which may include significant monetary damages or injunctive relief and could have a material adverse impact on our operating results;
- variations in the mix of products and services we sell;
- variations in our level of merchandise and vendor returns;
- the extent to which we offer free shipping, continue to reduce prices worldwide, and provide additional benefits to our customers;
- factors affecting our reputation or brand image;
- the extent to which we invest in technology and content, fulfillment, and other expense categories;
- increases in the prices of fuel and gasoline, as well as increases in the prices of other energy products and commodities like paper and packing supplies;
- the extent to which our equity-method investees record significant operating and non-operating items;
- the extent to which operators of the networks between our customers and our stores successfully charge fees to grant our customers unimpaired and unconstrained access to our online services;
- our ability to collect amounts owed to us when they become due;
- the extent to which use of our services is affected by spyware, viruses, phishing and other spam emails, denial of service attacks, data theft, computer intrusions, outages, and similar events; and
- terrorist attacks and armed hostilities.

### Our International Operations Expose Us to a Number of Risks

Our international activities are significant to our revenues and profits, and we plan to further expand internationally. In certain international market segments, we have relatively little operating experience and may not benefit from any first-to-market advantages or otherwise succeed. It is costly to establish, develop, and maintain international operations and stores, and promote our brand internationally. Our international operations may not be profitable on a sustained basis.

In addition to risks described elsewhere in this section, our international sales and operations are subject to a number of risks, including:

- local economic and political conditions;
- government regulation (such as regulation of our product and service offerings and of competition); restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs); nationalization; and restrictions on foreign ownership;
- restrictions on sales or distribution of certain products or services and uncertainty regarding liability for products, services, and content, including uncertainty as a result of less Internet-friendly legal systems, local laws, lack of legal precedent, and varying rules, regulations, and practices regarding the physical and digital distribution of media products and enforcement of intellectual property rights;
- business licensing or certification requirements, such as for imports, exports, web services, and electronic devices;
- limitations on the repatriation and investment of funds and foreign currency exchange restrictions;
- limited fulfillment and technology infrastructure;
- shorter payable and longer receivable cycles and the resultant negative impact on cash flow;
- laws and regulations regarding consumer and data protection, privacy, network security, encryption, payments, and restrictions on pricing or discounts;
- lower levels of use of the Internet;
- lower levels of consumer spending and fewer opportunities for growth compared to the U.S.;
- lower levels of credit card usage and increased payment risk;
- difficulty in staffing, developing, and managing foreign operations as a result of distance, language, and cultural differences;



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different employee/employer relationships and the existence of works councils and labor unions;  
 compliance with the U.S. Foreign Corrupt Practices Act and other applicable U.S. and foreign laws prohibiting corrupt payments to government officials and other third parties;  
 laws and policies of the U.S. and other jurisdictions affecting trade, foreign investment, loans, and taxes; and  
 geopolitical events, including war and terrorism.

As international physical, e-commerce, and omnichannel retail and other services grow, competition will intensify, including through adoption of evolving business models. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, the local customer, as well as their more established local brand names. We may not be able to hire, train, retain, and manage required personnel, which may limit our international growth.

The People's Republic of China ("PRC") and India regulate Amazon's and its affiliates' businesses and operations in country through regulations and license requirements that may restrict (i) foreign investment in and operation of the Internet, IT infrastructure, data centers, retail, delivery, and other sectors, (ii) Internet content, and (iii) the sale of media and other products and services. For example, in order to meet local ownership and regulatory licensing requirements, www.amazon.cn is operated by PRC companies that are indirectly owned, either wholly or partially, by PRC nationals. In addition, we provide certain technology services in China in conjunction with third parties that hold PRC licenses to provide services. In India, the government restricts the ownership or control of Indian companies by foreign entities involved in online multi-brand retail trading activities. For www.amazon.in, we provide certain marketing tools and logistics services to third-party sellers to enable them to sell online and deliver to customers, and we hold indirect minority interests in entities that are third-party sellers on the www.amazon.in marketplace. Although we believe these structures and activities comply with existing laws, they involve unique risks, and the PRC and India are actively considering changes in their foreign investment rules that could impact these structures and activities. There are substantial uncertainties regarding the interpretation of PRC and Indian laws and regulations, and it is possible that these governments will ultimately take a view contrary to ours. In addition, our Chinese and Indian businesses and operations may be unable to continue to operate if we or our affiliates are unable to access sufficient funding or in China enforce contractual relationships with respect to management and control of such businesses. If our international activities were found to be in violation of any existing or future PRC, Indian or other laws or regulations or if interpretations of those laws and regulations were to change, our businesses in those countries could be subject to fines and other financial penalties, have licenses revoked, or be forced to restructure our operations or shut down entirely.

### **If We Do Not Successfully Optimize and Operate Our Fulfillment Network and Data Centers, Our Business Could Be Harmed**

If we do not adequately predict customer demand or otherwise optimize and operate our fulfillment network and data centers successfully, it could result in excess or insufficient fulfillment or data center capacity, or result in increased costs, impairment charges, or both, or harm our business in other ways. As we continue to add fulfillment and data center capability or add new businesses with different requirements, our fulfillment and data center networks become increasingly complex and operating them becomes more challenging. There can be no assurance that we will be able to operate our networks effectively.

In addition, a failure to optimize inventory in our fulfillment network will increase our net shipping cost by requiring long-zone or partial shipments. We and our co-sourcers may be unable to adequately staff our fulfillment network and customer service centers. If the other businesses on whose behalf we perform inventory fulfillment services deliver product to our fulfillment centers in excess of forecasts, we may be unable to secure sufficient storage space and may be unable to optimize our fulfillment network.

We rely on a limited number of shipping companies to deliver inventory to us and completed orders to our customers. If we are not able to negotiate acceptable terms with these companies or they experience performance problems or other difficulties, it could negatively impact our operating results and customer experience. In addition, our ability to receive inbound inventory efficiently and ship completed orders to customers also may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism, acts of God, and

similar factors.

Under some of our commercial agreements, we maintain the inventory of other companies, thereby increasing the complexity of tracking inventory and operating our fulfillment network. Our failure to properly handle such inventory or the inability of these other companies to accurately forecast product demand would result in unexpected costs and other harm to our business and reputation.

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### The Seasonality of Our Business Places Increased Strain on Our Operations

We expect a disproportionate amount of our net sales to occur during our fourth quarter. If we do not stock or restock popular products in sufficient amounts such that we fail to meet customer demand, it could significantly affect our revenue and our future growth. If we overstock products, we may be required to take significant inventory markdowns or write-offs and incur commitment costs, which could reduce profitability. We may experience an increase in our net shipping cost due to complimentary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our websites within a short period of time due to increased demand, we may experience system interruptions that make our websites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. In addition, we may be unable to adequately staff our fulfillment network and customer service centers during these peak periods and delivery and other fulfillment companies and customer service co-sourcers may be unable to meet the seasonal demand. We also face risks described elsewhere in this Item 1A relating to fulfillment network optimization and inventory.

We generally have payment terms with our retail vendors that extend beyond the amount of time necessary to collect proceeds from our consumer customers. As a result of holiday sales, as of December 31 of each year, our cash, cash equivalents, and marketable securities balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). This operating cycle results in a corresponding increase in accounts payable as of December 31. Our accounts payable balance generally declines during the first three months of the year, resulting in a corresponding decline in our cash, cash equivalents, and marketable securities balances.

### Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Commercial Agreements, Strategic Alliances, and Other Business Relationships

We provide physical, e-commerce, and omnichannel retail and other services to businesses through commercial agreements, strategic alliances, and business relationships. Under these agreements, we provide web services, technology, fulfillment, computing, digital storage, and other services, as well as enable sellers to offer products or services through our stores. These arrangements are complex and require substantial infrastructure capacity, personnel, and other resource commitments, which may limit the amount of business we can service. We may not be able to implement, maintain, and develop the components of these commercial relationships, which may include web services, fulfillment, customer service, inventory management, tax collection, payment processing, hardware, content, and third-party software, and engaging third parties to perform services. The amount of compensation we receive under certain of our commercial agreements is partially dependent on the volume of the other company's sales.

Therefore, if the other company's offerings are not successful, the compensation we receive may be lower than expected or the agreement may be terminated. Moreover, we may not be able to enter into additional commercial relationships and strategic alliances on favorable terms. We also may be subject to claims from businesses to which we provide these services if we are unsuccessful in implementing, maintaining, or developing these services.

As our agreements terminate, we may be unable to renew or replace these agreements on comparable terms, or at all. We may in the future enter into amendments on less favorable terms or encounter parties that have difficulty meeting their contractual obligations to us, which could adversely affect our operating results.

Our present and future e-commerce services agreements, other commercial agreements, and strategic alliances create additional risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- impairment of other relationships;
- variability in revenue and income from entering into, amending, or terminating such agreements or relationships; and
- difficulty integrating under the commercial agreements.

### Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Acquisitions and Investments

We have acquired and invested in a number of companies, and we may acquire or invest in or enter into joint ventures with additional companies. These transactions (such as our acquisition of Whole Foods Market, Inc.) create risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- problems retaining key personnel;
- additional operating losses and expenses of the businesses we acquired or in which we invested;
- the potential impairment of tangible and intangible assets and goodwill, including as a result of acquisitions;

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the potential impairment of customer and other relationships of the company we acquired or in which we invested or our own customers as a result of any integration of operations;

the difficulty of completing such transactions and achieving anticipated benefits within expected timeframes, or at all;

the difficulty of incorporating acquired operations, technology, and rights into our offerings, and unanticipated expenses related to such integration;

the difficulty of integrating a new company's accounting, financial reporting, management, information and information security, human resource, and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;

for investments in which an investee's financial performance is incorporated into our financial results, either in full or in part, the dependence on the investee's accounting, financial reporting, and similar systems, controls, and processes;

the difficulty of implementing at companies we acquire the controls, procedures, and policies appropriate for a larger public company;

the risks associated with businesses we acquire or invest in, which may differ from or be more significant than the risks our other businesses face;

potential unknown liabilities associated with a company we acquire or in which we invest; and

for foreign transactions, additional risks related to the integration of operations across different cultures and languages, and the economic, political, and regulatory risks associated with specific countries.

As a result of future acquisitions or mergers, we might need to issue additional equity securities, spend our cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce our profitability and harm our business or only be available on unfavorable terms, if at all. In addition, valuations supporting our acquisitions and strategic investments could change rapidly given the current global economic climate. We could determine that such valuations have experienced impairments or other-than-temporary declines in fair value which could adversely impact our financial results.

### **We Have Foreign Exchange Risk**

The results of operations of, and certain of our intercompany balances associated with, our international stores and product and service offerings are exposed to foreign exchange rate fluctuations. Upon translation, operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. We also hold cash equivalents and/or marketable securities in foreign currencies including British Pounds, Euros, and Japanese Yen. If the U.S. Dollar strengthens compared to these currencies, cash equivalents, and marketable securities balances, when translated, may be materially less than expected and vice versa.

### **The Loss of Key Senior Management Personnel or the Failure to Hire and Retain Highly Skilled and Other Key Personnel Could Negatively Affect Our Business**

We depend on our senior management and other key personnel, particularly Jeffrey P. Bezos, our President, CEO, and Chairman. We do not have "key person" life insurance policies. We also rely on other highly skilled personnel. Competition for qualified personnel in the technology industry has historically been intense, particularly for software engineers, computer scientists, and other technical staff. The loss of any of our executive officers or other key employees or the inability to hire, train, retain, and manage qualified personnel, could harm our business.

### **We Could Be Harmed by Data Loss or Other Security Breaches**

Because we process, store, and transmit large amounts of data, including personal information, failure to prevent or mitigate data loss or other security breaches, including breaches of our vendors' or customers' technology and systems, could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us, deter customers or sellers from using our stores and services, and otherwise harm our business and reputation. We use third-party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, and other functions. Some of our systems have experienced past security breaches, and, although they did not have a material adverse effect on our operating results, there can be no assurance of a similar result in the future. Although we have developed systems and processes that are designed to protect customer



information and prevent data loss and other security breaches, including

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systems and processes designed to reduce the impact of a security breach at a third-party vendor or customer, such measures cannot provide absolute security.

### **We Face Risks Related to System Interruption and Lack of Redundancy**

We experience occasional system interruptions and delays that make our websites and services unavailable or slow to respond and prevent us from efficiently fulfilling orders or providing services to third parties, which may reduce our net sales and the attractiveness of our products and services. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure, and take other steps to improve the efficiency of our systems, it could cause system interruptions or delays and adversely affect our operating results.

Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins, and similar events or disruptions. Any of these events could cause system interruption, delays, and loss of critical data, and could prevent us from accepting and fulfilling customer orders and providing services, which could make our product and service offerings less attractive and subject us to liability. Our systems are not fully redundant and our disaster recovery planning may not be sufficient. In addition, we may have inadequate insurance coverage to compensate for any related losses. Any of these events could damage our reputation and be expensive to remedy.

### **We Face Significant Inventory Risk**

In addition to risks described elsewhere in this Item 1A relating to fulfillment network and inventory optimization by us and third parties, we are exposed to significant inventory risks that may adversely affect our operating results as a result of seasonality, new product launches, rapid changes in product cycles and pricing, defective merchandise, changes in consumer demand and consumer spending patterns, changes in consumer tastes with respect to our products, spoilage, and other factors. We endeavor to accurately predict these trends and avoid overstocking or understocking products we manufacture and/or sell. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. In addition, when we begin selling or manufacturing a new product, it may be difficult to establish vendor relationships, determine appropriate product or component selection, and accurately forecast demand. The acquisition of certain types of inventory or components may require significant lead-time and prepayment and they may not be returnable. We carry a broad selection and significant inventory levels of certain products, such as consumer electronics, and we may be unable to sell products in sufficient quantities or during the relevant selling seasons. Any one of the inventory risk factors set forth above may adversely affect our operating results.

### **We May Not Be Able to Adequately Protect Our Intellectual Property Rights or May Be Accused of Infringing Intellectual Property Rights of Third Parties**

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade secret protection, and confidentiality and/or license agreements with our employees, customers, and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which our products and services are made available. We also may not be able to acquire or maintain appropriate domain names in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights.

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our proprietary rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

Other parties also may claim that we infringe their proprietary rights. We have been subject to, and expect to continue to be subject to, claims and legal proceedings regarding alleged infringement by us of the intellectual property rights of third parties. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us, or the payment of damages, including to satisfy indemnification obligations. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. In addition, we may not be able to obtain or utilize on terms that are favorable to us, or at all, licenses or other rights with respect to intellectual property we do not own. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

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Our digital content offerings depend in part on effective digital rights management technology to control access to digital content. If the digital rights management technology that we use is compromised or otherwise malfunctions, we could be subject to claims, and content providers may be unwilling to include their content in our service.

### **We Have a Rapidly Evolving Business Model and Our Stock Price Is Highly Volatile**

We have a rapidly evolving business model. The trading price of our common stock fluctuates significantly in response to, among other risks, the risks described elsewhere in this Item 1A, as well as:

- changes in interest rates;
- conditions or trends in the Internet and the industry segments we operate in;
- quarterly variations in operating results;
- fluctuations in the stock market in general and market prices for Internet-related companies in particular;
- changes in financial estimates by us or securities analysts and recommendations by securities analysts;
- changes in our capital structure, including issuance of additional debt or equity to the public;
- changes in the valuation methodology of, or performance by, other e-commerce or technology companies; and
- transactions in our common stock by major investors and certain analyst reports, news, and speculation.

Volatility in our stock price could adversely affect our business and financing opportunities and force us to increase our cash compensation to employees or grant larger stock awards than we have historically, which could hurt our operating results or reduce the percentage ownership of our existing stockholders, or both.

### **Government Regulation Is Evolving and Unfavorable Changes Could Harm Our Business**

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet, physical, e-commerce, and omnichannel retail, electronic devices, and other services. Existing and future laws and regulations may impede our growth. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, transportation, mobile communications, electronic device certification, electronic waste, energy consumption, environmental regulation, electronic contracts and other communications, competition, consumer protection, employment, trade and protectionist measures, web services, the provision of online payment services, information reporting requirements, unencumbered Internet access to our services or access to our facilities, the design and operation of websites, health and sanitation standards, the characteristics, legality, and quality of products and services, product labeling, and the commercial operation of unmanned aircraft systems. It is not clear how existing laws governing issues such as property ownership, libel, data protection, and personal privacy apply to the Internet, e-commerce, digital content, web services, and artificial intelligence technologies and services. Jurisdictions may regulate consumer-to-consumer online businesses, including certain aspects of our seller programs. Unfavorable regulations, laws, and decisions interpreting or applying those laws and regulations could diminish the demand for, or availability of, our products and services and increase our cost of doing business.

### **We Could Be Subject to Additional Tax Liabilities and Collection Obligations**

We are subject to a variety of taxes and tax collection obligations in the U.S. (federal and state) and numerous foreign jurisdictions. We may recognize additional tax expense and be subject to additional tax liabilities, including other liabilities for tax collection obligations due to changes in laws, regulations, administrative practices, principles, and interpretations related to tax, including changes to the global tax framework, competition, and other laws and accounting rules in various jurisdictions. Such changes could come about as a result of economic, political, and other conditions. An increasing number of jurisdictions are considering or have adopted laws or administrative practices that impose new tax measures, including revenue-based taxes, targeting online commerce and the remote selling of goods and services. These include new obligations to collect sales, consumption, value added, or other taxes on online marketplaces and remote sellers, or other requirements that may result in liability for third party obligations. For example, the European Union, certain member states, and other countries have proposed or enacted taxes on online advertising and marketplace service revenues. Our results of operations and cash flows could be adversely effected by additional taxes of this nature imposed on us or additional taxes or penalties resulting from the failure to comply with any collection obligations or failure to provide information about our customers, suppliers, and other third parties for tax reporting purposes to various government agencies. In some cases we also may not have sufficient notice to enable

us to build systems and adopt processes to properly comply by the effective date.

