Intercontinental Exchange, Inc.
Form 10-Q
May 03, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2017

Or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 001-36198

INTERCONTINENTAL EXCHANGE, INC.
(Exact name of registrant as specified in its charter)

Delaware	46-2286804
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
5660 New Northside Drive, Atlanta, Georgia	30328
(Address of principal executive offices)	(Zip Code)

(770) 857-4700
Registrant’s telephone number, including area code

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨	Emerging growth company ¨

(Do not check if a smaller company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of May 1, 2017, the number of shares of the registrant’s Common Stock outstanding was 592,066,651 shares.

INTERCONTINENTAL EXCHANGE, INC.
Form 10-Q
Quarterly Period Ended March 31, 2017
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PART I. Financial Statements
Item 1. Consolidated Financial Statements (Unaudited)

Intercontinental Exchange, Inc. and Subsidiaries
Consolidated Balance Sheets
(In millions, except per share amounts)
(Unaudited)

	As of March 31, 2017	As of December 31, 2016
Assets:		
Current assets:		
Cash and cash equivalents	$360	$ 407
Short-term investments	21	23
Short-term restricted cash and investments	743	679
Customer accounts receivable, net of allowance for doubtful accounts of $8 and $7 at March 31, 2017 and December 31, 2016, respectively	999	777
Margin deposits and guaranty funds	52,354	55,150
Prepaid expenses and other current assets	596	97
Total current assets	55,073	57,133
Property and equipment, net	1,132	1,129
Other non-current assets:		
Goodwill	12,302	12,291
Other intangible assets, net	10,356	10,420
Long-term restricted cash and investments	264	264
Long-term investments	—	432
Other non-current assets	336	334
Total other non-current assets	23,258	23,741
Total assets	$79,463	$ 82,003
Liabilities and Equity:		
Current liabilities:		
Accounts payable and accrued liabilities	$451	$ 388
Section 31 fees payable	90	131
Accrued salaries and benefits	104	230
Deferred revenue	440	114
Short-term debt	2,376	2,493
Margin deposits and guaranty funds	52,354	55,150
Other current liabilities	191	111
Total current liabilities	56,006	58,617
Non-current liabilities:		
Non-current deferred tax liability, net	2,985	2,958
Long-term debt	3,872	3,871
Accrued employee benefits	415	430
Other non-current liabilities	361	337
Total non-current liabilities	7,633	7,596
Total liabilities	63,639	66,213
Commitments and contingencies		
Redeemable non-controlling interest	37	36

Equity:		
Intercontinental Exchange, Inc. shareholders' equity:		
Preferred stock, $0.01 par value; 100 shares authorized; no shares issued or outstanding at March 31, 2017 and December 31, 2016	—	—
Common stock, $0.01 par value; 1,500 shares authorized; 599 and 596 shares issued at March 31, 2017 and December 31, 2016, respectively, and 593 and 595 shares outstanding at March 31, 2017 and December 31, 2016, respectively	6	6
Treasury stock, at cost; 6 and 1 shares at March 31, 2017 and December 31, 2016, respectively	(346)	(40)
Additional paid-in capital	11,351	11,306
Retained earnings	5,171	4,789
Accumulated other comprehensive loss	(427)	(344)
Total Intercontinental Exchange, Inc. shareholders' equity	15,755	15,717
Non-controlling interest in consolidated subsidiaries	32	37
Total equity	15,787	15,754
Total liabilities and equity	$79,463	$82,003

See accompanying notes.

Intercontinental Exchange, Inc. and Subsidiaries
Consolidated Statements of Income
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Revenues:		
Transaction and clearing, net	$798	$929
Data services	520	477
Listings	106	103
Other revenues	45	45
Total revenues	1,469	1,554
Transaction-based expenses:		
Section 31 fees	91	98
Cash liquidity payments, routing and clearing	214	302
Total revenues, less transaction-based expenses	1,164	1,154
Operating expenses:		
Compensation and benefits	245	236
Professional services	32	32
Acquisition-related transaction and integration costs	14	27
Technology and communication	98	92
Rent and occupancy	18	18
Selling, general and administrative	41	22
Depreciation and amortization	134	143
Total operating expenses	582	570
Operating income	582	584
Other income (expense):		
Interest expense	(45)	(46)
Other income, net	186	2
Other income (expense), net	141	(44)
Income before income tax expense	723	540
Income tax expense	213	163
Net income	$510	$377
Net income attributable to non-controlling interest	(8)	(8)
Net income attributable to Intercontinental Exchange, Inc.	$502	$369
Earnings per share attributable to Intercontinental Exchange, Inc. common shareholders:		
Basic	$0.84	$0.62
Diluted	$0.84	$0.62
Weighted average common shares outstanding:		
Basic	594	595
Diluted	599	598
Dividend per share	$0.20	$0.17

See accompanying notes.

