

**Operator**

Good day, ladies and gentlemen, and welcome to the Amazon.com Q1 2014 Financial Results Teleconference. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. In addition, today's conference is being recorded.

And now for opening remarks, I will turn the conference over to Senior Manager of Investor Relations, Mr. Dave Fildes. Please go ahead, sir.

**Dave Fildes**

Hello, and welcome to our Q1 2014 financial results conference call. Joining us today is Tom Szkutak, our CFO. We will be available for questions after our prepared remarks. The following discussion and responses to your questions reflect management's views as of today, April 24, 2014 only and will include forward-looking statements.

Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent Annual Report on Form 10-K.

As you listen to today's conference call, we encourage you to have our press release in front of you, which includes our financial results as well as metrics and commentary on the quarter.

During this call, we will discuss certain non-GAAP financial measures. In our press release, slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures.

Finally, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2013.

Now, I'll turn the call over to Tom.

**Thomas J. Szkutak**

Thanks, Dave. I'll begin with comments on our first quarter financial results. Trailing 12-month operating cash flow increased 26% to \$5.35 billion. Trailing 12-month free cash flow increased to \$1.49 billion. Trailing 12-month capital expenditures were \$3.85 billion.

We continue to make additional investments in support of business growth consisting of investments and technology infrastructure, including Amazon Web Services and additional capacity to support our fulfillment operations.

Return on invested capital is 9%, up from 1%. ROIC is TTM free cash flow divided by average total assets minus current liabilities excluding the current portion of long-term debt over five quarter ends. The combination of common stock and stock-based awards outstanding was 476 million shares compared with 471 million one year ago.

Worldwide revenue grew 23% to \$19.74 billion or 23% excluding the \$10 million favorable impact from year-over-year changes in foreign exchange. Media revenue increased to \$5.47 billion, up 8% or 8% excluding foreign exchange.

EGM revenue increased to \$13.02 billion, up 27% or 27% excluding foreign exchange. Worldwide EGM increased to 66% of worldwide sales, up from 64%. Worldwide paid unit growth was 23%. Active customer accounts exceeded 244 million. Worldwide active seller accounts were more than 2 million. Seller units represented 40% of paid units.

Now I'll discuss operating expenses excluding stock-based compensation. Cost of sales was \$14.06 billion or 71.2% of revenue, compared with 73.4%. Fulfillment, marketing, tech and content and G&A combined was \$5.18 billion or 26.2% of sales, up approximately 240 basis points year-over-year. Fulfillment was \$2.24 billion or 11.3% of revenue, compared with 10.8%. Tech and content was \$1.82 billion or 9.2% of revenue, compared with 7.9%. Marketing was \$843 million or 4.3% of revenue, compared with 3.8%.

Now I'll talk about our segment results, and consistent with prior periods we do not allocate to segments our stock-based compensation or other operating expense line item. In the North America segment, revenue grew 26% to \$11.86 billion. Media revenue grew 12% to \$2.82 billion or 13% excluding foreign exchange. EGM revenue grew 28% to \$7.83 billion, representing 66% of North America revenues, up from 65%. Other revenue grew 60% to \$1.2 billion. North America segment operating income increased 23% to \$562 million, a 4.7% operating margin.

In the International segment, revenue grew 18% to \$7.88 billion. Adjusting for the \$24 million year-over-year favorable foreign exchange impact, revenue growth was 18%.

Media revenue grew 4% to \$2.64 billion, or 4% excluding foreign exchange and EGM revenue grew 27% to \$5.19 billion or 26% excluding foreign exchange. EGM now represents 66% of International revenues, up from

61%. International segment operating loss was \$60 million, compared with \$16 million loss in the prior period.

CSOI increased 14% to \$502 million or 2.5% of revenue, down approximately 20 basis points year-over-year. Excluding the favorable impact from foreign exchange, CSOI increased 10%.

