

Operator

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Good day, and welcome to the Amazon Quarterly Conference Call. Today's call is being recorded. At this time, I'd like to turn the conference over to Mr. John Felton, Director of Investor Relations. Please go ahead, sir.

John Felton

Hello and welcome to our Q1 2011 Financial Results Conference Call. Joining us today are Tom Szkutak, our CFO; and Rob Eldridge, our VP of Investor Relations. 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 26, 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'll turn the call over to Tom.

Thomas Szkutak

Thanks, John. I'll begin with comments on our first quarter financial results. Trailing 12 months operating cash flow increased 9% to \$3.03 billion. Trailing 12 months free cash flow decreased 18% to \$1.9 billion. Return on invested capital of 24%, down from 45%. ROIC [return on invested capital] as TTM [trailing 12 months] free cash flow is divided by average total assets minus current liabilities excluding the current portion of long-term debt over 5 quarter ends.

The combination of common stock and stock-based awards outstanding was 466 million shares compared with 463 million shares.

Worldwide revenue grew 38% to \$9.86 billion or 36%, excluding the \$144 million favorable impact from year-over-year changes in foreign exchange rates. We're grateful to our customers who also continue to take advantage of our low prices, vast selection and shipping offers.

Media revenue increased to \$3.96 billion, up 15% or 13%, excluding foreign exchange rates. EGM [Electronics and other General Merchandise] revenue increased to \$5.59 billion, up 59% or 57% excluding foreign exchange. Worldwide EGM increased to 57% of worldwide sales, up from 49%. Worldwide unit growth was 51%.

Active customer accounts exceeded 137 million. Worldwide active seller accounts were more than 2 million. Seller units were 33% of total units.

Now, I'll discuss the operating expenses excluding stock-based compensation. The cost of sales was \$7.61 billion or 77.2% of revenue compared with 77.1%. Fulfillment, Marketing, Technology and Content and G&A combined was \$1.78 billion or 18.1% of sales, up 234 basis points year-over-year. Fulfillment was \$831 million or 8.4% of revenue compared with 7.4%. Tech and Content was \$580 million or 5.3% of revenue compared with 4.5%. Marketing was \$320 million or 3.2% of revenue compared with 2.7%.

Now, I'll talk about our segment results, and consistent with prior periods, we do not allocate the segments, our stock-based compensation or other operating expense line items. In the North America segment, revenue grew 45% to \$5.47 billion. Media revenue grew 18% to \$1.89 billion. EGM revenue grew 63% to \$3.3 billion, representing 60% of North America revenues, up from 54%. North America segment operating income increased 6% to \$290 million, a 5.3% operating margin.

In the International segment, revenue grew 31% to \$4.39 billion. Adjusting for the \$141 million year-over-year favorable foreign exchange impact, revenue growth was 27%. We estimate that the international revenue growth rate was negatively impacted by approximately 500 basis points following the earthquake and subsequent events in Japan.

Media revenue grew 13% to \$2.07 billion or 9% excluding foreign exchange, and EGM revenue grew 54% to \$2.29 billion or 49% excluding foreign exchange. EGM now represents 52% of international revenues, up from 44%.

International segment operating income decreased 25% to \$175 million, a 4.0% operating margin. Excluding the favorable impact from foreign exchange, International segment operating income decreased 28%.

CSOI [consolidated operating income] decreased 8% to \$465 million or 4.7% of revenue, down 239 basis points year-to-year. Excluding the \$7 million favorable impact from foreign exchange, CSOI decreased 9%.

Unlike CSOI, our GAAP operating income includes stock-based compensation and other operating expense. GAAP operating income decreased 18% to \$322 million or 3.3% of net sales.

Our income tax expense was \$89 million in Q1 or a 29% rate for the quarter. The tax provision for Q1 2011 includes income tax expense for approximately \$8 million related to a discrete item in the quarter. GAAP net income was \$201 million or \$0.44 per diluted share compared with \$299 million and \$0.66 per diluted share.

Turning to the balance sheet. Cash and marketable securities increased \$1.82 billion year-over-year to \$6.88 billion. Inventory increased 59% to \$2.89 billion and inventory turns were 11.6, down from 12.6 turns a year ago, as we expanded selection, improved in-stock levels and introduced new product categories. Accounts payable increased 53% to \$5.54 billion and accounts payable days increased to 66 from 59 in the prior year.

