Operator

Good day, everyone, and welcome to the Amazon.com Third Quarter 2011 Financial Results Teleconference. [Operator Instructions] Today's call is being recorded. For opening remarks, I would like to turn the call over to the Director of Investor Relations, Mr. John Felton. Please go ahead, sir.

John Felton

Hello, and welcome to our Q3 2011 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, October 25, 2011, 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 2010.

Now, I will turn the call over to Tom.

Thomas J. Szkutak

Thanks, John. I'll begin with comments in our third quarter financial results. Trailing 12-month operating cash flow increased 19% to $3.11 billion. Trailing 12-month free cash flow decreased 17% to $1.53 billion. Return on invested capital is 17%, down from 28%.

Return on invested capital is TTM free cash flow divided by average total assets minus current liabilities, excluding the current portion of long-term debt over 5 quarter end. The combination of common stock and stock-based awards outstanding was 469 million shares compared with 465 million shares.

Worldwide revenue grew 44% to $10.88 billion or 39%, excluding the $371 million favorable impact from year-over-year changes in foreign exchange. We are grateful to our customers who continue to take advantage for our low prices, vast selection and shipping offers.

Media revenue increased to $4.15 billion, up 24% or 19%, excluding foreign exchange. EGM revenue increased to $6.32 billion, up 59% or 54%, excluding foreign exchange. Worldwide EGM increased to 58% of worldwide sales, up from 53%.

Worldwide paid unit growth was 53%. Active customer accounts exceeded 152 million. Worldwide active sellers were more than 2 million.

Now I'll discuss operating expenses, excluding stock-based compensation. Cost of sales was $8.32 billion or 76.5% of revenue consistent with the prior-year period. Fulfillment, marketing, technology and content and G&A combined was $2.29 billion or 21.1% of sales, up approximately 290 basis points year-over-year.

Fulfillment was $1.09 billion or 10% of revenue compared with 8.7%. Tech and content was $694 million or 6.4% of revenue compared with 5.1%. Marketing was $360 million or 3.3% of revenue compared with 3.1%.

Now I'll talk about our segment results, and consistent with prior periods, we do not allocate segments or stock-based type of compensation or other operating expense line item. In the North American segment, revenue grew 44% to $5.93 billion. Media revenue grew 21% to $1.93 billion. EGM revenue grew 56% to $3.64 billion, representing 51% of North American revenues, up from 56%.

North America segment operating income decreased 23% to $144 million, a 2.4% operating margin.

In the International segment, revenue grew 44% to $4.94 billion, adjusting for the $367 million year-over-year favorable foreign exchange impact, revenue growth was 33%.

Media revenue grew 27% to $2.23 billion or 17% excluding foreign exchange and EGM revenue grew 63% to $2.68 million or 51%, excluding foreign exchange. EGM now represents 54% of international revenues up from 48%.

International segment operating income decreased 46% to $116 million, a 2.4% operating margin. Excluding the favorable impact of foreign exchange, International segment operating income decreased 55%.

Consolidated segment operating income decreased 35% to $260 million or 2.4% of revenue down approximately 290 basis points year-over-year. Excluding the $14 million favorable impact from foreign exchange, CSOI decreased 38%. Unlike CSOI, our GAAP operating income include stock-based compensation expense and other operating expense. GAAP operating income decreased 71% to $79 million or 0.7% of net sales.

Our income tax expense was $67 million in Q3, resulting in a 52% rate for the quarter and a 31% rate year-to-date. GAAP net income was $63 million or $0.14 per diluted share compared with $231 million and $0.51 per diluted share.

Turning to the balance sheet. Cash and marketable securities increased $441 million year-over-year to $6.33 billion. Inventory increased 50% to $3.77 billion and inventory turns were 10.8, down from 11.8 turns a year ago, as we expanded selection, improved in-stock levels and introduced new product categories.

Accounts payable increased 42% to $6.55 billion and accounts payable days decreased to 72 from 73 in the prior year. Our Q3 2011 capital expenditures were $529 million. The increase in capital expenditures reflects additional investments in support of continued business growth, including investments in technology infrastructure, including Amazon Web services and capacity to support our fulfillment operations.