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Our tax expense and liabilities may also be affected by other factors, such as changes in our business operations, acquisitions, investments, entry into new businesses and geographies, intercompany transactions, the relative amount of our foreign earnings, losses incurred in jurisdictions for which we are not able to realize related tax benefits, the applicability of special tax regimes, changes in foreign currency exchange rates, changes in our stock price, and changes in our deferred tax assets and liabilities and their valuation. Significant judgment is required in evaluating and estimating our tax expense and liabilities. In the ordinary course of our business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, the legislation known as the U.S. Tax Cuts and Jobs Act of 2017 (the “U.S. Tax Act”) requires complex computations to be performed that were not previously required by U.S. tax law, significant judgments to be made in interpretation of the provisions of the U.S. Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies will continue to interpret or issue guidance on how provisions of the U.S. Tax Act will be applied or otherwise administered. As future guidance is issued, we may make adjustments to amounts that we have previously recorded that may materially impact our financial statements in the period in which the adjustments are made.

We are also currently subject to tax controversies in various jurisdictions, and these jurisdictions may assess additional tax liabilities against us. Developments in an audit, investigation, or other tax controversy 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. We regularly assess the likelihood of an adverse outcome resulting from these proceedings to determine the adequacy of our tax accruals. Although we believe our tax estimates are reasonable, the final outcome of audits, investigations, and any other tax controversies could be materially different from our historical tax accruals.

### **Our Supplier Relationships Subject Us to a Number of Risks**

We have significant suppliers, including licensors, and in some cases, limited or single-sources of supply, that are important to our sourcing, services, manufacturing, and any related ongoing servicing of merchandise and content. We do not have long-term arrangements with most of our suppliers to guarantee availability of merchandise, content, components, or services, particular payment terms, or the extension of credit limits. If our current suppliers were to stop selling or licensing merchandise, content, components, or services to us on acceptable terms, or delay delivery, including as a result of one or more supplier bankruptcies due to poor economic conditions, as a result of natural disasters, or for other reasons, we may be unable to procure alternatives from other suppliers in a timely and efficient manner and on acceptable terms, or at all. In addition, if our suppliers or other vendors violate applicable laws, regulations, our code of standards and responsibilities, or implement practices regarded as unethical, unsafe, or hazardous to the environment, it could damage our reputation, limit our growth, and negatively affect our operating results.

### **We May Be Subject to Risks Related to Government Contracts and Related Procurement Regulations**

Our contracts with U.S., as well as state, local, and foreign, government entities are subject to various procurement regulations and other requirements relating to their formation, administration, and performance. We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contract, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause.

### **We May Be Subject to Product Liability Claims if People or Property Are Harmed by the Products We Sell or Manufacture**

Some of the products we sell or manufacture may expose us to product liability or food safety claims relating to personal injury or illness, death, or environmental or property damage, and may require product recalls or other actions. Certain third parties also sell products using our services and stores that may increase our exposure to product liability claims, such as if these sellers do not have sufficient protection from such claims. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our agreements with our vendors and sellers do not indemnify us from product liability.

#### We Are Subject to Payments-Related Risks

We accept payments using a variety of methods, including credit card, debit card, credit accounts (including promotional financing), gift cards, direct debit from a customer's bank account, consumer invoicing, physical bank check, and payment upon delivery. For existing and future payment options we offer to our customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in significant costs and reduce the ease of use of our payments products), as well as fraud. For certain payment methods,

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including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide certain Amazon-branded payment methods and payment processing services, including the processing of credit cards, debit cards, electronic checks, and promotional financing. In each case, it could disrupt our business if these companies become unwilling or unable to provide these services to us. We also offer co-branded credit card programs, which could adversely affect our operating results if terminated. We are also subject to payment card association operating rules, including data security rules, certification requirements, and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or if our data security systems are breached, compromised, or otherwise unable to detect or prevent fraudulent activity, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

In addition, we provide regulated services in certain jurisdictions because we enable customers to keep account balances with us and transfer money to third parties, and because we provide services to third parties to facilitate payments on their behalf. In these jurisdictions, we may be subject to requirements for licensing, regulatory inspection, bonding and capital maintenance, the use, handling, and segregation of transferred funds, consumer disclosures, maintaining or processing data, and authentication. We are also subject to or voluntarily comply with a number of other laws and regulations relating to payments, money laundering, international money transfers, privacy and information security, and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to additional requirements and civil and criminal penalties, or forced to cease providing certain services.

**We Could Be Liable for Fraudulent or Unlawful Activities of Sellers**

The law relating to the liability of online service providers is currently unsettled. In addition, governmental agencies could require changes in the way this business is conducted. Under our seller programs, we may be unable to prevent sellers from collecting payments, fraudulently or otherwise, when buyers never receive the products they ordered or when the products received are materially different from the sellers' descriptions. We also may be unable to prevent sellers in our stores or through other stores from selling unlawful, counterfeit, pirated, or stolen goods, selling goods in an unlawful or unethical manner, violating the proprietary rights of others, or otherwise violating our policies.

Under our A2Z Guarantee, we reimburse buyers for payments up to certain limits in these situations, and as our third-party seller sales grow, the cost of this program will increase and could negatively affect our operating results. In addition, to the extent any of this occurs, it could harm our business or damage our reputation and we could face civil or criminal liability for unlawful activities by our sellers.

**Item 1B. Unresolved Staff Comments**

None.



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## Item 2. Properties

As of December 31, 2018, we operated the following facilities (in thousands):

Description of Use	Leased Square Footage (1)	Owned Square Footage	Location
Office space	16,642	3,901	North America
Office space	14,738	—	International
Physical stores (2)	19,176	724	North America
Physical stores (2)	173	—	International
Fulfillment, data centers, and other	153,917	4,467	North America
Fulfillment, data centers, and other	72,596	2,085	International
Total	277,242	11,177	

(1) For leased properties, represents the total leased space excluding sub-leased space.

(2) This includes 520 North America and 7 International stores as of December 31, 2018.

Segment	Leased Square Footage (1)	Owned Square Footage (1)
North America	165,503	1,977
International	70,619	895
AWS	9,740	4,404
Total	245,862	7,276

Segment amounts exclude corporate facilities. Shared facilities are allocated among the segments based on usage (1) and primarily relate to facilities that hold our technology infrastructure. See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 10 — Segment Information.”

We own and lease our corporate headquarters in Seattle, Washington and have announced plans to establish additional headquarters in New York, New York and Arlington, Virginia.

## Item 3. Legal Proceedings

See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 7 — Commitments and Contingencies — Legal Proceedings.”

## Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Registrant's Common Stock, Related Shareholder Matters, and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol "AMZN."

Holders

As of January 23, 2019, there were 2,315 shareholders of record of our common stock, although there is a much larger number of beneficial owners.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

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## Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto in Item 8 of Part II, “Financial Statements and Supplementary Data,” and the information contained in Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Historical results are not necessarily indicative of future results.

	Year Ended December 31,				
	2014	2015	2016	2017 (1)	2018
	(in millions, except per share data)				
Statements of Operations:					
Net sales	\$88,988	\$107,006	\$135,987	\$177,866	\$232,887
Operating income	\$178	\$2,233	\$4,186	\$4,106	\$12,421
Net income (loss)	\$(241 )	\$596	\$2,371	\$3,033	\$10,073
Basic earnings per share (2)	\$(0.52 )	\$1.28	\$5.01	\$6.32	\$20.68
Diluted earnings per share (2)	\$(0.52 )	\$1.25	\$4.90	\$6.15	\$20.14
Weighted-average shares used in computation of earnings per share:					
Basic	462	467	474	480	487
Diluted	462	477	484	493	500
Statements of Cash Flows:					
Net cash provided by (used in) operating activities (3)	\$6,976	\$11,909	\$17,203	\$18,365	\$30,723
	December 31,				
	2014	2015	2016	2017	2018
	(in millions)				
Balance Sheets:					
Total assets	\$53,618	\$64,747	\$83,402	\$131,310	\$162,648
Total long-term obligations	\$14,794	\$17,477	\$20,301	\$45,718	\$50,708

(1) We acquired Whole Foods Market on August 28, 2017. The results of Whole Foods Market have been included in our results of operation from the date of acquisition.

(2) For further discussion of earnings per share, see Item 8 of Part II, “Financial Statements and Supplementary Data — Note 1 — Description of Business and Accounting Policies.”

As a result of the adoption of new accounting guidance, we retrospectively adjusted our consolidated statements of cash flows to add restricted cash to cash and cash equivalents, which restated cash provided by operating activities (3) by \$128 million, \$(130) million, \$(69) million, and \$(69) million in 2014, 2015, 2016, and 2017. See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 1 — Description of Business and Accounting Policies” for additional information.

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### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Forward-Looking Statements

This Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 or other 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, proposed and completed 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 I, "Risk Factors."

#### Overview

Our primary source of revenue is the sale of a wide range of products and services to customers. The products offered through our stores include merchandise and content we have purchased for resale and products offered by third-party sellers, and we also manufacture and sell electronic devices. Generally, we recognize gross revenue from items we sell from our inventory as product sales and recognize our net share of revenue of items sold by third-party sellers as service sales. We seek to increase unit sales across our stores, through increased product selection, across numerous product categories. We also offer other services such as compute, storage, and database offerings, fulfillment, publishing, digital content subscriptions, and advertising.