Intercontinental Exchange, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Net income	$510	$377
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax expense of $2 for the three months ended March 31, 2016	25	(74)
Change in fair value of available-for-sale securities	68	54
Reclassification of realized gain on available-for-sale investment to other income	(176)	—
Other comprehensive loss	(83)	(20)
Comprehensive income	$427	$357
Comprehensive income attributable to non-controlling interest	(8)	(8)
Comprehensive income attributable to Intercontinental Exchange, Inc.	$419	$349

See accompanying notes.

Intercontinental Exchange, Inc. and Subsidiaries
Consolidated Statements of Changes in Equity, Accumulated Other Comprehensive Loss and Redeemable Non-Controlling Interest
(In millions)
(Unaudited)

	Intercontinental Exchange, Inc. Shareholders' Equity							Non-Controlling Interest in Consolidated Subsidiaries	Total Equity	Redeemable Non-Controlling Interest
	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss			
	Shares	Value	Shares	Value						
Balance, as of December 31, 2015	628	$ 6	(34)	$(1,448)	$12,290	$4,148	$ (188)	$ 32	$14,840	$ 35
Other comprehensive loss	—	—	—	—	—	—	(156)	—	(156)	—
Exercise of common stock options	1	—	—	—	22	—	—	—	22	—
Treasury shares retired in connection with stock split	(35)	—	35	1,512	(1,142)	(370)	—	—	—	—
Repurchases of common stock	—	—	(1)	(50)	—	—	—	—	(50)	—
Payments relating to treasury shares	—	—	(1)	(54)	—	—	—	—	(54)	—
Stock-based compensation	—	—	—	—	136	—	—	—	136	—
Issuance of restricted stock	2	—	—	—	—	—	—	—	—	—
Adjustment to redemption value	—	—	—	—	—	(2)	—	—	(2)	1
Distributions of profits	—	—	—	—	—	—	—	(19)	(19)	(3)
Dividends paid to shareholders	—	—	—	—	—	(409)	—	—	(409)	—
Net income attributable to non-controlling interest	—	—	—	—	—	(27)	—	24	(3)	3
Net income	—	—	—	—	—	1,449	—	—	1,449	—
Balance, as of December 31, 2016	596	6	(1)	(40)	11,306	4,789	(344)	37	15,754	36
Other comprehensive loss	—	—	—	—	—	—	(83)	—	(83)	—
Exercise of common stock options	—	—	—	—	3	—	—	—	3	—
Repurchases of common stock	—	—	(4)	(229)	—	—	—	—	(229)	—
Payments relating to treasury shares	—	—	(1)	(77)	—	—	—	—	(77)	—
Stock-based compensation	—	—	—	—	42	—	—	—	42	—
Issuance of restricted stock	3	—	—	—	—	—	—	—	—	—
Distributions of profits	—	—	—	—	—	—	—	(12)	(12)	—
Dividends paid to shareholders	—	—	—	—	—	(120)	—	—	(120)	—
Net income attributable to non-controlling interest	—	—	—	—	—	(8)	—	7	(1)	1
Net income	—	—	—	—	—	510	—	—	510	—
	599	$ 6	(6)	$(346)	$11,351	$5,171	$ (427)	$ 32	$15,787	$ 37

Balance, as of March 31, 2017

	As of March 31, 2017	As of December 31, 2016
Accumulated other comprehensive loss was as follows:		
Foreign currency translation adjustments	$(320)	$ (345)
Fair value of available-for-sale securities	—	108
Comprehensive income from equity method investment	2	2
Employee benefit plans adjustments	(109)	(109)
Accumulated other comprehensive loss	$(427)	$ (344)

See accompanying notes.