Unlike CSOI, our GAAP operating income includes stock-based compensation expense and other operating expense. GAAP operating income decreased 19% to \$146 million or 0.7% of net sales.

Our income tax expense was \$73 million. GAAP net income was \$108 million or \$0.23 per diluted share, compared with \$82 million and \$0.18 per diluted share.

Turning to the balance sheet. Cash and marketable securities increased \$771 million year-over-year to \$8.67 billion. Inventory increased 24% to \$6.72 billion and inventory turns were 9.1, down from 9.5 turns a year ago as we expanded selection, improved in-stock levels and introduced new product categories.

Accounts payable increased 19% to \$10.59 billion and accounts payable days were 68 consistent with the prior year.

I'll conclude my portion of today's call with guidance. Incorporated into our guidance are the order trends that we've seen to-date and what we believe today to be appropriately conservative assumptions. Our results are inherently unpredictable and maybe materially affected by many factors, including a high level of uncertainty surrounding exchange rate fluctuations as well as the global economy and consumer spending. It's not possible to accurately predict demand and therefore our actual results could differ materially from our guidance.

As we describe in more detail in our public filings, issues such as settling intercompany balances and foreign currencies amongst our subsidiaries, unfavorable resolution of legal matters and changes to our effective tax rates can all have a material effect on guidance.

Our guidance further assumes that we don't conclude any additional business acquisitions, investments, restructurings or legal settlements, record any further revisions to stock-based compensation estimates and that foreign exchange rates remain approximately where they have been recently.

For Q2 2014, we expect net sales of between \$18.1 billion and \$19.8 billion or growth of between 15% and 26%. This guidance anticipates

approximately 160 basis points of favorable impact from foreign exchange rates. GAAP operating income or loss to be between \$455 million loss and \$55 million loss, compared to \$79 million in income in the second quarter of 2013. This includes approximately \$455 million for stock-based compensation and amortization of intangible assets.

We anticipate consolidated segment operating income, which excludes stock-based compensation and other operating expense to be between zero and \$400 million, compared to \$409 million in the second quarter of 2013.

We remain heads down focused on driving a better customer experience through price, selection and convenience. We believe putting customers first is the only reliable way to create lasting value for shareholders.

Thanks. With that, Dave, let's move to questions.

### **Dave Fildes**

Thanks, Tom. Let's move onto the Q&A portion of the call. Operator, will you please remind our listeners how to initiate a question?

### **Question-and-Answer Session**

#### **Operator**

Absolutely, Mr. Fildes. (Operator Instructions) We'll hear first from Mark Miller with William Blair.

#### **Mark R. Miller – William Blair & Co. LLC**

Hi Tom. I was hoping you could maybe just layout first, what do you think the main reasons are for the acceleration and growth here in the first quarter versus the fourth quarter. And then a specific question on Prime Pantry, it is one of motivations to get the customer on that program it might make get easier to convert them to Amazon Fresh. And if so, would you want to run this operation as a breakeven like you do with Kindle, to enable a bigger business, thanks.

#### **Thomas J. Szkutak**

In terms of growth, we saw very solid growth, very good growth in Q1, up 23% on a local currency basis. North-America we saw a similar growth rates in Q1 as we saw in Q4 of last year as well as Q1 of last year all at 26%. And then international we saw the growth accelerate a little bit on a exchange adjusted basis from 15% to 18% from Q4 to Q1. But we really seen is we are pleased with the overall fundamentals we continue to add new customers and stocks continues to be healthy, third party unit is a

percentage of units are above 40% still very strong FBA adoption, that continues to be strong around the world, continued to add new selection.

We saw strong growth in many different areas including Web Services, and so again a lot of different areas contributed to growth rate that we saw in Q1. In terms of Prime Pantry, we just think it's an exciting option for prime numbers that's available only to prime numbers, and so they can get their everyday non-bulk items in one box, and we think that's – it's interesting for customers and again it's great way that we can add the selection and have the selections for those customers.

## **Operator**

Moving on to Aram Robinson with Wolfe Research.

