Operator

Good day, and welcome to the Amazon Quarterly Conference Call. [Operator Instructions] At this time, I would like to turn the conference over to Mr. Rob Eldridge. Please go ahead, sir.

Robert Eldridge

Hello, and welcome to our Q4 2010 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, January 27, 2011 only and will include forward-looking statements. Actual results may differ materially. Additional information about the 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 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 2009.

Now I'll turn the call over to Tom.

Thomas Szkutak

Thanks, Rob. I'll begin with comments on our fourth quarter financial results. Trailing 12-month operating cash flow increased 6% to $3.5 billion. Trailing 12-month free cash flow decreased 14% to $2.52 billion. Return on invested capital was 34%, down from 66%. ROIC is TTM free cash flow divided by the 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 465 million shares compared with 461 million shares. Worldwide revenue grew 36% to $12.95 billion or 37%, excluding the $139 million unfavorable impact from year-over-year changes in foreign exchange rates. We're grateful to our customers who continue to take advantage of our low prices, vast selection of free shipping offers, including Amazon Prime.

Media revenue increased to $5.23 billion, up 12% or 13%, excluding foreign exchange rates. EGM revenue increased to $7.39 billion, up 60% or 62%, excluding foreign exchange rates. Worldwide EGM increased to 57% of worldwide sales, up from 48%. Worldwide unit growth was 43%. Active customer accounts exceeded 130 million. Worldwide active seller accounts were more than 2 million. Seller units were 30% of total units. Consolidated gross profit grew 33% to $2.63 billion and gross margin was 20.3%.

Now I'll discuss operating expenses, excluding stock-based compensation. Fulfillment, Marketing, Technology and Content and G&A combined was $2.01 billion or a 15.5% of sales, up 101 basis points year-over-year. Fulfillment was $1.06 billion or 8.2% of revenue compared with 7.7%. Tech and Content was $456 million or 3.5% of revenue compared with 3.1%. Marketing was $368 million or 2.8% of revenue, consistent with prior year.

Now we'll talk about our segment results, and consistent with prior periods, we do not allocate the segments or stock-based compensation or other operating expense line items. In the North America segment, revenue grew 45% to $7.21 billion. Media revenue grew 13% to $2.37 billion. EGM revenue grew 71% to $4.56 billion, representing 63% of North America revenues, up from 54%. North America segment operating income increased 6% to $295 million, a 4.1% operating margin.

In the International segment, revenue grew 26% to $5.74 billion. Revenue growth was 29%, adjusting for the $143 million year-over-year unfavorable foreign exchange impact during the quarter. Media revenue grew 11% to $2.87 billion or 13% excluding FX. And EGM revenue grew 46% to $2.83 billion or 50%, excluding foreign exchange. EGM now represents 49% of international revenues, up from 43%. International segment operating income increased 3% to $327 million, a 5.7% operating margin. Excluding the unfavorable impact from foreign exchange rates, International segment operating income increased 16%.

CSOI grew 4% to $622 million, or 4.8% of revenue, down 146 basis points year-over-year. Excluding the $18 million unfavorable impact from foreign exchange, CSOI grew 7%. Unlike CSOI, GAAP operating income includes stock-based compensation expense and other operating expense. GAAP operating income was relatively flat at $474 million or 3.7% of net sales. Our income tax expense was $84 million in Q4 or 17% rate for the quarter. GAAP net income was $416 million or $0.91 per diluted share compared with $384 million and $0.85 per diluted share.

Now I'll discuss full year results. Revenue grew 40% to $34.2 billion. North America revenue grew 45% to $18.71 billion, and International grew 33% to $15.5 billion, 34% growth excluding year-over-year changes in foreign exchange rates. Consolidated segment operating income or CSOI grew 23% to $1.94 billion or 25%, excluding $28 million of unfavorable year-over-year impact from foreign exchange, and operating margin decreased 75 basis points to 5.7%. GAAP operating income grew 25% to $1.41 billion or 4.1% of net sales.

Turning to the balance sheet. Cash and marketable securities increased $2.4 billion year-over-year to $8.76 billion. Inventory increased 48% to $3.2 billion, and inventory turns were 11.4, down from 12.2 turns a year ago, as we expanded selection, improved the in-stock levels and introduced new product categories.