Our Q1 2011 capital expenditures were \$298 million. The increase in capital expenditures reflects additional investments in support of continued business growth, including investments in technology infrastructure, including Amazon Web Services, capacity to support our fulfillment operations and investments in corporate office space.

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 to date to be appropriately conservative assumptions. Our results are inherently unpredictable and may be materially affected by many factors including the 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, 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 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 or investments, record any further revisions to stock-based compensation estimates and that foreign exchange rates remain approximately where they've been recently.

For Q2 2011, we expect net sales between \$8.85 billion and \$9.65 billion or growth between 35% and 47%. This guidance anticipates approximately 640 basis points of favorable impact from foreign exchange.

GAAP operating income to be between \$95 million and \$245 million or between 65% decline and 9% decline. This includes approximately \$180 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 \$275 million and \$425 million or between a 32% decline and 5% growth.

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, 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] We'll take our first question from Spencer Wang with Crédit Suisse.

Spencer Wang - Crédit Suisse AG

Thanks for taking the question. 2 quick questions for Tom. Can you just maybe elaborate a little bit on your 2Q guidance and what you're thinking the impact from Japan could be and how you're thinking about when you incorporate that into your guidance? And then secondly, on shipping, the losses seem like they're growing. So I was wondering if you could just talk, Tom, about is that a function of more Prime usage, faster shipping or fuel cost perhaps impacting that line? Any more detail there would be great. Thanks.

Thomas Szkutak

Sure. In terms of your first question, what we saw for Japan, first of all to talk just briefly about Q1 and then I'll talk about Q2. Q1 in terms of impact, we think the impact is approximately 500 basis points on international revenue. If you take a look at international revenue growth, excluding foreign exchange, was up 27%. So about for the unfortunate events in Japan, it would have been approximately 32%. The impact on Q1 in terms of consolidated segment operating income was approximately \$20 million. What we saw post the events, we certainly saw a pretty sizable slowdown for the few weeks ending the quarter. What we've seen since then so far quarter-to-date has been that certainly our growth rates have picked up, but they're not at the rates they were previous to the events. So again, we're seeing a positive growth there but not the growth rates we were seeing prior to that. And so what we believe for the quarter, along with all of our other assumptions are included in the guidance that we've given today. In terms of your second question related to shipping profit, what you're really seeing there is customers are coming out in great numbers with all of our adopting all of our free shipping programs including Amazon Prime. I think we're seeing great adoption there and that's really what's driving those numbers.

Operator

[Operator Instructions] We'll go next to Jeetil Patel with Deutsche Bank.

Jeetil Patel - Deutsche Bank AG

Great, thanks. A couple of questions. One, I guess, when you look at your -- it looks like the International business is really starting to kick in nicely and it seems like Amazon Prime has now had a chance to really mature and ramp up in a lot of your regions. I'm curious, are you seeing the same type of kind of returns that you saw in the U.S. market in terms of customer adoption, kind of purchase frequency in the international markets around Prime? And second, it seems like Kindle, you're kind of employing a similar strategies that you did with Prime which is stagger versus the U.S. market, and is it almost following the same path of kind of ramp and returns for the Kindle initiatives globally as you saw in the U.S. market?

Thomas Szkutak

In terms of your first question, Jeetil, related to Prime, we are seeing these similar dynamics. We are seeing customers love Prime in all geographies that we've offered it in. We are seeing great cross shopping that's happening, so customers really like the program. And obviously we have different offers depending upon geography, but we're very pleased with what we're seeing so far. In terms of Kindle, we've seen tremendous growth both from a device standpoint, as well as a unit standpoint in terms of digital

books in the U.S. And where we are now offering it outside of the U.S., we're seeing the same -- even though it's early, we're seeing great adoption and growth there. So we're very, very happy to see the progress that we've made. One thing that we're doing obviously, you probably saw the launch related to -- the announcement related to Kindle special offers, we actually will start shipping tomorrow. The teams did a nice job of moving the dates up from several days from now to start shipping tomorrow, so very pleased to be able to offer that and excited about that offering.