## **Aram H. Robinson – Wolfe Research LLC**

Hi, thanks for taking the question. On the famous drone interview that Jeff had with Charlie Rose, he said something that caught my attention, which was that every elasticity study that you do says that Amazon should be raising prices. I have two questions around that. The first is does that equation also work in reverse? Meaning that if higher questions don't dampen demand, does it also mean that lower prices don't stimulate demand like they used to?

## **Thomas J. Szkutak**

In terms of pricing, we've been very consistent. We want to offer great value to customers, and so I would work very hard to make sure that we can offer and afford to offer great prices for customers. And so, that's something that we've been working on in the very hard over the years and that's certainly one of the reason why you've seen the growth rates that we've experienced a long with getting close to customers, from the shipping perspective make sure we have great in stocks and other service attributes.

In terms of price increases, we certainly have increased the price on Prime, but again that was after many years of not raising the price even though the cost of transportation costs certainly had gone up and the fact that we have certainly added a lot of selection going from little over 1 million items in the first year to over 20 million items. So it's still an incredibly great value for customers and that's why we did that.

So again, we're all about making sure we have great values for customers and we'll continue to that.

## **Aram H. Robinson – Wolfe Research LLC**

Okay thanks for that.

**Operator**

Carlos Kirjner with Bernstein has the next question.

**Carlos Kirjner – Sanford C. Bernstein & Co. LLC**

Hi, thank you. I have two quick questions about AWS. First, I think everyone would agree that AWS is a vast opportunity. So given how large the opportunity is, why is it that you are not hiring more people, launching more products, and growing faster? What are the limiting factors for growth of AWS?

Second, you have a long history of cutting prices for a few specific AWS products, but you did something somewhat unusual in late March when you cut prices across EC2 and S3 products in one shot. Why did you only cut your prices after Google cut theirs? Thank you.

**Thomas J. Szkutak**

In terms of AWS, the team is doing a fantastic job. We are adding a lot of resources that we've grown our employee-based there dramatically over the years and continue to add people there. And that's the way we've been able to launch all the new services that we had over the past several years. And we continued the pace of acceleration in terms of new things that we're doing is increasing and we've published a lot of statistics around that.

In terms of pricing, we think this is our 42nd pricing increase that we had in AWS. Sorry price decrease in AWS and we're very excited behalf of customers to be able to do that. The team works very hard to be able to afford those lower prices and we're excited to do that. And so in terms of the timing of when we launched these price decreases, they come at different times and that happened to come in the presentation that we're giving around that time. So but again we're excited about the opportunity and we're continuing invest in that business, given the big opportunity that we have there.

**Operator**

Our next question will come from Ben Schachter with Macquarie.

**Ben Schachter – Macquarie Capital, Inc.**

Can you walk us through the process on how you think about and how you model, how much you're willing to pay for exclusive content such as video or video game content. And another question, it looks fair for us to assume that

the business model of the Kindle Fire TV is similar to what Bezos has said regarding selling other hardware roughly break even and then making money on the F consumer unit. Thanks.

**Thomas J. Szkutak**

In terms of video content, the team does a very nice job of various modeling, certainly we are trying to estimate what the usages of those of all the content that we've launched. And we have a number of different ways if you do that. We do have certainly for some of the content that we have been selling both in terms of physical format as well as selling on the transactional side. We certainly see what the – what those sales are, what those unit sales are. So we have that as a benchmark, we also have other models to look at that to help us guide to we think the usage that will be those.

But again the team has done a nice job and I am looking at different ways to model that. And I expect it will continue to refine that overtime as well.

**Ben Schachter – Macquarie Capital, Inc.**

And the Kindle Fire TV.

**Thomas J. Szkutak**

Yes, in terms of Fire TV, I can't talk about the economics of the device itself. But what I can say is it's very early and we are extremely pleased with what we see and just the few weeks here and the team certainly made we think it's a killer product and where the team is very hard trying to keep buying stock in their product.