Accounts payable increased 44% to $8.05 billion, and accounts payable days increased to 72 from 68 in the prior year. Our Q4 2010 capital expenditures were $328 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 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've described 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 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 Q1 2011, we expect net sales of between $9.1 billion and $9.9 billion, a growth of between 28% to 39%. This guidance anticipates approximately 140 basis points of favorable impact from foreign exchange rates. GAAP operating income to be between $260 million and $385 million or between 34% decline and 2% decline. This includes approximately $140 million for stock-based compensation and amortization of intangible assets, but we anticipate consolidated segment operating income, which excludes stock-based compensation and other operating expenses to be between $400 million to $525 million or between 21% decline and 4% 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.

And with that, Rob, let's move to questions.

Robert Eldridge

Great. Thanks, Tom. Let's move on with 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 will take our first question from Mark Mahaney with Citi.

Mark Mahaney - Citigroup Inc

First, on the gross margin trends, down a little bit year-over-year. Would that have been impacted by the strong sale of Kindle devices in the fourth quarter? And second, could you just talk broadly about the Subscribe and Save offering that you have and to what extent you've seen cross selling into more consumer-staple items amongst your customer base?

Thomas Szkutak

In terms of gross margins. You are seeing some volatility to look at the individual quarters from 2010. You saw that we were down a bit in Q1, up the next two quarters slightly and then down a little bit in Q4, about approximately 45 basis points. And we haven't been talking much more on the gross margins because we don't think it's that meaningful, and that's what we're trying to point people to the bottom again. And the reason we're doing that is because of the mix of business. And so what you're seeing there in gross margins in Q4 is we have a very broad mix of businesses and geographies that are going into that number. And again, you're seeing some volatility in the individual quarters. But again, we're very pleased with what we saw in Q4 in terms of growth and overall performance of the business. And it reflects a very heavy investment load to support the growth that we expect. In terms of the Subscribe and Save, could you repeat the question again?

Mark Mahaney - Citigroup Inc

What kind of impact had you seen or what kind of adoption rate have you seen for that and just broadly, your penetration, what kind of consumer staple spending amongst the Amazon customer base?

Thomas Szkutak

Sure. Subscribe and Save is going very well. It's something that certainly customers like a lot. And we're getting that benefit in the consumer portion of the consumer category today, again, it's something that we're excited about and customers are excited about, so we're happy to offer it to them.

Operator

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

James Mitchell - Goldman Sachs Group Inc.

Just two questions about revenue growth, and I don't want to sound critical of revenue growth because obviously, growth rate's very high. But just picking into two components. First of all, is there any big obvious reason why international growth decelerated while the domestic growth accelerated? And then secondly, in the Media business, if e-book sales are now bigger than paperback sales and paperback sales continue to grow, is there a big obvious reason why total media sales is growing at 13% rather than a slightly faster number? I assume that the agency accounting for e-books is part of that, perhaps?

Thomas Szkutak

In terms of overall growth, we are very pleased with what we saw, just kind of frame up that discussion a bit. We saw 40% growth year-over-year total year 2010, which is the best growth rate we've seen since 2000. We saw Q4 growth rate overall of 37% on local-currency basis, which matches our best growth rate for any Q4 we've had on a local-currency basis since 2000. And then unit growth was 43%, which certainly going back several years, we haven't seen any quarter that's had that growth. So we're seeing very strong growth across many categories, across many geographies. In terms of the international growth specifically, if you look back to last year, we did have very strong media growth in international in Q4. You'll see that it's up 26% on a local-currency basis, which is one of the strongest quarters we've had, and we're overlapping that. There were some new releases that were in

Q4 last year. Most notably, the Windows 7 release one, Dan Brown's book in Germany is other, those are a few examples, but there are a few releases that were in there. The other piece to that we haven't -- certainly difficult to quantify but there was certainly some impact from some of the weather that we saw in Europe during the month of December. But again, we're very pleased with the growth that we saw in Q4 in total, including international, and we're happy with what we see there. In terms of some of your questions surrounding media. Again, we are seeing good growth there. As you mentioned, we're seeing, so far, quarter date this quarter, we saw that Kindle books exceeded paperbacks, which is very exciting and while having paperbacks continue to grow, year-over-year. So again, we're seeing very strong growth there. So again, we're pleased with the growth we're seeing across the business.

James Mitchell - Goldman Sachs Group Inc.

Is there a track on the media growth from the accounting of the agency e-books?

Thomas Szkutak

Could you say that again?

James Mitchell - Goldman Sachs Group Inc.

Is the fact that some of the e-books are being sold on an agency rather than on a consignment basis, this year is that acting as a drag on growth temporarily, in terms of your reported revenue?