Intercontinental Exchange, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Operating activities:		
Net income	$510	$377
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	134	143
Stock-based compensation	34	29
Deferred taxes	28	30
Cetip realized investment gain	(176)	—
Other	(1)	3
Changes in assets and liabilities:		
Customer accounts receivable	(240)	(229)
Other current and non-current assets	(3)	(13)
Section 31 fees payable	(40)	(19)
Deferred revenue	328	338
Other current and non-current liabilities	37	(62)
Total adjustments	101	220
Net cash provided by operating activities	611	597
Investing activities:		
Capital expenditures	(32)	(31)
Capitalized software development costs	(34)	(25)
Cash received for divestiture (net of cash paid for acquisition)	22	—
Increase in restricted cash and investments	(64)	(3)
Net cash used in investing activities	(108)	(59)
Financing activities:		
Repayments of commercial paper, net	(117)	(543)
Dividends to shareholders	(120)	(102)
Repurchases of common stock	(229)	—
Payments relating to treasury shares received for restricted stock tax payments and stock option exercises	(77)	(47)
Other	(8)	(5)
Net cash used in financing activities	(551)	(697)
Effect of exchange rate changes on cash and cash equivalents	1	—
Net decrease in cash and cash equivalents	(47)	(159)
Cash and cash equivalents, beginning of period	407	627
Cash and cash equivalents, end of period	$360	$468
Supplemental cash flow disclosure:		
Cash paid for income taxes	$65	$56
Cash paid for interest	$7	$7

See accompanying notes.

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Intercontinental Exchange, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. Description of Business

We are a leading global operator of regulated exchanges, clearing houses and listings venues, and a provider of data services for commodity and financial markets. We operate regulated marketplaces for listing, trading and clearing a broad array of derivatives contracts and securities across major asset classes, including energy and agricultural commodities, interest rates, equities, equity derivatives, exchange traded funds, credit derivatives, bonds and currencies. We offer end-to-end market data services to support the trading, investment and risk management needs of customers across virtually all asset classes.

Our exchanges include futures exchanges in the United States, or U.S., United Kingdom, or U.K., Continental Europe, Canada and Singapore, and cash equities, equity options and bond exchanges in the U.S. We also operate over-the-counter, or OTC, markets for physical energy and credit default swaps, or CDS, trade execution. To serve global derivatives markets, we operate central counterparty clearing houses in the U.S., U.K., Continental Europe, Canada and Singapore (Note 9). We offer a range of data services for global financial and commodity markets, including pricing and reference data, exchange data, analytics, feeds, desktop and connectivity solutions. Through our markets, clearing houses, listings and market data services, we provide end-to-end solutions for our customers through liquid markets, benchmark products, access to capital markets, and related services to support their ability to manage risk and raise capital.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by us in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC, regarding interim financial reporting. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with our audited consolidated financial statements and related notes thereto for the year ended December 31, 2016. The accompanying unaudited consolidated financial statements reflect all adjustments that are, in our opinion, necessary for a fair presentation of results for the interim periods presented. These adjustments are of a normal recurring nature.

Preparing financial statements requires us to make certain estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on our best knowledge of current events and actions that we may undertake in the future, actual results may be different from these estimates. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for any future period or the full fiscal year.

The accompanying unaudited consolidated financial statements include the accounts of us and our wholly-owned and controlled subsidiaries. All intercompany balances and transactions between us and our wholly-owned and controlled subsidiaries have been eliminated in the consolidation. For those consolidated subsidiaries in which our ownership is less than 100% and for which we have control over the assets and liabilities and the management of the entity, the outside stockholders’ interests are shown as non-controlling interests. In instances where outside stockholders hold an option to require us to repurchase the outside stockholders’ interest, these interests are shown as redeemable non-controlling interests.

New and Recently Adopted Accounting Pronouncements

The Financial Accounting Standards Board, or FASB, has issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 606. ASU 606 provides guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. This guidance requires us to recognize revenue when we transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt ASU 606 at the beginning of

our first quarter of fiscal 2018. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. The new guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. We are currently evaluating the overall impact this guidance will have on our consolidated financial statements, as well as the method of adoption. Based on our preliminary assessment, we expect that the adoption may accelerate the timing of recognition of original and supplemental listing fees related to our NYSE businesses, which are currently deferred over a pre-defined customer life of five or nine years. We are continuing our assessment, which may identify other impacts of the adoption of ASU 606.

The FASB has issued Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2016-01. ASU 2016-01 provides updated

guidance for the recognition, measurement, presentation, and disclosure of certain financial assets and liabilities, including the requirement that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 is effective for annual and interim reporting periods beginning after December 15, 2017. With the sale of our Cetip investment, we no longer have any equity investments that would be required to be measured at fair value with changes in fair value recognized in net income (Note 10).

The FASB has issued Accounting Standards Update No. 2016-02, Leases, or ASU 2016-02. ASU 2016-02 requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. A lessee should recognize in its balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating this guidance to determine the potential impact on our consolidated financial statements and whether we will adopt this guidance early.