Operator

And we'll take our next question from Mark Mahaney with Citi.

Mark Mahaney - Citigroup Inc

Great, thanks. 2 quick questions. That 51% unit growth seems like a real outlier. You haven't had that kind of unit growth in the past. Is there something in there that's unusual, something in there that's one time-ish, something in there that tells -- would have you warn people to think that that's not a sustainable growth level? And then very recently, you have something of an outage in the Amazon Web Services field. Was that a demand problem which is not necessarily a bad thing or are there certain efficiencies that you needed to -- or inefficiencies that you needed to address that have been fixed? Thanks.

Thomas Szkutak

Probably the best way to answer the unit growth rate is if you take a look at what we saw in Q4 which is 43% growth rate, we saw a nice acceleration from 43% to 51% in Q1. What you're seeing there is we saw a great growth across the business. But the biggest thing you're seeing is that -- which primarily the consequence of growth of our digital business. That's what you're seeing in the growth rate, the acceleration in growth rate from Q4 to Q1. In terms of AWS, again, the team is working very deliberately on the way to identify and validate and fix the root causes associated with this incident, and that's what they're working on and I don't really have a lot to add to that at this time.

Operator

And we'll take our next question from Youssef Squali with Jefferies.

Youssef Squali - Jefferies & Company, Inc.

Thank you very much. 2 quick questions. First, the midpoint of guidance for Q2 implies margins about 1.8%. So x SBC, where's the other 150 bps or so

of additional spend going? How much of that is on recurring things like the 4,200 people or so you hired in the quarter versus kind of any one-time items? And second on the state tax issue, how big a concern is it to you, how big an advantage do you believe you've enjoyed so far from not paying taxes in those states? I guess in other words, would you have been able to grow at the rates you have been growing at if taxes were kind of levied across -- on your business across the U.S.?

Thomas Szkutak

Sure. In terms of your first question, we're not breaking out the individual line items, if you will, for operating expenses. But if you take a look at what we saw in Q1, you're seeing that we've added a lot of capacity to our CapEx and you'll also see the fulfillment capacities here on our CapEx and you'll also see it in the fulfillment line item. We added 13 fulfillment centers last year. If you take a look at the announcements that we've had to date, we're adding 9 fulfillment centers this year. Those are the ones that we've announced. With the growth rates we're seeing, you should expect -- if the order continues, you should expect to see more than that this year as well, more than the 9. So that's what you're seeing in the Q1. And you'll also see that reflected in the Q2 guidance as well. Same is true with Tech and Contents. We're adding a lot of capacity to support our growing business. Again, you've seen that reflected in the CapEx as well as the Q1 Tech and Content line and that's also reflected in the guidance as well. In terms of state taxes, one thing you keep in mind is we actually collect sales and value-added tax in approximately 50% of our revenue base, sort of a little over 50% of our revenue base today. And so the growth rates that you're seeing reflect the fact that we are collecting in more than half of our revenue base. So beyond that, there's not a lot I can add there.

Operator

We'll take our next question from James Mitchell with Goldman Sachs.

James Mitchell - Goldman Sachs Group Inc.

Great. Thanks very much for taking the questions. If I look at the 74% growth in North America and other revenues, is that primarily due to Amazon Web Services? And then similarly, if I look at the step up in CapEx, would that also be primarily due to Amazon Web Services? And then kind of uniting the 2 questions together, historically Amazon has been very capital disciplined, how do you get confident that the capital you're putting into Amazon Web Services would generate returns over the time that you desire?

Thomas Szkutak

Sure. If you look at North America, other growth in the North America includes a number of items, including Web services. So it's a combination of all those items that we've talked about in the past. And so but certainly, Web services is a meaningful part of that. In terms of the CapEx question, what you see in CapEx is -- if you look at the growth, we had \$1.1 billion of CapEx in the last 12 months. And if you look at the growth year-over-year of that CapEx, approximately 80% of that is due to pure capacity. And that's capacity in terms of fulfillment, that's capacity from an infrastructure standpoint to serve the retail business as well as AWS. And another 10% to 12% is associated with just the corporate office space and the remainder is a number of small items. So again, the vast majority, approximately 80%, is due to capacity, both infrastructure and our operation capacity. In terms of your question about how we think about AWS, we, like a lot of parts of our business, we look at that business very discretely and all the services very discretely. And we look at the ROIC potential of those businesses and the opportunity to work on trying to figure out the best way we get great returns for shareholders. And that's something that we've been doing since we launched the business, and obviously we have a lot more information to do that now than we did at launch. But again, it's something that we do continuously.