**Operator**

And City's Mark May have the next question.

**Mark A. May – Citigroup Global Markets Inc.**

Thank you. why don't you if noticed any change and sign ups or conversions in the few weeks here since you've rolled out the prime price increase for new customers and if you could maybe comment on the what may have contributed to the deceleration and year-on-year our growth and media sales in North America. Thanks.

**Thomas J. Szkutak**

In terms of prime, it's early but we are encouraged with what we see so far. Just over the last several weeks, our prime subscribers continue to grow

week-over-week. New trials, the adoption of new trials again post the increase are growing very nicely. So those customers accepting new trials is growing very fast. We only have a few days of information related to conversion. And we are encouraged by what we see there.

So overall we are very encouraged and the reason why is the customers we believe are responding to just a great service. And so we are continuously being reminded that for customers in terms of the offering we have in the physical side as well as the offerings that we have in the digital side as well. So we are very encouraged there.

In terms of the North American media, we did see from a growth standpoint, it's 13% year-over-year for North American media that compares to 14% in Q1 of last year. It is down a little bit sequentially from Q4 – Q4 keep in mind we do have video games and video consoles in that number in Q4. And there is certainly number of different factors, but that certainly one that is impacting the Q4 numbers. And it's certainly seasonal as you would expect that there is some great launches of consoles in Q4 that are impacting that number.

## **Operator**

We'll now turn to Douglas Anmuth with JPMorgan.

## **Douglas T. Anmuth – JPMorgan Securities LLC**

Great. Thanks for taking the question. Tom, I was just hoping you could give us your view on units growth and how you think about that going forward. How important of a metrics it is because we're seeing somewhat of a decoupling here as revenue and gross profit reaccelerated, but units obviously (indiscernible) as media came down. Can you talk a little bit about that? Thank you.

## **Thomas J. Szkutak**

Sure as you mentioned unit growth was actually decelerated a little bit from Q4 and also from last year with 23% year-over-year in Q1. One thing to keep in mind is that our web services business is growing at a faster rate. We don't incorporate any units from AWS in that metric. But overall, you're right we continue to – from a growth standpoint we had a small acceleration of growth from Q4 to Q1 from a revenue standpoint, again on local currency basis going from 22% to 23%, we are very pleased with the fundamentals that I talked about earlier that's impacting that growth rate. So again overall we are pleased and again we think that we see a nice growth rate, and third-party units as a percentage of total units is 40%, which was consistent with



what we saw last year so, third-party growth continues to be very strong as well.

### **Operator**

Brian Nowak, SIG has the next question.

### **Brian T. Nowak - Susquehanna Financial Group LLLP**

Thanks. I have two. The first one, just Tom to go back to the unit question, even if we exclude North America and international other from gross profit. Gross profit growth held in there pretty steady at 28%. Just kind of curious, is there anything that we should think about of why gross profit growth and unit growth is decoupling? And is unit growth a really good way to measure the health of the business? And then the second one is on international media. One of the factors you guys have flagged in the past holding down international media is more limited local language content. Can you just help us better quantify the difference in English language digital content compared to foreign language? And what steps are you taking to improve that?

### **Thomas J. Szkutak**

In terms of the – I'll take the second part of the question first about International media, the growth rate was 4% in the quarter and as I've talked about in prior quarters, certainly one of the things that's happening is we see a conversion from physical to digital. And for example in North-America we are now selling North-America media. We are now selling more digital units than physical units. So over the past twelve months we sold more digital units than physical units.

We are not at that point yet in International and so certainly that's an opportunity for us as we look at growing International media. So again, it's certainly something that we are working very hard on and certainly a good opportunity for us. In terms of unit growth, it's certainly just one measure that we want to – that we've thought has been helpful. And that's why we've continued to provide it. It is just one metric, we have many different metrics that we are sharing. But that much more I can add to that but again it's a metric, was there a third part of the question.