Our financial focus is on long-term, sustainable growth in free cash flows<sup>1</sup>. Free cash flows are driven primarily by increasing operating income and efficiently managing working capital<sup>2</sup> and cash capital expenditures, including our decision to purchase or lease property and equipment. Increases in operating income primarily result from increases in sales of products and services and efficiently managing our operating costs, partially offset by investments we make in longer-term strategic initiatives. To increase sales of products and services, we focus on improving all aspects of the customer experience, including lowering prices, improving availability, offering faster delivery and performance times, increasing selection, increasing product categories and service offerings, expanding product information, improving ease of use, improving reliability, and earning customer trust.

We seek to reduce our variable costs per unit and work to leverage our fixed costs. Our variable costs include product and content costs, payment processing and related transaction costs, picking, packaging, and preparing orders for shipment, transportation, customer service support, costs necessary to run AWS, and a portion of our marketing costs. Our fixed costs include the costs necessary to build and run our technology infrastructure; to build, enhance, and add features to our online stores, web services, electronic devices, and digital offerings; and to build and optimize our fulfillment centers and other facilities. Variable costs generally change directly with sales volume, while fixed costs generally are dependent on the timing of capacity needs, geographic expansion, category expansion, and other factors. To decrease our variable costs on a per unit basis and enable us to lower prices for customers, we seek to increase our direct sourcing, increase discounts from suppliers, and reduce defects in our processes. To minimize growth in fixed costs, we seek to improve process efficiencies and maintain a lean culture.

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- (1) See “Results of Operations — Non-GAAP Financial Measures” below for additional information on our non-GAAP free cash flows financial measures.
- (2) Working capital consists of accounts receivable, inventory, and accounts payable.

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Because of our model we are able to turn our inventory quickly and have a cash-generating operating cycle<sup>3</sup>. On average, our high inventory velocity means we generally collect from consumers before our payments to suppliers come due. We expect variability in inventory turnover over time since it is affected by numerous 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 also expect some variability in accounts payable days over time since they are affected by several factors, including the mix of product sales, the mix of sales by third-party sellers, the mix of suppliers, seasonality, and changes in payment terms over time, including the effect of balancing pricing and timing of payment terms with suppliers.

We expect spending in technology and content will increase over time as we add computer scientists, designers, software and hardware engineers, and merchandising employees. 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 seek to invest efficiently in several areas of technology and content, including AWS, and expansion of new and existing product categories and service offerings, as well as in technology infrastructure to enhance the customer experience and improve our process efficiencies. We believe that advances in technology, specifically the speed and reduced cost of processing power and the advances of wireless connectivity, will continue to improve the consumer experience on the Internet and increase its ubiquity in people's lives. To best take advantage of these continued advances in technology, we are investing in initiatives to build and deploy innovative and efficient software and electronic devices. We are also investing in AWS, which offers a broad set of global compute, storage, database, and other service offerings to developers and enterprises of all sizes.

We seek to efficiently manage shareholder dilution while maintaining the flexibility to issue shares for strategic purposes, such as financings, acquisitions, and aligning employee compensation with shareholders' interests. We utilize restricted stock units as our primary vehicle for equity compensation because we believe this compensation model aligns the long-term interests of our shareholders and employees. In measuring shareholder dilution, we include all vested and unvested stock awards outstanding, without regard to estimated forfeitures. Total shares outstanding plus outstanding stock awards were 504 million and 507 million as of December 31, 2017 and 2018.

Our financial reporting currency is the U.S. Dollar and changes in foreign exchange rates significantly affect our reported results and consolidated trends. For example, if the U.S. Dollar weakens year-over-year relative to currencies in our international locations, our consolidated net sales and operating expenses will be higher than if currencies had remained constant. Likewise, if the U.S. Dollar strengthens year-over-year relative to currencies in our international locations, our consolidated net sales and operating expenses will be lower than if currencies had remained constant. We believe that our increasing diversification beyond the U.S. economy through our growing international businesses benefits our shareholders over the long-term. We also believe it is useful to evaluate our operating results and growth rates before and after the effect of currency changes.

In addition, the remeasurement of our intercompany balances can result in significant gains and losses associated with the effect of movements in foreign currency exchange rates. Currency volatilities may continue, which may significantly impact (either positively or negatively) our reported results and consolidated trends and comparisons. For additional information about each line item addressed above, refer to Item 8 of Part II, "Financial Statements and Supplementary Data — Note 1 — Description of Business and Accounting Policies."

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(3) The operating cycle is the number of days of sales in inventory plus the number of days of sales in accounts receivable minus accounts payable days.

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### Critical Accounting Judgments

The preparation of financial statements in conformity with generally accepted accounting principles of the United States (“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. 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.” 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 and net realizable 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 December 31, 2018, we would have recorded an additional cost of sales of approximately \$190 million.

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

### Income Taxes

We are subject to income taxes in the U.S. (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, administrative practices, principles, and interpretations in various jurisdictions may be subject to significant change, with or without notice, 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 affected by numerous factors, such as changes in our business operations, acquisitions, investments, entry into new businesses and geographies, intercompany transactions, the relative amount of our foreign earnings, including 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 related tax benefits, the applicability of special tax regimes, changes in foreign currency exchange rates, changes in our stock price, changes in our deferred tax assets and liabilities and their valuation, changes in the laws, regulations, administrative practices, principles, and interpretations related to tax, including changes to the global tax framework, competition, and other laws and accounting rules in various jurisdictions. In addition, a number of countries are actively pursuing changes to their tax laws applicable to corporate multinationals, such as the U.S. tax reform legislation commonly known as the U.S. Tax Cuts and Jobs Act of 2017 (the “U.S. Tax Act”). Finally, foreign governments may enact tax laws in response to the U.S. Tax Act that could result in further changes to global taxation and materially affect our financial position and results of operations.

The U.S. Tax Act significantly changed how the U.S. taxes corporations. The U.S. Tax Act requires complex computations to be performed that were not previously required by U.S. tax law, significant judgments to be made in interpretation of the provisions of the U.S. Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and



other standard-setting bodies will continue to interpret or issue guidance on how provisions of the U.S. Tax Act will be applied or otherwise administered. As future guidance is issued, we may make adjustments to amounts that we have previously recorded that may materially impact our provision for income taxes in the period in which the adjustments are made.

We are also currently subject to tax controversies in various jurisdictions, and these jurisdictions may assess additional income tax liabilities against us. Developments in an audit, investigation, or other tax controversy 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. We regularly assess the likelihood of an adverse outcome resulting from these proceedings to determine the adequacy of our tax accruals. Although we believe our tax estimates are reasonable, the final outcome of audits, investigations, and any other tax controversies could be materially different from our historical income tax provisions and accruals.

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## Recent Accounting Pronouncements

See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 1 — Description of Business and Accounting Policies.”

## Liquidity and Capital Resources

Cash flow information, which reflects retrospective adjustments to our consolidated statements of cash flows as described in Item 8 of Part II, “Financial Statements and Supplementary Data — Note 1 — Description of Business and Accounting Policies,” is as follows (in millions):

	Year Ended December 31,		
	2016	2017	2018
Cash provided by (used in):			
Operating activities	\$17,203	\$18,365	\$30,723
Investing activities	(9,516 )	(27,084 )	(12,369 )
Financing activities	(3,716 )	9,928	(7,686 )

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 \$26.0 billion, \$31.0 billion, and \$41.3 billion as of December 31, 2016, 2017, and 2018. Amounts held in foreign currencies were \$9.1 billion, \$11.1 billion, and \$13.8 billion, as of December 31, 2016, 2017, and 2018, and were primarily Euros, British Pounds, and Japanese Yen. Cash provided by (used in) operating activities was \$17.2 billion, \$18.4 billion, and \$30.7 billion in 2016, 2017, and 2018. Our operating cash flows result primarily from cash received from our consumer, seller, developer, enterprise, and content creator customers, and advertisers, offset by cash payments we make for products and services, employee compensation, 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 in 2017 and 2018, compared to the comparable prior years, is primarily due to the increase in net income, excluding non-cash charges such as depreciation, amortization, and stock-based compensation. Cash provided by (used in) operating activities is also subject to 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, incentives received from property and equipment vendors, 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 \$(9.5) billion, \$(27.1) billion, and \$(12.4) billion in 2016, 2017, and 2018, with the variability caused primarily by cash paid for acquisitions, our decision to purchase or lease property and equipment, and purchases, maturities, and sales of marketable securities. Cash capital expenditures were \$6.7 billion, \$10.1 billion, and \$11.3 billion in 2016, 2017, and 2018, which primarily reflect additional capacity to support our fulfillment operations and additional investments in support of continued business growth in technology infrastructure (the majority of which is to support AWS), during all three years. In 2016, 2017, and 2018, we made cash payments, net of acquired cash, related to acquisition and other investment activity of \$116 million, \$14.0 billion, and \$2.2 billion.