Thomas Szkutak

Certainly, the agency piece is included in the numbers that we reported today. But in terms of the impact, we're not breaking that out. But again, we're very excited with the growth that we're seeing within books, e-books specifically and physical books are going well as well.

Operator

We will take our next question from Spencer Wang with Credit Suisse.

Spencer Wang - Crédit Suisse AG

First, Tom, for the first quarter guidance, it would seem like your operating income guidance implies that you are still reinvesting in the business. Could you just give us a little bit more color on is it still fulfillment centers? Is it tech and content, all of the above? And secondly, with the Lovefilm's acquisition, can you just walk us through the rationale and how you'll integrate that with perhaps your other video-on-demand businesses?

Thomas Szkutak

Sure. In terms of the guidance, let me just put that in context. And probably the best way to do it is just again a reminder on 2010. The fact that we had very strong growth, the best growth we've seen in 10 years. Fourth quarter matched the best, on a local-currency basis growth, matched the best fourth quarter we've had since 2000. And again, very strong unit growth and the best we've seen. With all that growth, we had to add a lot of capacity, most of which was in the second half of last year. We added fulfillment capacities for the corner retail business. We added fulfillment capacities to support our growing fulfilled by Amazon business was part of our seller business. We added a lot of infrastructure capacity to support our fast-growing AWS business, as well as our retail business. So those reflected, when you look at our Q4 results and our 2010 results, those are reflected in the CapEx numbers that you're seeing, and those are reflected in the fulfillment as well as the tech and content lines when you look at our operating expense line items. And so because it was largely back half of the year loaded, you're seeing more of that in Q1. So those are reflected in the growth rate. Now the question will be we're not giving guidance beyond Q1, but what will this mean going forward? And so one of the things that we're doing is certainly, when you look at our Q1 guidance, you look at our topline guidance, we're cautiously optimistic about Q1, in a very strong growth. And we'll have to see how much we invest throughout the year in 2011 based on that. But again, I'm very, very happy with the capital we're able to deploy. You should keep in mind that with the sheer amount of capacity that we added in 2010, it doesn't become, it's not fully utilized day 1 and we don't get the optimum productivity on day 1. So what that means is we get productivity on those operations. We get returns on those assets that we deploy over a period of time. But if you look at our history, we've gotten very good returns on that capital. And so to me, I'm very pleased to put that capital in place. And if we have to add more in 2011, it will be a high-quality problem.

Spencer Wang - Crédit Suisse AG

And on Lovefilms?

Thomas Szkutak

Lovefilm, we think it's just a very exciting opportunity. We've had a close association with that business for some time. We're very pleased to be able to offer customers the media space within Europe they're offering. So again we're very excited about it, and you have to stay tuned on that one.

Operator

We will take our next question from Doug Anmuth with Barclays Capital.

Douglas Anmuth - Barclays Capital

First, I just wanted to ask in terms of the revenue growth that you're expecting for 1Q, can you give us a sense of how much you're anticipating from acquisitions? And then secondly, if you could comment just on your thinking around the living social investment and also what you may have learned from the recent daily offer which you ran within the last week or so?

Thomas Szkutak

In terms of the guidance for Q1, specifically in terms of acquisitions, the Lovefilm or Quidsi, which haven't closed yet are not reflected in guidance. So those are not in our Q1 numbers. In terms of living social, we're very pleased with the investment that we've made there. In terms of any commentary on the recent deal, the recent one-day offer that they had. We're very excited that they offered Amazon gift certificates, and we think it's great for customers and we're happy they've enabled that.

Operator

We will take our next question from Brian Pitz with UBS.

Brian Pitz - UBS Investment Bank

First, an update on AWS. It looks like other revenue in North America slowed pretty significantly and I realized that's a decent part of Other. Any commentary on what was the main driver of that slower growth? And second, on Grocery, can you give us a little more insight on your initiatives there and the potential cost impact from expanding this category?

Thomas Szkutak

In terms of AWS, we're extremely pleased with how AWS is going. It's growing at a very fast rate. We're investing in that business to support that growth rate. You're correct, in terms of seeing the North America Other growth rate drop from 52% to 45% year-over-year from Q3 to Q4. Keep in mind that there's a number of things in there including AWS that tend to be a little lumpy. But we did see actually an acceleration of growth in AWS from Q3 to Q4. So built into that number, it actually accelerated. So again we're very pleased with the growth that we're seeing there. In terms of Grocery, we have two things that you probably could be referring to. One is our Drygoods business, which is within our Consumer business that we're very pleased with that we have on Amazon.com, as well as some other sites. In addition to that, we have a local test here in Seattle called Amazon Fresh. Again, that is a test that we've been conducting. We're pleased with how the test is going. But again, it's a test and we'll continue to see how that goes and see if we invest further on that test. Again, we do a number of tests in different parts of our business and that happens to be one of them. We have a great team that's working on it, but you'll have to stay tuned to see if we do more there.