Operator

We'll take our next question from Jim Friedland with Cowen and Company.

James Friedland - Cowen and Company, LLC

Thanks. One of the other line items that was up year-over-year was marketing expense, 50 basis points. Is that a ramp or an incremental ramp in Kindle promotion? You guys also did something with a LivingSocial promotion in Q1. And also equity and affiliates was up a little bit. Was that due to the LivingSocial investments? Thanks.

Thomas Szkutak

In terms of marketing, the 2 primary paid marketing are still our associates channel and sponsored search. And so those are our 2 primary, but you're correct in terms of we are doing, as you've probably seen, some more broadscale advertising related to Kindle would be certainly incremental year-over-year and certainly impacting that number. In terms of the equity line, we do have a number of equity investments. And certainly, one of those is LivingSocial. And it's certainly impacting that number that you're seeing.

Operator

We'll take our next question from Ben Schachter with Macquarie.

Benjamin Schachter - Macquarie Research

Can you describe how Amazon views its advertising business? In particular, how ramping up capabilities there could impact both Amazon properties and devices? And then separately, how you could participate in advertising opportunities on third-party sites? Thanks.

Thomas Szkutak

Yes, in terms of our advertising business, it's still very early. The team has done a fantastic job growing that business, and we'll have to wait and see what we do further with that business, but it's something that the team has done a great job. And it allows us and we think it allows us over time to have another way to have great low prices for customers.

Operator

And we'll go next to Colin Sebastian with Lazard Capital Markets.

Colin Sebastian - Lazard Capital Markets LLC

[Audio Gap]

capacity build out. So when you mentioned that these top line growth rates that you may consider increasing the capital commitment to new capacity, is that something that's already reflected in the Q2 guidance range, or is that more likely a decision for the second half of the year? And then on the international operating income being down 25%, given that majority of Tech and Content spending is incurred in North America, if you could just clarify the drivers of that decline in income? Thank you.

Thomas Szkutak

You just -- I'm sorry, Colin, you're just breaking up in the first part of your question around capacity?

Colin Sebastian - Lazard Capital Markets LLC

Sure. So you mentioned the top line growth, if these rates continue, you might consider increasing the capital commitment to new capacity. And so I guess the question is, is that already somewhat reflected in your Q2 guidance or would that be a second half decision in terms of ramping up beyond the 9 fulfillment centers?

Thomas Szkutak

Here's where we are. We've had announcements of 9 fulfillment centers. 1 is operational today, 1 is coming up, will be operational in the coming days. We're actually doing receiving now. And then the remainder of those fulfillment centers will be throughout the year. And my comment was those are the ones that we've announced that certainly with the high growth that we're experiencing, you should expect that, should that continue, we would be adding additional fulfillment centers beyond it. What you are seeing in the Q2 guidance certainly reflects the fact that we will be adding capacity. And that's certainly 1 of the factors that went into the guidance that we've given.

Operator

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

Scott Devitt - Morgan Stanley

Thanks, just 1 question please. In categories that are facing structural change in distribution like the book industry which continues to be your largest segment, I was just wondering if you could talk about the effects that that is having today or may have on the margin profile of that business for you over time? Thanks.

Thomas Szkutak

Well, as we look at these new businesses, we're certainly looking at it from a free cash flow and a return on investment standpoint from a long term -- with a long-term perspective. We're incredibly excited in that specific one that you mentioned with Kindle because we see that customers are buying a lot more books. And so we're incredibly excited to be able to offer that to customers. We think the potential long term is -- we love the potential that it has long term and we continue to invest in that business.