I'll conclude my portion of today's call with guidance. Incorporated into the guidance are the trends that we've seen to date, and what we believed 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 inter-company balances in foreign currencies amongst our subsidiaries, unfavorable resolution of legal matters in 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 or investments, record any further revisions to stock-based compensation estimates, and that foreign exchange rates remain approximately where they've been recently.

For Q4 2011, we expect net sales between $16.45 billion and $18.65 billion or growth between 27% and 44%. This guidance anticipates approximately 130 basis points of favorable impact from foreign exchange.

GAAP operating income or loss to be between $200 million loss and $250 million of income are between a 142% decline and 47% decline. This includes approximately $200 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 $0 and $450 million or between 100% decline and 28% decline.

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 creating lasting value for shareholders. Thanks. And with that, John, let's move to questions.

John Felton

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

Question-and-Answer Session

Operator

[Operator Instructions] And we'll go first to Mark Mahaney with Citi.

Mark S. Mahaney - Citigroup Inc, Research Division

I wonder if you would talk a little bit more about the revenue guide for the fourth quarter? And just some basic factual things, are you including contributions from the Kindle Fire shipments? And do you fully recognize all of that or is there some ratable recognition? And is there any particular reason, in addition to that, that you're guiding for a deceleration? Are you seeing signs of softening consumer demand in European markets, for example?

Thomas J. Szkutak

Sure. In terms of the guidance for revenue for Q4, as we've done in previous years, we've given a wide range of guidance in Q4 just because of the seasonality and it's difficult to predict. But we feel very good about the demand that we've seen to date. And certainly, at the high end of the guidance, you can see there's an acceleration that's possible that's reflected in that guidance. But we are given a wide range consistent with what we've done in prior Q4s. In terms of the overall growth that we've seen so far, to date, you saw a very strong growth in Q3, up 39% on a local currency basis. That's consistent with what we've seen over the past 12 months where we're up 39%, also over the trailing 12 months. And we really saw a step change 2 years ago where last [indiscernible] year-over-year so far last 12 months up 39%. So again, we feel very good about the growth that we are experiencing, and I've seen data reflected in the guidance given a wide range. In terms of Kindle Fire in our guidance and certainly the largest portion of that would be reflected in our revenue.

Operator

We'll go next to Youssef Squali with Jefferies & Company.

Youssef H. Squali - Jefferies & Company, Inc., Research Division

Tom, could you please speak to what's pressuring margins in Q3 and particularly Q4. I guess the implied margin for Q4 is effectively 0 at the midpoint. It, again, answer the question, what's the financial model going forward? Is it to try to maximize growth on the top line even at 0 growth -- 0 margin?

Thomas J. Szkutak

What you're seeing, and again, it relates back to the growth, we're seeing really unprecedented growth. We're seeing the best growth which we've seen since 2000, meaning in 2010 and so far over the past 12 months ending September. And so with this strong growth, we're investing in a lot of capacity and that's what we've been talking about over the past couple of quarters and that's what you're seeing in our Q3 results specifically. If you take a look at our operating expenses in Q3, as a percentage of revenue, you see -- and if you compare that to Q2, as a percentage of revenue, you're seeing very similar trends for marketing and G&A. You're seeing a slight uptick in tech content. It's about 10 basis points and then you're seeing fulfillment up approximately 80 basis points. The reason why that's growing so much, as a percentage of revenue, is again the capacity that we've been talking about. Many days ago, I've mentioned that we were -- we had announced 15 new fulfillment centers this year that's on a basis of 52 from last year. And then we'd likely open one or two more. We are actually going to be opening 17 new fulfillment centers. And so you're seeing that impacting our fulfillment expense in Q3, as well as the bottom line in Q3. So that's what's impacting this in Q3. We are also investing in a number of different areas. We're investing to support retail growth fulfilled by

Amazon growth, fast-growing AWS business, as well as infrastructure to support our retail business. We're investing in our Kindle and Digital business. I mean you're seeing that reflected in our Q4 guidance as well, all of these things. And so if you take a look at our Kindle business, for example, we've launched 4 new products at the end of September, and we're very, very excited about those products. They're at great prices, and they are certainly premium products. And so we're very excited about those. And we think about the economics of the Kindle business, we think about the totality. We think of the lifetime value of those devices. So we're not just thinking about the economics of the device and the accessories. We're thinking about the content. We are selling quite a bit of Special Offers devices which includes ads. We're thinking about the advertisement and those Special Offers and those lifetime values. So those are the things certainly that are impacting, as well as investments in other areas impacting our Q4 guidance. But we feel very good about where we are right now and the opportunities that we have in front of us.