Operator

We will take our next question from Youssef Squali with Jefferies.

Youssef Squali - Jefferies & Company, Inc.

Tom, can you tell us how many distribution centers you actually had at the end of 2010? I know you're not going to guide to 2011. But since you're guiding to Q1, are you planning opening on any distribution centers, and what's your CapEx for Q1?

Thomas Szkutak

We had approximately 52 at the end of 2010. We added 13 last year. We will add more fulfillment centers this year. We haven't said, we weren't saying how many yet because again we're trying to determine what the growth rate will be. And based on what we've seen in Q1, we're certainly cautiously optimistic which is reflected in the growth rate you see for guidance for Q1. So we'll have to wait and see, and we'll be back with you as we go throughout the year. But just to be clear, again, I've mentioned in one of the other questions that I think would be a very high-quality problem. And the reason why I say that is what our teams are doing around the world right now, which is the same thing we've been doing for the last 15 or 16 years in working with our various fulfillment centers is even though we're not fully utilized in some of these new assets that we deployed in 2010 or our productivity is not optimum, that team will work to utilize those assets. As we continue to grow, we'll get better and better productivity as we go, just like we have in our other fulfillment centers around the world that we've had experience with. So we're very excited about that. And so when you think about the fulfillment centers, even though they can be a little bit dilutive in the short term by looking at our fulfillment expense, the reason why I'm very excited about is that you can just look at our return on invested capital. If you take our return on invested capital at the end of 2010, we had approximately $7.4 billion of invested capital. That's a 5-point average over the last five quarters. If you take out cash and marketable securities over the same period, that's about $6.5 billion. So we have about

$900 million of invested capital. And even with our heavier spend in CapEx last year, we generated $2.5 billion of cash flow. So we have an excess of 250% of return on our invested capital x cash and marketable securities. And so again, that's a full business. It includes a lot of things over a period of time. But if you think about that capacity where we need it because of growth, we're certainly very happy. We do it judiciously and make sure we do it appropriately. But very happy to deploy that capital to get great returns for shareholders over time. And again, the returns that we've gotten are certainly historical, not predictive. But again, we're very happy to deploy that capital, and I feel very good about it.

Youssef Squali - Jefferies & Company, Inc.

Are you quantifying CapEx for Q1?

Thomas Szkutak

No, we haven't quantified the CapEx for Q1, I apologize. But again, we will do what we need to do to support the growth in both the infrastructure and fulfillment.

Operator

We will take our next question from Colin Sebastian with Lazard Capital Markets.

Colin Sebastian - Lazard Capital Markets LLC

One follow up on the gross margins. I think historically, Amazon's pricing philosophy has been to be a price follower. And I guess I'm curious if perhaps you're loosening that strategy up a bit, maybe to be a price leader in more categories?

Thomas Szkutak

In terms of pricing, we've had a number of different strategies over the course of our history. But certainly, our objective is to have great values for customers over all of our selection, over all of our geographies, and that hasn't changed. And so we're very excited to offer customers that. It's a reason, certainly one of the drivers for the growth that we've been able to have over our history. And so one of the things that we do, do is when we enter a new category and add selection within that category, we price it day 1 as competitively as we can. So in other words, we price it competitively day 1 based on the intelligence we have. And sometimes that means it's a very low gross margin because we're just entering those particular categories with those particular items. And that's something we've been consistently doing for a number of years, and we like that strategy.

Operator

We will take our next question from Ben Schachter with Macquarie.

Benjamin Schachter - Macquarie Research

There's a lot of interest in how the Kindle ecosystem actually impacts the margin. I was wondering if you could just help us understand, the one question would be all-in Kindle hardware and software, the whole thing together, how is that impacting gross margin? And then overall, how should we think about how the agency model and the e-books how that's going to impact margin? And then just one quick one. There's been some speculation about the potential to bundle services with Amazon Prime. I was wondering if you could tell us how you think about that and if that's something that may be interesting in the future?

