

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022
or

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

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

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

Delaware
(State or other jurisdiction of
incorporation or organization)

91-1646860
(I.R.S. Employer
Identification No.)

410 Terry Avenue North, Seattle, Washington 98109-5210
(206) 266-1000
(Address and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$.01 per share	AMZN	Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 ☒

10,201,654,176 shares of common stock, par value \$0.01 per share, outstanding as of October 19, 2022

International sales decreased 5% in Q3 2022, and 8% for the nine months ended September 30, 2022, compared to the comparable prior year periods, primarily due to the impact of foreign currency exchange rates, partially offset by increased unit sales, including sales by third-party sellers, advertising sales, and subscription services. Increased unit sales were driven largely by our continued focus on price, selection, and convenience for our customers, including from our shipping offers. Changes in foreign currency exchange rates impacted International net sales by \$(4.9) billion for Q3 2022, and by \$(10.2) billion for the nine months ended September 30, 2022.

AWS sales increased 27% in Q3 2022, and 32% for the nine months ended September 30, 2022 compared to the comparable prior year periods. The sales growth primarily reflects increased customer usage, partially offset by pricing changes, primarily driven by long-term customer contracts.

Operating Income (Loss)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Operating Income (Loss)				
North America	\$ 880	\$ (412)	\$ 7,477	\$ (2,607)
International	(911)	(2,466)	703	(5,518)
AWS	4,883	5,403	13,239	17,636
Consolidated	<u>\$ 4,852</u>	<u>\$ 2,525</u>	<u>\$ 21,419</u>	<u>\$ 9,511</u>

Operating income decreased from \$4.9 billion in Q3 2021 to \$2.5 billion in Q3 2022, and decreased from \$21.4 billion for the nine months ended September 30, 2021 to \$9.5 billion for the nine months ended September 30, 2022. We believe that operating income is a more meaningful measure than gross profit and gross margin due to the diversity of our product categories and services.

The North America operating loss in Q3 2022, as compared to the operating income in the comparable prior year period, is primarily due to increased shipping and fulfillment costs, due in part to increased investments in our fulfillment network and increased transportation costs, and growth in certain operating expenses, partially offset by increased unit sales, including sales by third-party sellers, and advertising sales. The North America operating loss for the nine months ended September 30, 2022, as compared to the operating income in the comparable prior year period, is primarily due to increased shipping and fulfillment costs, due in part to increased investments in our fulfillment network, increased transportation costs, increased wage rates and incentives, and fulfillment network inefficiencies, and growth in certain operating expenses, partially offset by increased unit sales, including sales by third-party sellers, and advertising sales. Changes in foreign exchange rates positively impacted operating income (loss) by \$95 million for Q3 2022, and by \$198 million for the nine months ended September 30, 2022.

The increase in International operating loss in absolute dollars in Q3 2022, compared to the comparable prior year period, is primarily due to increased shipping and fulfillment costs, due in part to increased investments in our fulfillment network and increased transportation costs, and growth in certain operating expenses, partially offset by increased unit sales, including sales by third-party sellers, and advertising sales. The International operating loss for the nine months ended September 30, 2022, as compared to the operating income in the comparable prior year period, is primarily due to increased shipping and fulfillment costs, due in part to increased investments in our fulfillment network, increased transportation costs, and increased wage rates and incentives, and growth in certain operating expenses, partially offset by increased advertising sales. Changes in foreign exchange rates negatively impacted operating income (loss) by \$216 million for Q3 2022, and by \$526 million for the nine months ended September 30, 2022.

The increase in AWS operating income in absolute dollars in Q3 2022 and for the nine months ended September 30, 2022, compared to the comparable prior year periods, is primarily due to increased sales and cost structure productivity, including a reduction in depreciation and amortization expense from our change in the estimated useful lives of our servers and networking equipment, partially offset by increased payroll and related expenses and spending on technology infrastructure, all of which were primarily driven by additional investments to support AWS business growth. Changes in foreign exchange rates positively impacted operating income by \$478 million for Q3 2022, and by \$976 million for the nine months ended September 30, 2022.

Operating Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Operating expenses:				
Cost of sales	\$ 62,930	\$ 70,268	\$ 189,509	\$ 203,191
Fulfillment	18,498	20,583	52,666	61,196
Technology and content	14,380	19,485	40,739	52,399
Sales and marketing	8,010	11,014	21,741	29,420
General and administrative	2,153	3,061	6,298	8,558
Other operating expense (income), net	(11)	165	38	504
Total operating expenses	<u>\$ 105,960</u>	<u>\$ 124,576</u>	<u>\$ 310,991</u>	<u>\$ 355,268</u>
Year-over-year Percentage Growth (Decline):				
Cost of sales	10 %	12 %	23 %	7 %
Fulfillment	26	11	32	16
Technology and content	31	35	33	29
Sales and marketing	47	38	49	35
General and administrative	29	42	34	36
Other operating expense (income), net	(118)	(1,619)	(91)	1,210
Percent of Net Sales:				
Cost of sales	56.8 %	55.3 %	57.0 %	55.7 %
Fulfillment	16.7	16.2	15.8	16.8
Technology and content	13.0	15.3	12.3	14.4
Sales and marketing	7.2	8.7	6.5	8.1
General and administrative	1.9	2.4	1.9	2.3
Other operating expense (income), net	0.0	0.1	0.0	0.1

Cost of Sales

Cost of sales primarily consists of the purchase price of consumer products, inbound and outbound shipping costs, including costs related to sortation and delivery centers and where we are the transportation service provider, and digital media content costs where we record revenue gross, including video and music.

The increase in cost of sales in absolute dollars in Q3 2022, compared to the comparable prior year period, is primarily due to increased product and shipping costs resulting from increased sales, increased investments in our fulfillment network, increased transportation costs, and increased wage rates. The increase in cost of sales in absolute dollars for the nine months ended September 30, 2022, compared to the comparable prior year period, is primarily due to increased product and shipping costs resulting from increased sales, increased investments in our fulfillment network, increased transportation costs, increased wage rates and incentives, and fulfillment network inefficiencies. Changes in foreign exchange rates reduced cost of sales by \$3.6 billion for Q3 2022, and by \$7.4 billion for the nine months ended September 30, 2022.

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 \$18.1 billion and \$19.9 billion in Q3 2021 and Q3 2022, and \$53.0 billion and \$58.8 billion for the nine months ended September 30, 2021 and 2022. 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 use more expensive shipping methods, including faster delivery, 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.

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. Due to these fluctuations, 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 such as British Pounds, Canadian Dollars, Euros, and Japanese Yen. When 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.

Operating Risks

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

We are continuing to rapidly and significantly expand our global operations, including increasing our product and service offerings and scaling our infrastructure to support our retail and services businesses. The complexity of the current scale of our business can place significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions, and our expansion increases these factors. Failure to manage growth effectively could damage our reputation, limit our growth, and negatively affect our operating results.

We Experience Significant Fluctuations in Our Operating Results and Growth Rate

We are not always 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 are not always 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 factors 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.;
- **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 fast and free delivery, continue to reduce prices worldwide, and provide additional benefits to our customers;
- factors affecting our reputation or brand image (including any actual or perceived inability to achieve our goals or commitments, whether related to sustainability, customers, employees, or other topics);
- the extent to which we invest in technology and content, fulfillment, and other expense categories;
- **increases in the prices of fuel and gasoline, energy products, commodities like paper and packing supplies and hardware products, and technology infrastructure products;**
- constrained labor markets, which increase our payroll costs;