Operator

We'll take our next question from Scott Devitt with Morgan Stanley.

Scott W. Devitt - Morgan Stanley, Research Division

Tom, just a bigger picture question on the Retail business. I was wondering how you're thinking about individual markets in cases where specific markets are highly competitive and markets where you maybe position potentially as the #2. Do you, long-term in markets such as that do you believe that the business should be positioned as #1 and that the scale advantage has deteriorated if you're not a #1. Just wondering given some of the emerging markets and the competitive landscape that's occurring, particularly in Asia. How you think about that?

Thomas J. Szkutak

Sure. We're -- maybe to step back from it a bit. Whenever we enter a new geography or even a new category, we're trying to make sure that it's something that we can, we think we can add value to. And so, for example, we like categories that have a lot of different SKUs that are complicated in a physical retail environment. We like categories where there is, we think that we can add a lot of value from a service perspective. And so in each of the categories that we operate in, we're always trying to make sure that we can -- we think we can get great returns on invested capital over a period of time. And so I'm not directly answering your question, but we certainly look at it on a category-by-category basis. We look at it where we can add value. And if you look back over of our history, you can see where we've entered new categories, new geographies. We've always started with the customer first. We've added selection usually first from a retail standpoint. Sometimes with third parties it starts, sometimes not. But we've added third parties as we've gone if we haven't done it what we started. And so this is -- we think this model has worked very well for us. And again, we're looking always at ways that we can add value for customers and shareholders over time.

Operator

Next, we'll go to Jim Friedland with Cowen and Company.

James H. Friedland - Cowen and Company, LLC, Research Division

I wanted to ask about -- you with Netflix launching. We're announcing that they're launching in the U.K. and Ireland with streaming. You guys bought Lovefilm earlier in the year and it doesn't seem like you've changed the streaming side of the business that much. Are there any plans to ramp up the investment and content outside the U.S., outside of what you're doing with Prime streaming? And then on Quidsi, we've seen a lot of new announcements in terms of new brands and also new categories. Is that having a material impact on some of the lower operating profiters. Quidsi is just not big enough as a percentage of total to matter?

Thomas J. Szkutak

In terms of Lovefilm, actually we have been investing in content since acquisition. So that's something we have been doing and we continue to invest there and you'd expect -- you should expect us to continue to invest in Lovefilm. We think it's a graded opportunity. The business is doing very well. We're very pleased with how the team is working and we're very excited about that opportunity. So that's something we have been doing since acquisition. And you should expect that to continue. In terms of Quidsi, yes, they are continuing to expand, doing a very nice job. That is not -- it certainly reflected in the guidance that we're giving for Q4. I wouldn't consider that a material impact.

Operator

We'll take our next question from Ross Sandler with RBC Capital Markets.

Ross Sandler - RBC Capital Markets, LLC, Research Division

Just two quick questions. First on U.S. EGM, there was a bit more deceleration there than prior quarters. I know that comp was more challenging, but can you give us a little color on what's going on with the deceleration in domestic EGM? And then a question on mobile, our smart phone and tablet users that are buying physical goods on the Amazon mobile app, how does their purchase behavior differ from the same users who are buying stuff on PC? Are they buying more physical goods or less, not ebooks or digital goods, but just specifically physical goods?

Thomas J. Szkutak

Sure. In terms of the first part of your question, we are very pleased with the growth rate we saw in North America EGM. It was up 56% year-over-year. And you do have it right. It is a bit of a tough compare if you look back to last year. We did grow 80%. It was certainly high watermark for us and we're overlapping that. We had very, very strong growth last year Q3. But again, still very pleased with what we see in Q3 of this year in EGM specifically and our overall growth rates, too. In terms of mobile, we actually haven't released a lot of details and that's not much I can help you with there. But certainly, we are seeing good trends in our mobile business. And again, we like what we're seeing there, but there's not much I can help you with that particular question.