Thomas Szkutak

First off, we have a long-standing practice of not breaking out any individual products or categories. But what I can say about Kindle is it's growing very fast. We're extremely pleased with what we're seeing. We sold millions of devices in Q4. The content business, the content part of it is growing very fast as evidenced by some of the comments we put in the earnings release. .So far quarter-to-date this quarter again Q1, we have Kindle content, Kindle book sales growing at a faster rate than paperbacks, which is really exciting. And so that business is going very well. And with the opportunity that we see there, we're continuing to invest in that business. We think it's a very good business for us, and we're excited about the long-term opportunity there.

Operator

We will take our next question from Justin Post with Bank of America Merrill Lynch.

Justin Post - BofA Merrill Lynch

Maybe you could explain why Kindle is a better business for Amazon? And then secondly, you talked about gross margin maybe not being the best way to measure the company, maybe you could explain why operating margin is better? And do you have individual management targets as far as compensation or as a company as a whole and where you want to get to for operating margins?

Thomas Szkutak

I'm not sure I understood the first part of your question related to Kindle.

Justin Post - BofA Merrill Lynch

I guess I'm asking why Kindle is a better business than your traditional book-selling media business?

Thomas Szkutak

Well, we happen to like both. Even though we're extremely excited about our Kindle business, our physical book business continues to grow as well. And so we're very excited about both parts of our business. And again we think, when I was mentioning Kindle, we just think it's a great opportunity for us. It has great tracks right now. Customers like it. We're able to offer so many titles right now on less than 60 seconds right to for a customer to be able to read. And one of the things you can't do with a physical book is you can't, from a service perspective with our model, it's very difficult to get it to a customer now. And with Kindle, we can do that in less than 60 seconds. You can carry around your library with you very lightly, and so we think it's just great for customers, and we're seeing that the growth, both in terms of devices and content, is just fantastic. And so we're continuing to invest and continue to improve that experience for customers. In terms of gross margins versus operating margins, we actually don't focus a lot on individual percentages, whether it be gross margins or operating margins. We're focused on ultimately over the long term on free cash flow, free cash flow per share. We like to look at our return on invested capital. I mentioned earlier what our return on invested capital is today. That includes appropriately so the cash and marketable securities that we have in that balance. But certainly, if you were to deploy that cash and return that to shareholders over time, you can see the underlying returns on invested capital x cash are very high and in excess of 250% right now. And so we think it's a very efficient capital business, and we think that we certainly like the model that we have and the opportunity that it brings to our shareholders over the long term.

Operator

And we'll take our next question from Jeetil Patel with Deutsche Bank Securities.

Jeetil Patel - Deutsche Bank AG

First of all, I guess when you look at the Kindle side of the equation, do you believe that the proliferation of Kindle apps across devices, not just your own device, is helping to increase the overall consumption of books across the industry or Amazon? And then second, I guess as it relates to international, where do you stand in terms of Pan-European fulfillment capabilities, say shipping from Germany into the Netherlands into Scandinavia, et cetera?

Thomas Szkutak

In terms of Kindle apps, we think it's good for customers that they can read their Kindle books on their Kindle, as well as many other devices. And so that's what you see today. We have these apps so that it's easy for customers to be able to do that. Customers like that feature, and you should expect us to continue to expand that over time. So how much is it contributing to overall growth? It's hard to say. But again, customers are responding to the vast selection that we have, the great prices we have for Kindle content, the ease of which they can carry it around with them with the great convenience on the device, the Kindle device itself, so we're very excited about it. In terms of fulfillment. We continue to work with our fulfillment to make it as seamless as possible for customers. That's really what it's all about in each of the geographies we're in, and we'll continue to do so. So wherever we can make that service within Europe, better for customers, we will. It will come from whatever fulfillment center makes sense.

Jeetil Patel - Deutsche Bank AG

You've had tremendous growth in customers over the past year, about 24 million or so. Do you think that your lifetime kind of value of the customer equation has changed? Particularly as you looked at you have initiatives like Kindle and Prime. Do you think that the economics have changed, obviously, for the better that you're acquiring more aggressively? Is that how we should think about some of these newer initiatives that you've had over the last several years that have been certainly been pretty impactful?

Thomas Szkutak

No, I think, not commenting on the lifetime value of customers. But we continue to offer new things for customers to make the experience better for customers. So we're adding new selection to make that better for customers. We launched Prime a number of years ago which continues to grow because we want to make sure that we give great service to customers. Many of our digital initiatives are around how do we make sure we get customers, not only creating great price and great selection but they get to have their content immediately. And so those are the things -- that is always -- with us, we start with the customer first. That's where our focus is.