Cash provided by (used in) financing activities was \$(3.7) billion, \$9.9 billion, and \$(7.7) billion in 2016, 2017, and 2018. 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, which were \$4.3 billion, \$6.3 billion, and \$8.5 billion in 2016, 2017, and 2018. Property and equipment acquired under capital leases was \$5.7 billion, \$9.6 billion, and \$10.6 billion in 2016, 2017, and 2018, with the increase reflecting investments in support of continued business growth primarily due to investments in technology infrastructure for AWS, which investments we expect to continue over time. Cash inflows from financing activities primarily result from proceeds from long-term debt and other.

Proceeds from long-term debt and other were \$618 million, \$16.2 billion, and \$768 million in 2016, 2017, and 2018. During 2017, cash inflows from financing activities consisted primarily of proceeds from the issuance of \$16.0 billion of senior unsecured notes in seven tranches maturing in 2020 through 2057. The proceeds from notes issued in August 2017 (the “August 2017 Notes”) were used to fund the consideration for the acquisition of Whole Foods Market, to repay notes due in 2017, and for general corporate purposes.

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In April 2018, we established a commercial paper program (the “Commercial Paper Program”) under which we may from time to time issue unsecured commercial paper up to a total of \$7.0 billion at any time, with individual maturities that may vary but will not exceed 397 days from the date of issue. There were no borrowings outstanding under the Commercial Paper Program as of December 31, 2018.

We had no borrowings outstanding under our unsecured revolving credit facility (the “Credit Agreement”) and \$594 million of borrowings outstanding under our \$620 million secured revolving credit facility (the “Credit Facility”) as of December 31, 2018. See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 5 — Debt” for additional information.

In 2016, 2017, and 2018, we recorded net tax provisions of \$1.4 billion, \$769 million, and \$1.2 billion. Certain foreign subsidiary earnings are subject to U.S. taxation under the U.S. Tax Act, which also repeals U.S. taxation on the subsequent repatriation of those earnings. We intend to invest substantially all of our foreign subsidiary earnings, as well as our capital in our foreign subsidiaries, indefinitely outside of the U.S. in those jurisdictions in which we would incur significant, additional costs upon repatriation of such amounts. As of December 31, 2018, cash, cash equivalents, and marketable securities held by foreign subsidiaries was \$12.0 billion.

We have tax benefits relating to excess stock-based compensation deductions and accelerated depreciation deductions that are being utilized to reduce our U.S. taxable income. The U.S. Tax Act enhanced and extended the option to claim accelerated depreciation deductions by allowing full expensing of qualified property, primarily equipment, through 2022. Cash taxes paid (net of refunds) were \$412 million, \$957 million, and \$1.2 billion for 2016, 2017, and 2018. As of December 31, 2018, our federal net operating loss carryforward was approximately \$627 million and we had approximately \$1.4 billion 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. As we utilize our federal net operating losses and tax credits we expect cash paid for taxes to increase. We endeavor to manage our global taxes on a cash basis, rather than on a financial reporting basis. In connection with the European Commission’s October 2017 decision against us on state aid, Luxembourg tax authorities computed an initial recovery amount, consistent with the European Commission’s decision, of approximately €250 million, that we deposited into escrow in March 2018, subject to adjustment pending conclusion of all appeals.

Our liquidity is also affected by restricted cash balances that are pledged as collateral for real estate leases, amounts due to third-party sellers in certain jurisdictions, debt, and standby and trade letters of credit. 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 December 31, 2017 and 2018, restricted cash, cash equivalents, and marketable securities were \$1.3 billion and \$426 million. See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 7 — Commitments and Contingencies” for additional discussion of our principal contractual commitments, as well as our pledged assets. Additionally, purchase obligations and open purchase orders, consisting of inventory and significant non-inventory commitments, were \$13.1 billion as of December 31, 2018. These purchase obligations and open purchase orders are generally cancellable in full or in part through the contractual provisions. We believe that cash flows generated from operations and our cash, cash equivalents, and marketable securities balances, as well as our borrowing arrangements, 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 I, “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 credit lines or

financing instruments will be available in amounts or on terms acceptable to us, if at all.

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## Results of Operations

We have organized our operations into three segments: North America, International, and AWS. Our results reflect the operations of Whole Foods Market from the date of acquisition in August 2017. These segments reflect the way the Company evaluates its business performance and manages its operations. See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 10 — 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 primarily represent third-party seller fees, which includes commissions and any related fulfillment and shipping fees, AWS sales, Amazon Prime membership fees, advertising services, and certain digital content subscriptions. Net sales information is as follows (in millions):

	Year Ended December 31,				
	2016	2017	2018		
Net Sales:					
North America	\$79,785	\$106,110	\$141,366		
International	43,983	54,297	65,866		
AWS	12,219	17,459	25,655		
Consolidated	\$135,987	\$177,866	\$232,887		
Year-over-year Percentage Growth:					
North America	25	% 33	% 33	%	
International	24	23	21		
AWS	55	43	47		
Consolidated	27	31	31		
Year-over-year Percentage Growth, excluding the effect of foreign exchange rates:					
North America	25	% 33	% 33	%	
International	26	23	19		
AWS	55	43	47		
Consolidated	28	31	30		
Net sales mix:					
North America	59	% 60	% 61	%	
International	32	30	28		
AWS	9	10	11		
Consolidated	100	% 100	% 100	%	

Sales increased 31% in 2017 and 2018, compared to the comparable prior years. Changes in foreign currency exchange rates impacted net sales by \$(550) million, \$210 million, and \$1.3 billion for 2016, 2017, and 2018. For a discussion of the effect on sales growth of foreign exchange rates, see “Effect of Foreign Exchange Rates” below. North America sales increased 33% in 2017 and 2018, compared to the comparable prior years. The sales growth in each year primarily reflects increased unit sales, including sales by third-party sellers, and the impact of the acquisition of Whole Foods Market. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, increased in-stock inventory availability, and increased selection.

International sales increased 23% and 21% in 2017, and 2018, compared to the comparable prior years. The sales growth in each year primarily reflects increased unit sales, including sales by third-party sellers. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, increased in-stock inventory availability, and increased selection. Changes in foreign currency exchange rates impacted International net sales by \$(489) million, \$138 million, and \$1.3 billion in 2016, 2017, and 2018.

AWS sales increased 43% and 47% in 2017 and 2018, compared to the comparable prior years. The sales growth in each year 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.

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## Operating Income (Loss)

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

	Year Ended December 31,		
	2016	2017	2018
Operating Income (Loss):			
North America	\$2,361	\$2,837	\$7,267
International	(1,283 )	(3,062 )	(2,142 )
AWS	3,108	4,331	7,296
Consolidated	\$4,186	\$4,106	\$12,421

Operating income was \$4.2 billion, \$4.1 billion, and \$12.4 billion for 2016, 2017, and 2018. 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 2017 and 2018, compared to the comparable prior years, is primarily due to increased unit sales, including sales by third-party sellers, advertising sales, and slower growth in certain operating expenses, partially offset by costs to expand our fulfillment network. Changes in foreign exchange rates impacted operating income by \$27 million, \$(4) million, and \$17 million for 2016, 2017, and 2018.

The decrease in International operating loss in absolute dollars in 2017 and 2018, compared to the comparable prior years, is primarily due to increased unit sales, including sales by third-party sellers, advertising sales, and slower growth in certain operating expenses, partially offset by costs to expand our fulfillment network. Changes in foreign exchange rates impacted operating loss by \$89 million, \$(85) million, and \$258 million for 2016, 2017, and 2018.

The increase in AWS operating income in absolute dollars in 2017 and 2018, compared to the comparable prior years, is primarily due to increased customer usage and cost structure productivity, partially offset by pricing changes and increased spending on technology infrastructure and payroll and related expenses, which was primarily driven by additional investments to support the business growth. Changes in foreign exchange rates impacted operating income by \$(5) million, \$(53) million, and \$(49) million for 2016, 2017, and 2018.



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## Operating Expenses

Information about operating expenses is as follows (in millions):

	Year Ended December 31,		
	2016	2017	2018
Operating expenses:			
Cost of sales	\$88,265	\$111,934	\$139,156
Fulfillment	17,619	25,249	34,027
Marketing	7,233	10,069	13,814
Technology and content	16,085	22,620	28,837
General and administrative	2,432	3,674	4,336
Other operating expense, net	167	214	296
Total operating expenses	\$131,801	\$173,760	\$220,466
Year-over-year Percentage Growth:			
Cost of sales	23	% 27	% 24
Fulfillment	31	43	35
Marketing	38	39	37
Technology and content	28	41	27
General and administrative	39	51	18
Other operating expense, net	(2)	) 28	38
Percent of Net Sales:			
Cost of sales	64.9	% 62.9	% 59.8
Fulfillment	13.0	14.2	14.6
Marketing	5.3	5.7	5.9
Technology and content	11.8	12.7	12.4
General and administrative	1.8	2.1	1.9
Other operating expense, net	0.1	0.1	0.1

## 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 video and 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.

The increase in cost of sales in absolute dollars in 2017 and 2018, compared to the comparable prior years, is primarily due to increased product and shipping costs resulting from increased sales.