Operator

We'll go next to Jeetil Patel from Deutsche Bank Securities.

Jeetil J. Patel - Deutsche Bank AG, Research Division

A couple of questions. First of all, I guess on lifetime value, if you look at the Kindle kind of customer versus the core retail customer, can you talk about whether lifetime value is comparable or higher, relative to that core business? If you can isolate it that way? And second, as you look at the third-party business, are you seeing an accelerated mixed shift towards third-party broadly? And is there anything -- any particular markets or kind of international that seems to be seeing a bigger pickup in the third-party side of the business?

Thomas J. Szkutak

To answer your first -- the first part of your question, we're not breaking out Kindle customer versus non-Kindle customer, but I can talk a little bit about some of the dynamics related specifically to the Kindle customer. We have learned a lot over the past couple of years about -- since launching Kindle. Once a customer's purchased a device, obviously, what else do they buy. And what they launch more recently of special offers and ad-based Kindles. We certainly have some data and we're still learning, but have some data that we didn't have prior to launch. And so what we're seeing certainly is that once customers purchase a Kindle and are carrying around this really massive selection at their fingertips, they're buying more content. We've talked a lot about that on previous calls. But again as we think about the lifetime value, we thinking very specifically about the device itself. How to make sure that we get just the absolute device in customers -- the absolute best device in customers hands and have the absolute best content on those devices. And we look at the total economics which include the device, the accessories, the content, as well as any ad-based revenue and Special Offers. So those are the things that we're looking at, as we think about the lifetime value of the device. And we like what we see. And so certainly as you think about Q4 and you think about the guidance that we're giving, certainly we're going to have a -- we expect to have a record quarter in terms of device sales. And because of the back-end loading of it, you should assume that the content would, obviously, trail that device sale. The ad revenue would trail those device sales as well as the Special Offers. So those are the things you should think about as you think about our Kindle business. But we're extremely excited about it both our electronic ink and fire devices and couldn't be more pleased to offer those for customers and we think that those will be great for share owners over time. In terms of third-party, we think the business is going very well, in terms of the numbers. Our third-party units, as a percentage of total units, these are paid units, as a percentage of total units is 38% this quarter, up from 35% last year. So we're very pleased also on top have very strong overall unit growth, so we're very pleased with what we're seeing there. And this is a trend that's been -- you've seen for a number of years now, where we're getting both great retail growth, as well as third-party growth. And certainly fulfilled by Amazon and other things that are helping drive that growth rate.

Operator

[Operator Instructions] We'll go next to Spencer Wang with Credit Suisse.

Spencer Wang - Crédit Suisse AG, Research Division

So I guess one question and a couple of parts related to digital content. Tom I was wondering if you could just perhaps give us a sense of how much of the increase in operating costs in the fourth quarter do you think will be driven by digital content rights? Should we expect that to continue to drag on into 2012? And then just to clarify, how are you accounting for the streaming content rights? Is that under FAS 63?

Thomas J. Szkutak

In terms of content, we will be certainly purchasing content for both our U.S. business which includes a paid piece and a Prime instant video which will be an unpaid piece free as long as you're a Prime member. And so those -- so the content is included in our Q4. In addition to that, we also have content costs as we have with Lovefilm in Europe, so those are included in our guidance. We are not splitting out the specific dollar amount related to that in our guidance for Q4. But it's certainly impacting our guidance, along with, certainly investing in our Kindle business and some of the other investments that I talked about. So those are the things that are impacting us, and we're excited to -- for those opportunities.

Operator

And we'll go next to Ben Schachter with Macquarie Group.

Benjamin A. Schachter - Macquarie Research

So my understanding is that Google will be the default search engine for the Kindle Fire. But will the Silk browser have any type of interface or search bar that links directly to either physical product or media directly from Amazon? And then just separately, on the video distribution, you're still not on the game consoles. Any update on why and would you consider deploying any device like a Roku box or anything else directly to prime customers so that they can get video content to a [indiscernible]?