Operator

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

Brian Pitz - UBS Investment Bank

Thanks. A couple of quick ones. For Q2 revenue guidance, would you comment on whether Quidsi and Lovefilm are included? If so, any approximation of the impact? And then on content, can you give us any indications on the level of spending to secure digital content rights? Do you anticipate for Prime instant video? And then any commentary on whether or not that's driving Prime usage? Thanks.

Thomas Szkutak

In terms of Quidsi and Lovefilm, yes they're both in Q2. The impact is on revenue, approximately \$140 million of revenue in Q2 which works out to be about 220 basis points of growth. Consolidated segment operating income is actually negative, approximately \$15 million, and GAAP operating income is approximately negative \$30 million in the quarter. So that's what's included in the Q2 guidance for Quidsi and Lovefilm combined. In terms of content, you have to stay tuned on that. We're not putting out those details. But the only thing I would say about it is we're very, very pleased with the adoption so far and it's very early and we will be adding some more content over time.

Operator

We'll take our next question from Sandeep Aggarwal with Caris & Company.

Sandeep Aggarwal - Caris & Company

Thanks for taking my question. I have 2 questions. One is, Tom, fulfillment and shipping expense have been among the core of Singles Amazon. And many multi-general dealers and pure-play commerce companies are getting into that space or getting better at least including eBay's possible acquisition of GSI Commerce. So how does Amazon continue to spend on its competitive modes around fulfillment and shipping experience? And second question is can you make a comment about the capacity utilization of the 13 fulfillment centers you set up last year?

Thomas Szkutak

Sure. In terms of the first part, we have a fantastic operations team that is continuing to look at ways to improve delivery speed, as well as improving our cost structure over time. And that's something you'd see if you look back over our history, it's something that they've worked on. And so they're always looking at ways to better serve customers and to get better. And so there's a number of ways that they do that. And it's a constant focus. In terms of the capacity, I don't think there's anything, any way to really help you because, again, the utilization will vary from week-to-week and quarter-to-quarter. But what we are seeing is, as you would expect with this great growth that we're experiencing, there is just more demand for capacity and that's both from a fulfillment capacity, that's both from our core retail business as well as fulfilled by Amazon.

Operator

[Operator Instructions] We'll go next to Ken Sena with Evercore Partners.

Kenneth Sena - Evercore Partners Inc.

Thanks. So for the days payable to vendors, the increase was 11% to 66 days. How much more improvement do you think that you have there or is there something also driving that improvement that you can share? Thanks.

Thomas Szkutak

We're not giving -- we have been able to get good improvements over the past several years in AP days. We're not giving guidance on what that could look like, but we continue to work with our partners to improve our working capital cycle. And obviously, there's certainly a mix of categories that we have. They all have their own operating cycle. But again, we're very pleased with the operating cycle that we have and we'll continue to work with our partners over time.

Operator

And we'll take our next question from Jason Helfstein with Oppenheimer & Co.

Jason Helfstein - Oppenheimer & Co. Inc.

Thanks. Can you just go into a little bit more detail on the DC centers? So of the 9 centers that you've announced, how many are international? And then are the costs higher to launch an international DC internationally than in the U.S.? So just a little more color on that. Thanks.

Thomas Szkutak

Sure. The -- of the 9, and we could probably have either Rob or John get back to you on the exact details, but approximately 4 those are in the U.S. or 5 in North America and the others are in international. So the fulfillment centers vary depending upon the level of automation and the locations they're in. I can't really give you a precise as to geography higher than another. It kind of depends on size and the level of automation.

Robert Eldridge

Hey Jason, it's Rob. I think 1 thing to add here is Tom's point. We're expanding fulfillment capacity worldwide. It's not just in a specific geography because the growth we're seeing is broad-based. The second point I just want to make is as we are building system of scales, fulfillment becomes more of a continuous investment project. It becomes less project to our end, just something that we need to undertake on a go-forward basis. And so you're certainly seeing that decision being reflected in our Q1 results and it's also reflected in our Q2 guidance.

Operator

We'll take our next question from Gene Munster with Piper Jaffray.

Charles Munster - Piper Jaffray Companies

And I realized you guys talked about the impact of the LivingSocial promo, and as we look at the uptick in marketing expenses, it seems that you're spending a little bit more to get each incremental new customer. Is that true? And if so, what will be driving that?