The FASB has issued Accounting Standards Update No. 2016-18, Statement of Cash Flows: Restricted Cash, or ASU 2016-18, that will require entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances. ASU 2016-18 becomes effective for us in fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. We will be required to apply the guidance retrospectively when adopted, and provide the relevant disclosures in the first interim and annual periods in which we adopt the guidance. We will not adopt ASU 2016-18 early, but do expect to be impacted by the new presentation and disclosure requirements required by ASU 2016-18 due to our restricted and unrestricted cash balances.

3. Acquisitions and Divestitures

National Stock Exchange Acquisition

On January 31, 2017, we acquired 100% of National Stock Exchange, Inc., now named NYSE National. The acquisition gives the NYSE Group a fourth U.S. exchange license. NYSE National is distinct from NYSE Group’s three listings exchanges because NYSE National will only be a trading venue and will not be a listings market. NYSE Group’s three listings exchanges, NYSE, NYSE MKT and NYSE Arca, have unique market models designed for corporate and ETF issuers. Upon closing the transaction, NYSE National ceased operations on February 1, 2017. We will engage with NYSE National members, buy-side participants and retail brokerage firms before finalizing operational plans for NYSE National’s re-launch, which is expected to occur in 2017.

Trayport Acquisition and Potential Divestiture

On December 11, 2015, we acquired 100% of Trayport in a stock transaction. The total purchase price was $620 million, comprised of 12.6 million shares of our common stock. Trayport is a software company that licenses its technology to serve exchanges, OTC brokers and traders to facilitate electronic and hybrid trade execution primarily in the energy markets. The acquisition enables us to provide new technology and software-related services to our energy customers.

The U.K. Competition and Markets Authority, or the CMA, undertook a review of our acquisition of Trayport under the merger control laws of the U.K. In October 2016, the CMA issued its findings and ordered a divestment of Trayport to remedy what the CMA indicated it believed to be a substantial lessening of competition in the supply of trade execution services and trade clearing services to energy traders in the European Economic Area. In November 2016, we filed an appeal with the Competition Appeal Tribunal, or the CAT, to challenge the CMA’s decision. In

March 2017, the CAT upheld the CMA decision that we should divest Trayport. Following careful consideration of the CAT's judgment, we are seeking to appeal the CAT's decision at the U.K. Court of Appeals. If we are allowed to appeal to the U.K. Court of Appeals and if our appeal is successful, the matter will be remanded for additional review. If our appeal is not allowed or not successful, we will be obligated to sell Trayport. There is no certainty of the price we could receive if a sale were required. The timing of a final decision is uncertain at this time. Until a final determination is made as to whether we are permitted to retain Trayport, we will not integrate Trayport into our existing business operations.

The functional currency of Trayport is the pound sterling, as this is the currency in which Trayport operates. The $620 million in Trayport net assets were recorded on our December 11, 2015 opening balance sheet at a pound sterling/U.S. dollar exchange rate of 1.5218 (£407 million). Because our consolidated financial statements are presented in U.S. dollars, we must translate the Trayport net assets into U.S. dollars at the exchange rates in effect at the end of each reporting period. Therefore, increases or decreases in the value

of the U.S. dollar against the pound sterling will affect the value of the Trayport balance sheet, with gains or losses included in the cumulative translation adjustment account, a component of equity. As of the result of the decrease in the pounds sterling/U.S. dollar exchange rate to 1.2552 as of March 31, 2017, the portion of our equity attributable to the Trayport net assets in accumulated other comprehensive loss from foreign currency translation was $108 million as of March 31, 2017. If we are required to sell Trayport, we would include the accumulated translation adjustment when computing the gain or loss from the sale.

Interactive Data Managed Solutions Divestiture

On March 31, 2017, we sold Interactive Data Managed Solutions, or IDMS, a unit of Interactive Data, to FactSet. There was no gain or loss recognized on the sale of IDMS. IDMS is a managed solutions and portal provider for the global wealth management industry.

4. Goodwill and Other Intangible Assets

The following is a summary of the activity in the goodwill balance for the three months ended March 31, 2017 (in millions):

Goodwill balance at December 31, 2016	$12,291
Acquisition (divestiture), net	3
Foreign currency translation	13
Other activity, net	(5)
Goodwill balance at March 31, 2017	$12,302

The following is a summary of the activity in the other intangible assets balance for the three months ended March 31, 2017 (in millions):

Other intangible assets balance at December 31, 2016	$10,420
Acquisition (divestiture), net	2
Foreign currency translation	13
Other activity, net	(9)
Amortization of other intangible assets	(70)
Other intangible assets balance at March 31, 2017	$10,356

We completed the acquisition of NYSE National and sold IDMS during the three months ended March 31, 2017 (Note 3). The foreign currency translation adjustments in the tables above result from a portion of our goodwill and other intangible assets being held at our U.K., Continental European and Canadian subsidiaries, some of whose functional currencies are not the U.S. dollar. The changes in other activity, net in the tables above primarily relate to adjustments to the fair value of the net tangible and identifiable intangible assets and liabilities relating to the acquisitions, with a corresponding adjustment to goodwill. We did not recognize any impairment losses on goodwill or other intangible assets during the three months ended March 31, 2017 and 2016.