Thomas J. Szkutak

It'll be very easy on Fire to access all of our digital content at first. So it's very integrated device. It's something that we've been working on. It's coming together over long period of time, in terms of being able to offer just a vast amount of paid and free content. In the case of video, we'll certainly have book content, music content. So it will be a very -- our App Store as well. So it will be very easy and very integrated being able to access all of our digital content. It'll also be easy to access physical product as well. So those are things that we're very excited about, and customers will be able to see when they receive their Fire. And so we think it's an incredible product. We're very excited about it. It's certainly a premium product. And at $1.99, it's certainly not a premium price. We're very happy to offer that to customers. In terms of other things we might do, I don't have anything to speak of there.

Operator

We'll take our next question from Herman Leung with Susquehanna.

Herman Leung - Susquehanna Financial Group, LLLP, Research Division

Two quick questions. First, I guess on the Target cost drop, I think Target drop -- is dropping basically in August. So wondering what the impact of that is from a onetime cost standpoint in the third and fourth quarters. And then the second quick question is on the distribution center ramp, the 17 new distribution centers that you're adding, how long would it take for those distribution centers to operate at normalized levels similar to your 52 other distribution centers?

Thomas J. Szkutak

In terms of Target, we're not breaking out any specific partner relationship. But certainly, in terms of you have the timing right, in terms of that did happen during Q3. We're very fortunate to be able to partner with Target over a number of years and so we're very happy to have done that, and so that relationship ended from a partnering of their website in Q3. And any associated impact has been reflected in our actual results for Q3 and our guidance for Q4. And then in terms of the FCs, the way you should think about it is think about just the sheer ramp up of going from 52 to 69 FCs in a year. It's happening very fast. We have a fantastic team around the world who has been working very hard, making sure that we're up and running, and we have all of our associates train. That being said, as you can imagine, we're having people come in well before starting fulfillment for training. We are signing leases and getting product available for shipment well before doing so. And so, consequently, just as a result of having a ramp up where they'll be no output for some period of time even though we'll have people in building someplace and moving, receiving product in as productive downtime. And then there's a timeframe where it takes to ramp up during -- from a distribution standpoint. And so all these things will take time. It's something that we have been doing since the start of Amazon. It's something that I think we understand very well, and it takes a period of time depending upon the FC and how automated it is or non automated it is. So those -- all of those factors, we certainly understand well and we'll certainly feel very good about deploying those assets and get great returns on invested capital on those assets over time.

Operator

We'll take our next question from Brian Pitz with UBS.

Brian J. Pitz - UBS Investment Bank, Research Division

Just two quick questions. Would you provide any color on current traction with the Cloud Player and/or usage of Prime video? And going forward, is there any chance that we could see the video service unbundled from Prime perhaps with a standalone fee? I know it's kind of a forward look but it's just how -- can we think about -- how can we think about that?

Thomas J. Szkutak

We're happy with the traction we're getting, both the Cloud Player and Prime video -- both from very early. In terms of Prime video, customers absolutely love it. It's free video. We're adding a lot of content there. We have a lot of customers who are requesting free trials, and then the converting base on those free trials. This is the Prime trials. And so it's very early. And it's something that we'll be adding to, certainly, over the course of the next 12 months and we feel very good about that. But we're also monitoring it very carefully, and we're watching all of the customer-facing metrics that we can, as well as looking at the economics. So that we feel that it's very early, but we like what we see so far.

Operator

Our next question will come from Doug Anmuth with JPMorgan.

Douglas Anmuth - JP Morgan Chase & Co, Research Division

Two things. First, Tom, we've seen in the past sometimes when companies make changes to the site, in terms of the UI that it can take customers a little time to get adjusted to those. Can you comment on what you're seeing in the early impact on your site and how that plays into the 4Q? If it does at all? And then secondly, can you comment on whether you're paying any royalties around the Kindle Fire?

Thomas J. Szkutak

In terms of the UI, there's not a lot I can say there. It's certainly that's probably the most recent data would be to look at our Q3 results. We didn't have the new UI at 100% for the full quarter. But again, we saw a very strong growth rate in Q3. As I've mentioned earlier, up 39%, so we feel very good about it and it's certainly reflected in our actual results in our guidance as I've mentioned earlier. If you think about Q4, we think we'll have certainly, we've added a lot of selections over the past 12 months, a lot of great unique selection, so we think we are well positioned for Q4 from a selection standpoint. We continue to make sure that our prices are sharp, so we have great value to customers. We continue to work on improving service levels that comes in a number of different forms, but certainly getting goods to customers fast is important and certainly Prime is playing a key role on that and we have certainly a lot more Prime members this year than we have previously. So all of those things we have 4 new Kindle products at just great prices for customers. So all those attributes set up Q4 for a nice growth quarter. Although as we have another Q4 because again our -- but again, we feel very, very good about the growth that we're seeing over the past quarter and our prospects for the holiday season. And that's reflected in the guidance that we're giving. And in terms of specifics on royalties and everything, we certainly wouldn't talk to that.