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. Shipping costs, which include sortation and delivery centers and transportation costs, were \$16.2 billion, \$21.7 billion, and \$27.7 billion in 2016, 2017, and 2018. 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, 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 our fulfillment network, 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.

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.

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### Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing our North America and International fulfillment centers, customer service centers, and physical stores 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 network and physical store 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 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 2017 and 2018, compared to the comparable prior years, is primarily due to costs from expanding our fulfillment network, which includes physical stores, and variable costs corresponding with increased product and service sales volume and inventory levels.

We seek to expand our fulfillment network 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 stores primarily through a number of targeted online marketing channels, such as our sponsored search, third party customer referrals, social and online advertising, television advertising, and other initiatives. Our marketing costs 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 costs.

The increase in marketing costs in absolute dollars in 2017 and 2018, compared to the comparable prior years, is primarily due to payroll and related expenses for personnel engaged in marketing and selling activities, as well as increased spending on online marketing channels.

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 and content costs include payroll and related expenses for employees involved in the research and development of new and existing products and services, development, design, and maintenance of our stores, curation and display of products and services made available in our online stores, and infrastructure costs. Infrastructure costs include servers, networking equipment, and data center related depreciation, rent, utilities, and other expenses necessary to support AWS and other Amazon businesses. Collectively, these costs reflect the investments we make in order to offer a wide variety of products and services to our customers.

We seek to invest efficiently in numerous 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. These costs are allocated to segments based on usage. The increase in technology and content costs in absolute dollars in 2017 and 2018, compared to the comparable prior years, is primarily due to an increase in spending on technology infrastructure and increased payroll and related costs associated with technical teams responsible for expanding our existing products and services and initiatives to introduce new products and service offerings.

General and Administrative

The increase in general and administrative costs in absolute dollars in 2017 and 2018, compared to the comparable prior years, is primarily due to increases in payroll and related expenses.

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### Other Operating Expense, Net

Other operating expense, net was \$167 million, \$214 million, and \$296 million during 2016, 2017, and 2018, and is primarily related to the amortization of intangible assets.

### Interest Income and Expense

Our interest income was \$100 million, \$202 million, and \$440 million during 2016, 2017, and 2018. We generally invest our excess cash in AAA-rated money market funds and investment grade short- to intermediate-term fixed income securities. 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 \$484 million, \$848 million, and \$1.4 billion in 2016, 2017, and 2018. The increase is primarily due to increases in our long-term debt and capital and finance lease arrangements.

Our long-term debt was \$24.7 billion and \$23.5 billion as of December 31, 2017 and 2018. Our other long-term liabilities were \$21.0 billion and \$27.2 billion as of December 31, 2017 and 2018. See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 5 — Debt and Note 6 — Other Long-Term Liabilities” for additional information.

### Other Income (Expense), Net

Other income (expense), net was \$90 million, \$346 million, and \$(183) million during 2016, 2017, and 2018. The primary components of other income (expense), net are related to foreign currency, equity warrant valuation, and equity securities gains.

### Income Taxes

Our 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, intercompany transactions, the applicability of special tax regimes, changes in how we do business, acquisitions, investments, audit-related developments, changes in our stock price, changes in our deferred tax assets and liabilities and their valuation, foreign currency gains (losses), changes in statutes, regulations, case law, and administrative practices, principles, and interpretations related to tax, including changes to the global tax framework, competition, and other laws and accounting rules in various jurisdictions, 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. The U.S. Tax Act was signed into law on December 22, 2017. The U.S. Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The U.S. Tax Act also enhanced and extended the option to claim accelerated depreciation deductions by allowing full expensing of qualified property, primarily equipment, through 2022. We reasonably estimated the effects of the U.S. Tax Act and recorded provisional amounts in our financial statements as of December 31, 2017. We recorded a provisional tax benefit for the impact of the U.S. Tax Act of approximately \$789 million. This amount was primarily comprised of the remeasurement of federal net deferred tax liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate to 21% from 35%, after taking into account the mandatory one-time tax on the accumulated earnings of our foreign subsidiaries. The amount of this one-time tax was not material. In 2018, we completed our determination of the accounting implications of the U.S. Tax Act.

We recorded a provision for income taxes of \$1.4 billion, \$769 million, and \$1.2 billion in 2016, 2017, and 2018. Our provision for income taxes in 2017 was lower than in 2016 primarily due to excess tax benefits from stock-based compensation and the one-time favorable effect of the U.S. Tax Act, partially offset by an increase in the proportion of foreign losses for which we may not realize a tax benefit and audit-related developments. We have recorded valuation allowances against the deferred tax assets associated with losses for which we may not realize a related tax benefit.

We regularly assess whether it is more likely than not that we will realize our deferred tax assets in each taxing jurisdiction in which we operate. In performing this assessment with respect to each jurisdiction, we review all available evidence, including recent cumulative loss experience and expectations of future earnings, capital gains, and

investment in such jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors. In Q2 2017, we recognized an estimated charge to tax expense of \$600 million to record a valuation allowance against the net deferred tax assets in Luxembourg.

Our provision for income taxes in 2018 was higher than in 2017 primarily due to an increase in U.S. pre-tax income and the one-time provisional tax benefit of the U.S. Tax Act recognized in 2017. This was partially offset by the reduction to the

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U.S. federal statutory tax rate in 2018, a decline in the proportion of foreign losses for which we may not realize a tax benefit, and an increase in excess tax benefits from stock-based compensation.

We have tax benefits relating to excess stock-based compensation deductions and accelerated depreciation deductions that are being utilized to reduce our U.S. taxable income. As of December 31, 2018, our federal net operating loss carryforward was approximately \$627 million and we had approximately \$1.4 billion 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.

See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 9 — Income Taxes” for additional information.

#### Equity-Method Investment Activity, Net of Tax

Equity-method investment activity, net of tax, was \$(96) million, \$(4) million, and \$9 million in 2016, 2017, and 2018. The primary components of this activity during 2016, 2017, and 2018 were our equity-method investment gains (losses) during the years and impairments recorded in 2016.

#### Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other SEC regulations define and prescribe the conditions for use of certain non-GAAP financial information. Our measures of free cash flows and the effect of foreign exchange rates on our consolidated statements of operations meet the definition of non-GAAP financial measures.

We provide multiple measures of free cash flows because we believe these measures provide additional perspective on the impact of acquiring property and equipment with cash and through capital and finance leases. As a result of the adoption of new accounting guidance, we retrospectively adjusted our consolidated statements of cash flows to add restricted cash to cash and cash equivalents. See Item 8 of Part II, “Financial Statements and Supplementary Data — Note 1 — Description of Business and Accounting Policies.”

#### Free Cash Flow

Free cash flow is cash flow from operations reduced by “Purchases of property and equipment, net of proceeds from property and equipment incentives,” which both are included in cash flow from investing activities. The following is a reconciliation of free cash flow to the most comparable GAAP cash flow measure, “Net cash provided by (used in) operating activities,” for 2016, 2017, and 2018 (in millions):

	Year Ended December 31,		
	2016	2017	2018
Net cash provided by (used in) operating activities	\$17,203	\$18,365	\$30,723
Purchases of property and equipment, net of proceeds from property and equipment incentives	(6,737 )	(10,058 )	(11,323 )
Free cash flow	\$10,466	\$8,307	\$19,400
Net cash provided by (used in) investing activities	\$(9,516 )	\$(27,084 )	\$(12,369 )
Net cash provided by (used in) financing activities	\$(3,716 )	\$9,928	\$(7,686 )

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## Free Cash Flow Less Lease Principal Repayments

Free cash flow less lease principal repayments is free cash flow reduced by “Principal repayments of capital lease obligations,” and “Principal repayments of finance lease obligations,” which are included in cash flow from financing activities. Free cash flow less lease principal repayments approximates the actual payments of cash for our capital and finance leases. The following is a reconciliation of free cash flow less lease principal repayments to the most comparable GAAP cash flow measure, “Net cash provided by (used in) operating activities,” for 2016, 2017, and 2018 (in millions):

	Year Ended December 31,		
	2016	2017	2018
Net cash provided by (used in) operating activities	\$17,203	\$18,365	\$30,723
Purchases of property and equipment, net of proceeds from property and equipment incentives	(6,737 )	(10,058 )	(11,323 )
Principal repayments of capital lease obligations	(3,860 )	(4,799 )	(7,449 )
Principal repayments of finance lease obligations	(147 )	(200 )	(337 )
Free cash flow less lease principal repayments	\$6,459	\$3,308	\$11,614

Net cash provided by (used in) investing activities	\$ (9,516 )	\$ (27,084 )	\$ (12,369 )
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Net cash provided by (used in) financing activities	\$ (3,716 )	\$ 9,928	\$ (7,686 )
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## Free Cash Flow Less Finance Lease Principal Repayments and Assets Acquired Under Capital Leases

Free cash flow less finance lease principal repayments and assets acquired under capital leases is free cash flow reduced by “Principal repayments of finance lease obligations,” which is included in cash flow from financing activities, and property and equipment acquired under capital leases. In this measure, property and equipment acquired under capital leases is reflected as if these assets had been purchased with cash, which is not the case as these assets have been leased. The following is a reconciliation of free cash flow less finance lease principal repayments and assets acquired under capital leases to the most comparable GAAP cash flow measure, “Net cash provided by (used in) operating activities,” for 2016, 2017, and 2018 (in millions):

