

Amazon 3Q profit jumps 16 percent, but costs rise

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In this Oct. 18, 2010 photo, an Amazon.com package awaits delivery from UPS in Palo Alto, Calif. Amazon.com Inc. reports third-quarter financial results Thursday, Oct. 21, after the market close.(AP Photo/Paul Sakuma)

(AP) -- Amazon.com Inc. saw earnings grow in the third quarter as shoppers bought more goods and services, yet costs also rose because the company is having to build new centers to fulfill those orders. Shares fell in extended trading.

For the July-September quarter, Amazon earned \$231 million, or 51 cents per share - 3 cents more than what analysts polled by Thomson Reuters expected, on average. That compares with a profit of \$199 million, or 45 cents per share, a year earlier.

Revenue rose 39 percent to \$7.56 billion, higher than the \$7.36 billion

analysts expected. It was \$5.45 billion a year ago, a quarter that doesn't reflect the November purchase of shoes and apparel retailer Zappos.

Amazon reported Thursday that revenue from its largest sales category, electronics and other general merchandise, jumped 68 percent to \$3.97 billion. Revenue from books, CDs, DVDs and other media grew 14 percent to \$3.35 billion.

The Seattle-based company, which has never given precise details about sales of its Kindle electronic reader, said that a larger number of its latest Kindle device was ordered in the first 12 weeks it was available than in the same amount of time after any other Kindle launch. The newest Kindle, which was priced more cheaply at \$139 and uses Wi-Fi to wirelessly download content from Amazon's Kindle Store, was released during the quarter.

Amazon said that its combined fulfillment, technology and content and marketing costs rose 47 percent to \$1.36 billion. Its fulfillment costs climbed 46 percent to \$680 million.

In a conference call with reporters, Chief Financial Officer Tom Szkutak said costs rose because of 13 centers Amazon has opened or will open this year to fill customer orders, both for its own retail business and for its business of filling orders for other sellers.

The company's marketing spending also jumped, climbing 62 percent to \$241 million. Amazon, which generally focuses on advertising online, has been branching out by running commercials for the Kindle.

Amazon has cemented its position as the e-commerce leader by offering lower prices than other retailers both on and off the Web, and it clearly isn't planning to change this to make up for higher expenses.

"The way we think about pricing is we want to make sure we have great prices on a year-round basis, in all the categories and all the geographies we offer, and that's something we work hard to do," Szkutak said.

For this quarter, Amazon predicted revenue will total \$12 billion to \$13.3 billion - a range that would indicate 26 percent to 40 percent growth over last year's fourth quarter.

Analysts were looking for \$12.3 billion in revenue.

But Amazon also indicated that its operating income could fall as much as 24 percent to \$360 million or rise as much as 18 percent to \$560 million in the quarter, which means expenses are still likely to rise.

Larry Witt, a Morningstar Inc. analyst, said the level of expenses for both quarters puts a damper on things.

"They're still growing fast, but people are probably getting anxious to see operating leverage," he said.

Amazon's stock fell \$6.47, or 3.9 percent, to \$158.50 in after-hours trading after the release of results. The shares had finished regular trading up \$6.30, or 4 percent, at \$164.97.

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