### **Brian T. Nowak - Susquehanna Financial Group LLLP**

No I guess, just are there any other puts and takes we should think about in units as we go throughout the year where there are tough compares or easy compares in units from a digital unit perspective or anything?

**Thomas J. Szkutak**

It's not that I can think of at the minute. But just keep in mind when you think about our revenue growth always be thinking about there's certainly a volume component. We have a third-party component, we have a mix component. We're continuously trading the lower prices for customers. All those factor into the revenue growth rates that you see into the revenue metrics that we provide to you.

**Brian T. Nowak - Susquehanna Financial Group LLLP**

Okay, great. Thanks.

**Operator**

We'll now hear from Brian Pitz with Jefferies.

**Brian J. Pitz – Jefferies LLC**

Great, thanks. Regarding fulfillment, does it make sense for you to bring some of the components in-house? We've been hearing talk of your own fulfillment network. Can you make any comments on this? And just to follow-up on your digital units point, can you comment on any impact of recent shifts in music and video consumption to subscription based models, from download to own on your media business? Is that having any impact? Thanks.

**Thomas J. Szkutak**

In terms of fulfillment, there's not a lot I can comment on in terms of your specific question. What I would say though is we continue to work to be, as we have over the years, to become closer and closer to customers. And so, we've certainly done that in a number of different ways. Just the footprint we have from a fulfillment capacity standpoint enables us to be closer to customers and getting great selection even closer to customers. So we continue to work. Certainly Prime was another way to get a faster delivery speed to customers and so we'll continue to work on our capabilities there to make it even better over time.

In terms of the digital units question, I apologize. There's not a lot I can comment in terms of your specific question there.

**Brian J. Pitz – Jefferies LLC**

All right. Thank you.

**Operator**

And we'll move on to Justin Post with Merrill Lynch.

**Justin Post – Bank of America Merrill Lynch**

Tom, we look back at your model and we go back to 2008 and 2009. In the middle of a pretty bad global recession, you were able to put up 7.3% and 7.4% operating margins in international. And now it looks like you're losing money and maybe for the whole year. Could you talk about some of the drivers that are driving the losses this quarter internationally? What the Company's patience for losses are internationally. And when you come out of this, how your business will be different and what your margin outlook is for the international profits? Thank you.

**Tom A. Alberg**

Sure. In terms of what you're seeing in Q1, and you've been seeing this certainly for a few year period here is we've investing very heavily in international and we're doing that in a number of different ways. Certainly from a geographic standpoint, we continue to invest in new geographies, and Italy and Spain were certainly the most recent and you should assume that we're investing in those geographies. We continue to invest in China and certainly that's in investment mode.

And then also as we've continue to grow in international, we've invested in terms of capacity, both fulfillment capacity, as well as infrastructure capacity to support those. So what you saw – you will see some certainly variation over time in the period that you're talking about. We certainly had particularly coming out of – going into late 2008 and also 2009, we had extra capacity globally. We still did continue to invest, but not near the rates that we're investing now and that's why you saw some results that you've seen. But again one of the things that you see now in international but in our total results is continue to invest very heavily into the business because of the opportunities that we are seeing.

**Justin Post – Bank of America Merrill Lynch**

Thank you.

**Operator**

We'll now hear from Greg Melich with ISI Group.

**Greg Melich – International Strategy & Investment Group LLC**

Hi, thanks. I wanted to ask a bit on the decision process that you went through when raising the Prime membership fee. I know you talked about

potentially doing \$20 to \$40. What factors did you look at in deciding on the \$20? And related to that, with the deleveraging of shipment costs happening a little bit, was weather an impact on that or is that just the business and how it's trending?

**Thomas J. Szkutak**

There was a number of different factors that we have looked at in terms of when we look at the price increase, but the biggest one is we had build – we think we build a great service and we saw that the just particularly the transportation cost since its inception have grown dramatically, we just haven't done any price increase during that long time period, and that's really the big reason why we decides to do that. We've launched the program with over a million items.