	Year Ended December 31,		
	2016	2017	2018
Net cash provided by (used in) operating activities	\$17,203	\$18,365	\$30,723
Purchases of property and equipment, net of proceeds from property and equipment incentives	(6,737 )	(10,058 )	(11,323 )
Property and equipment acquired under capital leases	(5,704 )	(9,637 )	(10,615 )
Principal repayments of finance lease obligations	(147 )	(200 )	(337 )
Free cash flow less finance lease principal repayments and assets acquired under capital leases	\$4,615	\$ (1,530 )	\$8,448

Net cash provided by (used in) investing activities	\$ (9,516 )	\$ (27,084 )	\$ (12,369 )
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Net cash provided by (used in) financing activities	\$ (3,716 )	\$ 9,928	\$ (7,686 )
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All of these free cash flows measures have limitations as they omit certain components of the overall cash flow statement and do not represent the residual cash flow available for discretionary expenditures. For example, these measures of free cash flows do not incorporate the portion of payments representing principal reductions of debt or cash payments for business acquisitions. Additionally, our mix of property and equipment acquisitions with cash or other financing options may change over time. Therefore, we believe it is important to view free cash flows measures only as a complement to our entire consolidated statements of cash flows.

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## Effect of Foreign Exchange Rates

Information regarding the effect of foreign exchange rates, versus the U.S. Dollar, on our net sales, operating expenses, and operating income is provided to show reported period operating results had the foreign exchange rates remained the same as those in effect in the comparable prior years. The effect on our net sales, operating expenses, and operating income from changes in our foreign exchange rates versus the U.S. Dollar is as follows (in millions):

	Year Ended December 31, 2016			Year Ended December 31, 2017			Year Ended December 31, 2018		
	As Reported	Exchange Rate Effect (1)	At Prior Year Rates (2)	As Reported	Exchange Rate Effect (1)	At Prior Year Rates (2)	As Reported	Exchange Rate Effect (1)	At Prior Year Rates (2)
Net sales	\$135,987	\$ 550	\$136,537	\$177,866	\$ (210 )	\$177,656	\$232,887	\$ (1,253 )	\$231,634
Operating expenses	131,801	660	132,461	173,760	(352 )	173,408	220,466	(1,027 )	219,439
Operating income	4,186	(110 )	4,076	4,106	142	4,248	12,421	(226 )	12,195

(1) Represents the change in reported amounts resulting from changes in foreign exchange rates from those in effect in the comparable prior year for operating results.

(2) Represents the outcome that would have resulted had foreign exchange rates in the reported period been the same as those in effect in the comparable prior year for operating results.

## Guidance

We provided guidance on January 31, 2019, in our earnings release furnished on Form 8-K as set forth below. These forward-looking statements reflect Amazon.com's expectations as of January 31, 2019, and are subject to substantial uncertainty. Our results are inherently unpredictable and may be materially affected by many factors, such as 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, as well as those outlined in Item 1A of Part I, "Risk Factors."

## First Quarter 2019 Guidance

Net sales are expected to be between \$56 billion and \$60 billion, or to grow between 10% and 18% compared with first quarter 2018. This guidance anticipates an unfavorable impact of approximately 210 basis points from foreign exchange rates.

Operating income is expected to be between \$2.3 billion and \$3.3 billion, compared with \$1.9 billion in first quarter 2018.

This guidance assumes, among other things, that no additional business acquisitions, investments, restructurings, or legal settlements are concluded.



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## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk for the effect of interest rate changes, foreign currency fluctuations, and changes in the market values of our investments. Information relating to quantitative and qualitative disclosures about market risk is set forth below and in Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.”

## Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our long-term debt. Our long-term debt is carried at amortized cost and fluctuations in interest rates do not impact our consolidated financial statements. However, the fair value of our debt, which pays interest at a fixed rate, will generally fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. All of our cash equivalent and marketable fixed income securities are designated as available-for-sale and, accordingly, are presented at fair value on our consolidated balance sheets. We generally invest our excess cash in AAA-rated money market funds and investment grade short- to intermediate-term fixed income securities. Fixed income securities may have their fair market value adversely affected due to a rise in interest rates, and we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates.

The following table provides information about our cash equivalents and marketable fixed income securities, including principal cash flows by expected maturity and the related weighted-average interest rates as of December 31, 2018 (in millions, except percentages):

	2019	2020	2021	2022	2023	Thereafter	Total	Estimated Fair Value as of December 31, 2018
Money market funds	\$12,515	\$—	\$—	\$—	\$—	\$—	\$12,515	\$ 12,515
Weighted average interest rate	1.16 %	— %	— %	— %	— %	— %	1.16 %	%
Corporate debt securities	3,220	1,086	560	120	16	—	5,002	4,990
Weighted average interest rate	2.96 %	3.25 %	3.36 %	3.86 %	4.26 %	— %	3.09 %	%
U.S. government and agency securities	11,071	416	135	91	4	—	11,717	11,667
Weighted average interest rate	2.35 %	2.49 %	2.68 %	2.76 %	3.38 %	— %	2.36 %	%
Asset-backed securities	305	255	162	121	52	—	895	892
Weighted average interest rate	2.96 %	3.07 %	3.02 %	2.99 %	3.07 %	— %	3.01 %	%
Foreign government and agency securities	761	50	4	—	—	—	815	815
Weighted average interest rate	2.60 %	2.68 %	3.32 %	— %	— %	— %	2.61 %	%
Other fixed income securities	89	67	32	—	—	—	188	188
Weighted average interest rate	3.25 %	2.89 %	3.13 %	— %	— %	— %	3.10 %	%
	\$27,961	\$1,874	\$893	\$332	\$72	\$—	\$31,132	
Cash equivalents and marketable fixed income securities								\$ 31,067

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As of December 31, 2018, we had \$25.0 billion of debt, including the current portion, primarily consisting of the following fixed rate unsecured debt (in millions):

2.600% Notes due on December 5, 2019	\$1,000
1.900% Notes due on August 21, 2020	\$1,000
3.300% Notes due on December 5, 2021	\$1,000
2.500% Notes due on November 29, 2022	\$1,250
2.400% Notes due on February 22, 2023	\$1,000
2.800% Notes due on August 22, 2024	\$2,000
3.800% Notes due on December 5, 2024	\$1,250
5.200% Notes due on December 3, 2025	\$1,000
3.150% Notes due on August 22, 2027	\$3,500
4.800% Notes due on December 5, 2034	\$1,250
3.875% Notes due on August 22, 2037	\$2,750
4.950% Notes due on December 5, 2044	\$1,500
4.050% Notes due on August 22, 2047	\$3,500
4.250% Notes due on August 22, 2057	\$2,250

Based upon quoted market prices and Level 2 inputs, the fair value of our total debt was \$25.0 billion as of December 31, 2018.

**Foreign Exchange Risk**

During 2018, net sales from our International segment accounted for 28% of our consolidated revenues. Net sales and related expenses generated from our internationally-focused stores, including within Canada and Mexico (which are included in our North America segment), are primarily denominated in the functional currencies of the corresponding stores and primarily include Euros, British Pounds, and Japanese Yen. The results of operations of, and certain of our intercompany balances associated with, our internationally-focused stores and AWS are exposed to foreign exchange rate fluctuations. Upon consolidation, as foreign exchange rates vary, net sales and other operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. For example, as a result of fluctuations in foreign exchange rates throughout the year compared to rates in effect the prior year, International segment net sales increased by \$1.3 billion in comparison with the prior year.

We have foreign exchange risk related to foreign-denominated cash, cash equivalents, and marketable securities (“foreign funds”). Based on the balance of foreign funds as of December 31, 2018, of \$13.8 billion, an assumed 5%, 10%, and 20% adverse change to foreign exchange would result in fair value declines of \$690 million, \$1.4 billion, and \$2.8 billion. All cash equivalent and marketable fixed income securities are classified as “available-for-sale.” Fluctuations in fair value are recorded in “Accumulated other comprehensive loss,” a separate component of stockholders’ equity. Equity securities with readily determinable fair values are included in “Marketable securities” on our consolidated balance sheets and are measured at fair value with changes recognized in net income.

We have foreign exchange risk related to our intercompany balances denominated in various foreign currencies. Based on the intercompany balances as of December 31, 2018, an assumed 5%, 10%, and 20% adverse change to foreign exchange would result in losses of \$145 million, \$305 million, and \$685 million, recorded to “Other income (expense), net.”

See Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Effect of Foreign Exchange Rates” for additional information on the effect on reported results of changes in foreign exchange rates.