Thomas Szkutak

Sorry, I didn't catch the first part of it, the LivingSocial piece.

Charles Munster - Piper Jaffray Companies

Well, I know you mentioned the LivingSocial, the impact of the LivingSocial promo on the marketing expenses. But backing that out, as you look at your marketing expenses, can you just talk a little bit about customer acquisition cost and how they've been trending?

Thomas Szkutak

In terms of -- I didn't mention anything about LivingSocial as it related to our marketing expense line. What I was referring to is if you look at our equity income line on our income statement, you can see an expense there and I've said that there was -- that was made up of a number of different investments that we have which includes LivingSocial, so that was the LivingSocial piece. In terms of marketing spend, we still -- the spend is very efficient. And again, what I mentioned earlier was that still the 2 primary pieces of our spend are our associates channel and also sponsored search, so those are our 2 primary. In terms of looking at it year-over-year, you're also seeing some of the broadscale spending we're doing specifically related to Kindle that's impacting that number as well.

Operator

And we'll go next to Heath Terry with Canaccord.

Heath Terry - Canaccord Genuity

Great, thank you. Seeing growth rates accelerate even slightly for the first time in the past 4 quarters, to what extent would you attribute that to the infrastructure buildout, improving product selection and availability? And maybe to get a little more granular, can you quantify for us the

improvement in your product delivery time or availability that you've seen since the beginning of investment cycle?

Thomas Szkutak

In terms of quantifying, I'm not sure how much I can help you with that but there's no question that what we're seeing is customers responding to the increased selection across many categories, across many geographies. We also, certainly Prime is having an impact, as well as our other free shipping offers and so the adoption of both has been great. And so we're very pleased to that. Also, making sure that we have great low prices for customers is also having impact. So all of those things are having an impact on our growth rate that you see there.

Operator

And we'll take our next question from Steve Weinstein with Pacific Crest.

Steve Weinstein - Pacific Crest Securities, Inc.

Great, thank you for taking my question. So it's already been noticed that the growth in units relative to growth in revenues is a pretty substantial difference and kind of a widening difference. I was wondering if you could explain when a customer becomes a digital customer and they started buying whether Kindle books or another digital product, how does their spending on Amazon change? Are they spending similar amounts with you and just buying more units or is the actual amount of spending with Amazon going up? Obviously the unit growth is a lot. Thanks.

Thomas Szkutak

I apologize, Steve, but there's not a lot I'll be able to help you with there in terms of specific numbers. But we are seeing customers who are digital customers still being very good, physical customers as well, so buying, doing a lot of cross shopping across our business. And so we're very excited about our digital offerings and it's certainly reflected in the unit growth that you mentioned. But also we're seeing very good growth amongst many physical categories across all of our geographies as well. So again, customers are responding to some of the things I already mentioned but they're certainly responding to the selection that we have for our digital offerings, as well as our physical product offerings. And that's reflected in the growth rates.

Operator

And ladies and gentlemen, we have time for 1 final question tonight. It does come from Matt Nemer with Wells Fargo Securities.

Matt Nemer - Wells Fargo Securities, LLC

Thanks for taking my question, 2 questions actually. One, is there a point where increased digital offerings sales offset investments in selection and in stocks and we start to see that in the inventory turns number? And then secondly, a question on fulfillment and tax issues. How flexible is your fulfillment capacity in the U.S. if a state changes its mind or renegs on a prior agreement regarding tax collection? Thanks.

Thomas Szkutak

In terms of your first question, the reason why we're adding the physical capacity is it's growing very fast. So we are having the benefit of seeing both a very strong growth in our digital offerings, as well as a very strong growth in our physical offerings. So it's the combination of both things that are driving the overall growth of our business, as well as the fulfillment centers that you're seeing in the case of your question. In terms of the fulfillment centers, we have a lot of -- we have a wide range of fulfillment centers across a number of different states and geographies, and we continue -- our operation team does a great job in terms of figuring out where the best places are to invest and they'll continue to do that over time.

John Felton

Great. Thank you very much for your questions. 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 till the end of the quarter. We appreciate your interest in Amazon.com and look forward to talking with you again next quarter.