And we have over 20 million items customers are using that service in addition to having the transportation cost being higher they are using that service more and that's really we applied to it. And it would be on that, there is a lot we can comment.

**Greg Melich – International Strategy & Investment Group LLC**

Just on the shipment costs deleveraging in the first quarter a little bit. Did weather or something else have an impact, or is that just the trend of the business given the growth rate of shipments?

**Thomas J. Szkutak**

This many different factors that go into that and certainly, weather would have been one of those.

**Operator**

We'll move on to Ron Josey with JMP Securities.

**Ron Victor Josey – JMP Securities LLC**

Hi guys, thanks for taking the question this is Andrew on for Ron. Quick question around streaming volumes in UK and Germany now that Lovefilm is bundled with Prime? Guys you have any comment?

**Thomas J. Szkutak**

Unfortunately it is probably a good question for future quarters it just so early and again what little data we have so far it's very encouraging but it is very early so I think that's – it's a good question for future quarters.

**Operator**

We'll move to Heath Terry with Goldman Sachs.

**Heath P. Terry – Goldman Sachs & Co.**

Great thanks, obviously a lot of focus on pricing in AWS you are clearly still seeing accelerating growth despite those cuts, could you provide some context on the volume side of that equation whether it's just growth in customers or workload some way to sort of frame the other side of things outside of just pricing in AWS?

**Thomas J. Szkutak**

It's a good question. And I think that something we can certainly work on and tried to be helpful the price change, the most recent price change is certain recent. And what we are commenting on is certainly the Q1 results but – that something that we'll think about and that would be helpful on that as we go forward. But certainly usage has been this is not something recent. Usage has been very, very strong. And as we've continued to lower prices over time, this is the 42nd price decrease that we've had and we've had a great usage growth over time.

**Heath P. Terry – Goldman Sachs & Co.**

Great. And just on the AWS side, with the sort of nationalistic concerns that we're seeing around stored data, does that change at all the way that the AWS team is thinking about infrastructure needs for that business or the way that you might be thinking about CapEx?

**Thomas J. Szkutak**

I think the best way to say it is, and hopefully this answers your question. The team focuses on many different aspects, but certainly the operational aspects of being up and running, being a very secure, reliable set of services, those are something the team is very focused on and spends a lot of time working on. And so beyond that, I'm not sure I can add to it.

**Heath P. Terry – Goldman Sachs & Co.**

Great. Thanks, Tom.

**Operator**

Youssef Squali with Cantor Fitzgerald has the next question.

**Youssef H. Squali – Cantor Fitzgerald Securities**

Yes. Thank you very much. Two quick questions please. First, the HBO deal seems like a seminal event for Prime video in terms of quality and probably the price bit as well. Is this the first of many potentially large deals you're intent on getting for the platform? Or was this more of an opportunistic transaction that just came your way? And second, just on the P&L, can you just clarify where that \$60 million in investment gains came from, please?

**Thomas J. Szkutak**

Sure. The answer to your second question, which is down below in other relates to a gain primarily from Living Social. They sold their Korean business and that's reflected in that line item. In terms of the content question, the way we think about it is this. Since we launched the service we've continually added – tried to add great content and I think we've been pretty successful in doing that. And this is just another contract that we've launched into this multi-year to do that and we think it's great for customers. We're extremely excited to offer this to customers and we'll try to keep making the service even better over time.

**Youssef H. Squali – Cantor Fitzgerald Securities**

Is exclusive video an important consideration for you now?

**Thomas J. Szkutak**

There's a number of factors. Certainly we have a number of different arrangements where we have exclusive content and we think that's great for customers. We've also supplemented with other content that's not exclusive. And we're obviously, as you know, we're working on original content as well. So that is exclusive. So those are the things that we're working on and we see the customer response to all of those and we like what we see.

**Youssef H. Squali – Cantor Fitzgerald Securities**

Thanks

**Operator**

Scott Tilghman with B. Riley has the next question.