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Investment Risk

As of December 31, 2018, our recorded value in equity and equity warrant investments in public and private companies was \$942 million. Our equity and equity warrant investments in publicly traded companies represent \$518 million of our investments as of December 31, 2018, and are recorded at fair value, which is subject to market price volatility. We perform a qualitative assessment for our equity investments in private companies to identify impairment. If this assessment indicates that an impairment exists, we estimate the fair value of the investment and, if the fair value is less than carrying value, we write down the investment to fair value. Our assessment includes a review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data. The current global economic climate provides additional uncertainty. Valuations of private companies are inherently more complex due to the lack of readily available market data. As such, we believe that market sensitivities are not practicable.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm  
The Board of Directors and Shareholders  
Amazon.com, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Amazon.com, Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 31, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1996.  
Seattle, Washington  
January 31, 2019

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## AMAZON.COM, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Year Ended December 31,		
	2016	2017	2018
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	\$16,175	\$19,934	\$21,856
OPERATING ACTIVITIES:			
Net income	2,371	3,033	10,073
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation of property and equipment and other amortization, including capitalized content costs	8,116	11,478	15,341
Stock-based compensation	2,975	4,215	5,418
Other operating expense, net	160	202	274
Other expense (income), net	(20)	(292)	219
Deferred income taxes	(246)	(29)	441
Changes in operating assets and liabilities:			
Inventories	(1,426)	(3,583)	(1,314)
Accounts receivable, net and other	(3,436)	(4,780)	(4,615)
Accounts payable	5,030	7,100	3,263
Accrued expenses and other	1,724	283	472
Unearned revenue	1,955	738	1,151
Net cash provided by (used in) operating activities	17,203	18,365	30,723
INVESTING ACTIVITIES:			
Purchases of property and equipment	(7,804)	(11,955)	(13,427)
Proceeds from property and equipment incentives	1,067	1,897	2,104
Acquisitions, net of cash acquired, and other	(116)	(13,972)	(2,186)
Sales and maturities of marketable securities	4,577	9,677	8,240
Purchases of marketable securities	(7,240)	(12,731)	(7,100)
Net cash provided by (used in) investing activities	(9,516)	(27,084)	(12,369)
FINANCING ACTIVITIES:			
Proceeds from long-term debt and other	618	16,228	768
Repayments of long-term debt and other	(327)	(1,301)	(668)
Principal repayments of capital lease obligations	(3,860)	(4,799)	(7,449)
Principal repayments of finance lease obligations	(147)	(200)	(337)
Net cash provided by (used in) financing activities	(3,716)	9,928	(7,686)
Foreign currency effect on cash, cash equivalents, and restricted cash	(212)	713	(351)
Net increase (decrease) in cash, cash equivalents, and restricted cash	3,759	1,922	10,317
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	\$19,934	\$21,856	\$32,173
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest on long-term debt	\$290	\$328	\$854
Cash paid for interest on capital and finance lease obligations	206	319	575
Cash paid for income taxes, net of refunds	412	957	1,184
Property and equipment acquired under capital leases	5,704	9,637	10,615
Property and equipment acquired under build-to-suit leases	1,209	3,541	3,641
See accompanying notes to consolidated financial statements.			



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## AMAZON.COM, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Year Ended December 31,		
	2016	2017	2018
Net product sales	\$94,665	\$118,573	\$141,915
Net service sales	41,322	59,293	90,972
Total net sales	135,987	177,866	232,887
Operating expenses:			
Cost of sales	88,265	111,934	139,156
Fulfillment	17,619	25,249	34,027
Marketing	7,233	10,069	13,814
Technology and content	16,085	22,620	28,837
General and administrative	2,432	3,674	4,336
Other operating expense, net	167	214	296
Total operating expenses	131,801	173,760	220,466
Operating income	4,186	4,106	12,421
Interest income	100	202	440
Interest expense	(484)	(848)	(1,417)
Other income (expense), net	90	346	(183)
Total non-operating income (expense)	(294)	(300)	(1,160)
Income before income taxes	3,892	3,806	11,261
Provision for income taxes	(1,425)	(769)	(1,197)
Equity-method investment activity, net of tax	(96)	(4)	9
Net income	\$2,371	\$3,033	\$10,073
Basic earnings per share	\$5.01	\$6.32	\$20.68
Diluted earnings per share	\$4.90	\$6.15	\$20.14
Weighted-average shares used in computation of earnings per share:			
Basic	474	480	487
Diluted	484	493	500
See accompanying notes to consolidated financial statements.			



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AMAZON.COM, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Year Ended December 31,		
	2016	2017	2018
Net income	\$2,371	\$3,033	\$10,073
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax of \$(49), \$5, and \$6	(279	) 533	(538 )
Net change in unrealized gains (losses) on available-for-sale debt securities:			
Unrealized gains (losses), net of tax of \$(12), \$5, and \$0	9	(39	) (17 )
Reclassification adjustment for losses (gains) included in "Other income (expense), net," net of tax of \$0, \$0, and \$0	8	7	8
Net unrealized gains (losses) on available-for-sale debt securities	17	(32	) (9 )
Total other comprehensive income (loss)	(262	) 501	(547 )
Comprehensive income	\$2,109	\$3,534	\$9,526
See accompanying notes to consolidated financial statements.			

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

	December 31,	
	2017	2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$20,522	\$31,750
Marketable securities	10,464	9,500
Inventories	16,047	17,174
Accounts receivable, net and other	13,164	16,677
Total current assets	60,197	75,101
Property and equipment, net	48,866	61,797
Goodwill	13,350	14,548
Other assets	8,897	11,202
Total assets	\$131,310	\$162,648
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$34,616	\$38,192
Accrued expenses and other	18,170	23,663
Unearned revenue	5,097	6,536
Total current liabilities	57,883	68,391
Long-term debt	24,743	23,495
Other long-term liabilities	20,975	27,213
Commitments and contingencies (Note 7)		
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 — 507 and 514		
Outstanding shares — 484 and 491	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	21,389	26,791
Accumulated other comprehensive loss	(484)	(1,035)
Retained earnings	8,636	19,625
Total stockholders' equity	27,709	43,549
Total liabilities and stockholders' equity	\$131,310	\$162,648
See accompanying notes to consolidated financial statements.		

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AMAZON.COM, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions)

	Common Stock		Treasury Stock		Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)		Retained Earnings	Total Stockholders' Equity
	Shares	Amount								
Balance as of January 1, 2016	471	\$ 5	\$(1,837)		\$ 13,394		\$ (723)	)	\$ 2,545	\$ 13,384
Net income	—	—	—		—		—		2,371	2,371
Other comprehensive income (loss)	—	—	—		—		(262)	)	—	(262)
Exercise of common stock options	6	—	—		1		—		—	1
Excess tax benefits from stock-based compensation	—	—	—		829		—		—	829
Stock-based compensation and issuance of employee benefit plan stock	—	—	—		2,962		—		—	2,962
Balance as of December 31, 2016	477	5	(1,837)	)	17,186		(985)	)	4,916	19,285
Cumulative effect of a change in accounting principle related to stock-based compensation	—	—	—		—		—		687	687
Net income	—	—	—		—		—		3,033	3,033
Other comprehensive income (loss)	—	—	—		—		501		—	501
Exercise of common stock options	7	—	—		1		—		—	1
Stock-based compensation and issuance of employee benefit plan stock	—	—	—		4,202		—		—	4,202
Balance as of December 31, 2017	484	5	(1,837)	)	21,389		(484)	)	8,636	27,709
Cumulative effect of changes in accounting principles related to revenue recognition, income taxes, and financial instruments	—	—	—		—		(4)	)	916	912
Net income	—	—	—		—		—		10,073	10,073
Other comprehensive income (loss)	—	—	—		—		(547)	)	—	(547)
Exercise of common stock options	7	—	—		—		—		—	—
Stock-based compensation and issuance of employee benefit plan stock	—	—	—		5,402		—		—	5,402
Balance as of December 31, 2018	491	\$ 5	\$(1,837)		\$ 26,791		\$ (1,035)	)	\$ 19,625	\$ 43,549

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — DESCRIPTION OF BUSINESS AND ACCOUNTING POLICIES

Description of Business

We seek to be Earth’s most customer-centric company. In each of our segments, we serve our primary customer sets, consisting of consumers, sellers, developers, enterprises, and content creators. We serve consumers through our online and physical stores and focus on selection, price, and convenience. We offer programs that enable sellers to sell their products in our stores and fulfill orders through us, and programs that allow authors, musicians, filmmakers, skill and app developers, and others to publish and sell content. We serve developers and enterprises of all sizes through our AWS segment, which offers a broad set of global compute, storage, database, and other service offerings. We also manufacture and sell electronic devices. In addition, we provide services, such as advertising.

We have organized our operations into three segments: North America, International, and AWS. See “Note 10 — Segment Information.”

Prior Period Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation, including the addition of restricted cash to cash and cash equivalents on our consolidated statements of cash flows as a result of the adoption of new accounting guidance.

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 and that support our seller lending financing activities (collectively, the “Company”). Intercompany balances and transactions between consolidated entities are eliminated. The financial results of Whole Foods Market, Inc. (“Whole Foods Market”) have been included in our consolidated financial statements from the date of acquisition on August 28, 2017.

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, income taxes, commitments and contingencies, valuation of acquired intangibles and goodwill, stock-based compensation forfeiture rates, vendor funding, and inventory valuation. 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.

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

Year

Ended

December

31,