Operator

We'll go next to Colin Sebastian with R.W. Baird.

Colin A. Sebastian - Robert W. Baird & Co. Incorporated, Research Division

Just one follow-up on the fulfillment centers, Tom. I think you mentioned before that you might need to increase beyond the 15 new centers if revenue growth were faster than originally expected. If you could confirm that, that was the thought process here as well looking into Q4? And then just on the Kindle Fire and EE devices based on your comments on sales trends thus far, is there any potential supply constraints that you foresee for the holiday period?

Thomas J. Szkutak

In terms of the first part, in terms of fulfillment centers, yes. As I mentioned 90 days ago, we've given a range of guidance for the top line for Q3. We hadn't given guidance for Q4. We were very excited about the growth that we were seeing through the first half of the year, but we wanted to get through Q3. And again, I'd announced or had mentioned that 90 days ago that we had announced that we were opening 15 and potentially 1 or 2 more. And that reality is coming true. We are actually opening up 17. And so -- and again, that illustrates we feel about -- how we feel about, not the growth that's happened in the past. But certainly impacting how we're thinking about it, but it impacts the fulfillment we're adding is about growth going forward. And so we feel very good about the growth they're experiencing and we're looking at a number of different factors, including our most recent historical growth rates. In terms of supply, you probably saw the release. But again, in the first 3 weeks since launch, orders for our EE Kindles are double the previous launch. We're also seeing extremely strong Kindle Fire pre-orders and we're increasing capacity in building millions more than already planned. And so that's what we're doing from a production standpoint, and we're getting ready as you'd expect for just a great holiday season for customers overall and for Kindle customers.

Operator

We'll go next to Matt Nemer with Wells Fargo.

Matthew R. Nemer - Wells Fargo Securities, LLC, Research Division

First, your employee count is up about 19% sequentially versus a move of about 10% over the last few years. So I'm wondering, is this quarter and next quarter when you hire a lot of temporary workers sort of the apex of the pain that you'll feel on all these new FCs or do you think that employee growth could actually accelerate in the first half of next year? And then secondly, your shipping costs were also up pretty significantly, how much of that is Prime usage versus Prime customer acquisition cost?

Thomas J. Szkutak

In terms of employment, we're not guiding or giving estimates beyond the quarter. But you're right, we're seeing a large sequential increase in employment and a large year-over-year increase in employment, and it's across many different areas that we're adding. But certainly the most notable, both from a year-over-year and sequential and certainly represents the majority of the additions would be our operations and customer service associates. And so those are certainly growing fast, and we're also -- given the opportunity that we have to grow. We're also investing in other areas. But again, the majority of the sequential and year-over-year increase is coming from operations and customer service associates. In terms of the shift margin as you're mentioning, certainly, Prime is certainly having a big impact there. And so as well as our free shipping offers and so that's what's -- that certainly what's driving it.

Operator

And we have time for one final question, we'll go to Kerry Rice with Needham & Company.

Kerry K. Rice - Needham & Company, LLC, Research Division

I know that you guys launched in Spain this quarter or towards the end of Q3 beginning of Q4. Can you talk a little bit about maybe the additional international strategy? Shall we think of that as the first step further into Europe or maybe into Latin America?

Thomas J. Szkutak

Sure. In terms of the 2 most recent country launches, we're certainly Spain and Italy and it's very early. It's a -- we're very happy to be, certainly, serving those geographies. We're very excited about it and think they're very interesting long-term opportunities. We have, we're able to take advantage of our European infrastructure and leadership team to launch those 2 geographies, and we're very excited about it.

John Felton

Great. Well, 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 to the end of the quarter. We appreciate your interest in Amazon.com and look forward to talking to you again next quarter.