We found that by aligning with the customer, it's been great for customers as well as great for shareholders over time. So that's the focus that we've had and the driver behind the initiatives over the past several years.

Operator

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

James Friedland - Cowen and Company, LLC

Question on marketing. If we look at marketing as a percentage of revenues this year, it was up and I believe you said one of the main reasons was the inclusion of Zappos. And as we think about your marketing spend in 2011, is that the sort of seasonality and pattern that we should look for or is anything changing in your approach to marketing?

Thomas Szkutak

Well, certainly we added, continued to support the Zappos marketing spend in 2010. That was a part of it. We're always looking for ways to reach customers through our marketing spend. We also did, you'd probably noticed a fair amount of Kindle ads during 2010, primarily starting for the most part heavier after Q1 of last year, which we saw a great response to. So again those are some of the dynamics to think about.

Operator

We will take our next question from Steve Weinstein with Pacific Quest.

Steve Weinstein - Pacific Crest Securities, Inc.

Question on Prime membership. Now that it's been active in the U.S. for quite a long time now, are you still seeing new members adopting Prime at a rapid rate? And I'm wondering when you think that may plateau as far as penetration in terms of it, the existing customer base?

Thomas Szkutak

We are seeing adoption of Prime in our geographies. It continued to grow nicely, and customers like Prime. They like that service element of Prime. We have different offerings, depending on the geography that we're offering it in. In the U.S., you can get express two-day shipping for free, you get one day and also some other offers, in terms of weekend offers as well. So again, there's some interesting service element to that. And customers are responding very well to it, both existing Prime members as well as new Prime members. So it's going very well.

Steve Weinstein - Pacific Crest Securities, Inc.

I guess I'm asking, I mean do you think you're reaching any sort of ceiling, in terms of how many U.S....

Thomas Szkutak

No. And again, hard to tell when that would happen, but that's certainly not what we're experiencing.

Operator

We will take our next question from Heath Terry with Canaccord.

Heath Terry - Canaccord Genuity

I was wondering if you could give us a sense, is there a way to quantify the amount of time necessary for the recently opened distribution facilities to get to the same utilization level that you're seeing in the rest of the business? And what kind of impact do you think that has on operating margins to the extent that you can kind of quantify that for us? And in light of the investments in this quarter, I guess it's worth at least asking if you still feel like 10% is the right long-term operating margin to be thinking about for the whole business?

Thomas Szkutak

In terms of when the fulfillment centers will reach their optimum utilization and productivity, we're still getting productivity on existing fulfillment centers that we've had for quite some time. So it'll be something that will evolve over a longer period of time. But again, if you look at the returns that we've gotten on the previous fulfillment centers that we've launched, they have been great uses of capital. So we're very happy about that. And in terms of your question on double-digit operating margins, we've said for a long time and nothing's changed in that regard. We think that certainly double-digit operating margins are possible. If it means that we have some high single-digit operating margin that maximizes free cash flow, we're certainly okay with that and have room to go there. But we're certainly focused on how do we get the best free cash flow, free cash flow per share while getting great efficiency on our invested capital. And so nothing's changed there.

Operator

We will take our last question from Sandy Aggarwal with Caris & Company.

Sandeep Aggarwal - Caris & Company

Tom, in our assessment, there are many international markets which have grown healthier than the growth you achieved in Q4? And I know it is a blended growth number and probably some FX dynamics. But are you seeing any basically local e-commerce players getting stronger in international market? And secondly, any early signs of traction for the launch of the site in Italy?

Thomas Szkutak

Again, we grew 29% on a local-currency basis for international, 26% on a dollar basis, a challenging compare from fourth quarter of 2009 where we certainly, from a media perspective, had one of our best growth rates that we've had in any quarter previously. EGM grew at 50% on a local-currency basis, so very strong growth. And again, we have a long-standing practice. We're not talking about other companies, but we're very pleased with what our international team is doing. We have a great opportunity there for further growth. In terms of Italy, very early, but pleased with what we're seeing so far, and I like the opportunity there.

Operator

This will conclude today's question-and-answer session. Mr. Eldridge, I will turn the conference back over to you.

Robert Eldridge

Thanks. Well, thanks everybody for joining us on the call today and for your questions. A replay will be available on our Investor Relations website at least until the end of the quarter. We appreciate your interest in Amazon and look forward to talking with you again next quarter. Thanks, everyone.