**Ronald Scott Tilghman – B. Riley & Co. LLC**

Thanks. Hi Tom, wanted to really ask two related questions. First, following up on the international discussion from before, I was wondering if you could prioritize where the investments are going on the international side between fulfillment, media build out, geography build out, et cetera? And then related, I haven't seen any discussion on what's happening on the domestic

fulfillment build out this year. I was wondering if you could comment on that as well.

**Thomas J. Szkutak**

Yes, in terms of the priority, I'm not sure what to add there, but I would say that we're investing heavily in China and we have been for some time and certainly that's a factor. We're investing in new geographies, most notably Italy and Spain. We're investing in, as I mentioned, fulfillment centers and infrastructure to support that growth. So, again, not a lot to add there. The other part of your question?

**Ronald Scott Tilghman – B. Riley & Co. LLC**

Well, let me ask you in a different way. If you look at pricing, if you look at infrastructure, if you look at geography, is there one bucket that tends to trump the others?

**Thomas J. Szkutak**

Again we've been pretty consistent how we've talked about it. Again, China is an issue. China is a big investment. In all of our geographies, not just international, we're investing on behalf of customers in terms of lowering prices. And so, that's having an impact, volume is having an impact. We continue to invest in fulfillment capacity not only for our retail customers, but also for third-parties on behalf of fulfillment by Amazon, sort of making investments there and the others that I mentioned.

**Ronald Scott Tilghman – B. Riley & Co. LLC**

Fair enough. And on domestic fulfillment?

**Thomas J. Szkutak**

Domestic fulfillment, as we have in past years, we'll continue to update you as we go throughout the year. I don't have any comments today given that we're just coming out of Q1, but we will be adding fulfillment capacity given the growth rates we're experiencing and we'll update you as we go.

**Ronald Scott Tilghman – B. Riley & Co. LLC**

Okay. Thank you.

**Operator**

We'll hear from Eric Sheridan with UBS.

**Eric J. Sheridan – UBS Securities LLC**

Thanks for taking the question. A question about your advertising business. There's been a lot of movement by Google to push PLAs as a product to sellers. I want to know longer term as you guys think about both advertising on Amazon, and also to give out advertising in a way that would allow sellers to bring traffic back to their own websites that might avail themselves of Amazon's advertising data and user data to help enable those sales. Thank you.

**Thomas J. Szkutak**

I can't comment on what we might or might not do in the future, but the team has done a nice job from an advertising perspective and you can see those prominently on our various websites. We view it as another way certainly to help, be able to afford lower prices for customers and again the team has done a very nice job of monetizing those detailed pages to allow us to be able to do that.

**Operator**

Moving on to Mark Mahaney with RBC Capital Markets.

**Mark S. Mahaney – RBC Capital Markets LLC**

Thanks, Tom. Two questions, please. The international media you talked about, I guess the digitization catch-up or whatever of international media. Could you break that down a little bit further? Are there certain categories, i.e., books versus videos, versus music that one of those is dragging internationally? And what is it that needs to happen for that digital shift to occur? Do you need more rights? You just need more devices in the market? What's the drag there? And then, in terms of the operating income guidance you're very consistent how you guided the last couple of years. It seems like you're guiding for more of a sequential decline in operating income in June quarter than you have the last two years. Is that just a different type of seasonality to the business, or are there new near-term investments that you're making in this June quarter? Thank you.

**Thomas J. Szkutak**

In terms of the second part of the question, related to the guidance what's reflected in the Q2 guidance is many different factors, but we are investing. I've mentioned a number of different investments that we're making in International which related to Q1, also relate to Q2. We are investing in content, we are investing in our web services business both from new services as well as pricing.



So again, we are investing in a lot of different areas across the company. So I'm sure there is a number that I'm not mentioning. So again, we are investing, that's really which we are seeing in the range of guidance that we see in Q2. In terms of International media, we continue to make progress there on our conversion from physical to digital. But we're just not where we are in North America. And it's in many different categories and we'll continue to work on that. And certainly some other things that you see related to video in Europe, certainly trying to address that part of that. So again, we'll continue to work on the various pieces of that for our International business and look forward to doing that.

**Mark S. Mahaney – RBC Capital Markets LLC**

Thanks, Tom.

**Operator**

Deutsche Bank's Ross Sandler has the next question.

**Ross A. Sandler – Deutsche Bank Securities, Inc.**

Hey, guys. If you don't mind I'll beat the dead horse on the International question. But specifically around China, can you just give us an update on the overall strategy for China? Are the levels of investments going into the country accelerating or are they just stable? And then what kinds of milestones in terms of market share or customer adoption do you guys track to identify success or return on that investment? Thanks.

**Thomas J. Szkutak**

In China, we are investing a lot and trying to grow the business there. We are certainly investing in fulfillment. We haven't been investing in our fulfillment network to get even closer to customers. We are doing a lot on the retail basics as we've done in other geographies making sure that we have a great in stock availability. We're making sure that we have [had] a unique selection. So those are the, lot of the things that we've done making sure that we have the right pricing in place on behalf of customers making sure that our service levels are where we need them to be.

So those are the things that we'd continue to work on in China. It's a very large opportunity and we are continuing to work hard. Is it a large investment? Yes it is. And that investment has certainly increased over the past several years.

**Operator**

We'll now hear from Colin Sebastian with Robert Baird & Company.

**Colin A. Sebastian – Robert W. Baird & Co., Inc.**

Thanks. First, just one clarification on the AWS question. Given the comments that customers would see hundreds of millions of dollars of savings in Q2 from the price cuts, I just want to understand or clarify if we should be expecting moderating growth rate in the other segments, at least temporarily? And then lastly just Amazon's position on the ability of ISPs to add a toll for fastlane network access. Is this a scenario a situation that would change the company's approach or strategy with regards to video or is this more of a non-factor for you guys? Thanks.

**Thomas J. Szkutak**

In terms of the just clarification and just quote, he mentioned that customers will be saving hundreds of millions of dollars over the next several months alone, he didn't say specifically at the second quarter. So certainly that's impacting second quarter and it's reflected in the guidance that you are seeing there. But again we are very happy to do that on behalf of our AWS customers. We've done many different price decreases over time and we think that's great on behalf of customers and we think our teams are and we are positioned very well in that business and we continue to invest in that given the large opportunity that we have there. In terms of the other question, there is not really a lot I can comment there.

**Operator**

And ladies and gentlemen unfortunately we only have time for one more question which will come from Kerry Rice with Needham & Company.

**Kerry Rice – Needham & Co. LLC**

Thanks a lot. Just a couple questions. One on customer adds, you didn't add quite as many new customer accounts as you did in Q1 2013. And so I assume based on your comments that wasn't related to the price increase around Prime, and so I don't know if you can add any context there. And then the second question is just around mobile. Obviously, the mobilization throughout the world is an important trend and you guys haven't talked a lot about it. Wonder if you can give us any context around your strategy there or any metrics.

**Thomas J. Szkutak**

In terms of Prime, again over the year-over-year, it is growing very rapidly and then also week-over-week as we look at the metrics over the last

several weeks continues to grow week-over-week, so we're very encouraged by what we're seeing there. In terms of mobile, it's certainly a tailwind for our business. We have a number of different things that are working on mobile and we continue to make it easier and easier for customers to shop from a mobile perspective.

Our traffic continues to increase from a mobile perspective. We are excited about what we see there. And we continue trying to find ways to make that even better from an experience standpoint for our customers.

**Dave Fildes**

Thank you for joining us on the call today and for your questions. A replay will be available on our Investor Relations website at least through the end of the quarter. We appreciate your interest in Amazon.com and look forward to talking with you again next quarter.

**Operator**

And again ladies and gentlemen, that does conclude our conference for today. Once again, we do thank you all for your participation.