5. Deferred Revenue

Deferred revenue represents cash received that is yet to be recognized as revenue. Total deferred revenue was $567 million as of March 31, 2017, including $440 million in current deferred revenue and $127 million in non-current deferred revenue. The changes in our deferred revenue during the three months ended March 31, 2017 are as follows (in millions):

	Annual Listings Revenue	Original Listings Revenues	Other Listings Revenues	Data Services and Other Revenues	Total
Deferred revenue balance at December 31, 2016	$ —	$ 66	$ 83	$ 88	$237
Additions	361	3	24	162	550
Amortization	(91)	(3)	(12)	(114)	(220)

Deferred revenue balance at March 31, 2017	$ 270	$ 66	$ 95	$ 136	$567

6. Debt

Our total debt, including short-term and long-term debt, consisted of the following as of March 31, 2017 and December 31, 2016 (in millions):

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	As of March 31, 2017	As of December 31, 2016
Debt:		
Commercial Paper	$1,525	$ 1,642
NYSE Notes (2.00% senior unsecured notes due October 5, 2017)	851	851
Short-term debt	2,376	2,493
2018 Senior Notes (2.50% senior unsecured notes due October 15, 2018)	598	598
2020 Senior Notes (2.75% senior unsecured notes due December 1, 2020)	1,242	1,242
2023 Senior Notes (4.00% senior unsecured notes due October 15, 2023)	791	790
2025 Senior Notes (3.75% senior unsecured notes due December 1, 2025)	1,241	1,241
Long-term debt	3,872	3,871
Total debt	$6,248	$ 6,364

Credit Facility

We have entered into a $3.0 billion senior unsecured revolving credit facility, or the Credit Facility, with a maturity date of November 13, 2020. The Credit Facility includes an option for us to propose an increase in the aggregate amount available for borrowing by up to $1.0 billion, subject to the consent of the lenders funding the increase and certain other conditions. In November 2015, we utilized this option to increase the amount of the Credit Facility to $3.4 billion. The commitments under the Credit Facility will automatically reduce to $3.2 billion on April 3, 2019. No amounts were outstanding under the Credit Facility as of March 31, 2017.

Of the $3.4 billion that is currently available for borrowing under the Credit Facility, $1.5 billion is required to back-stop the amount outstanding under our Commercial Paper Program as of March 31, 2017. The amount required to back-stop the amounts outstanding under the Commercial Paper Program will fluctuate as we increase or decrease our commercial paper borrowings. The remaining $1.9 billion available under the Credit Facility as of March 31, 2017 is available to us to use for working capital and general corporate purposes including, but not limited to, acting as a back-stop to future increases in the amounts outstanding under the Commercial Paper Program or to fund the redemption of the NYSE Notes discussed below.

Commercial Paper Program

We have entered into a U.S. dollar commercial paper program, or the Commercial Paper Program. Our Commercial Paper Program is currently backed by the borrowing capacity available under the Credit Facility, equal to the amount of the commercial paper that is issued and outstanding at any given point in time. The effective interest rate of commercial paper issuances does not materially differ from short term interest rates (such as USD LIBOR). The fluctuation of these rates due to market conditions may impact our interest expense.

Commercial paper notes of $1.5 billionOperations, technology, general and administrative expenses primarily include labor-related costs including equity-based compensation of our operations group that lead our supply chain and logistics, our technology team, building and supporting our sites, and our corporate general and administrative, which includes human resources, finance and accounting personnel. Also included are administrative and professional service fees including audit and legal fees, insurance and other corporate expenses, including depreciation and rent. We anticipate that we will incur additional personnel expenses, professional service fees, including audit and legal, investor relations, costs of compliance with securities laws and regulations, and higher director and officer insurance costs related to operating as a public company. We expect operations, technology, general and administrative expenses will continue to increase as we grow our net revenue and operations.

Amortization of Acquired Intangible Assets

We have recorded identifiable intangible assets in conjunction with our acquisitions and are amortizing those assets over their estimated useful lives. We perform impairment testing of goodwill and intangibles with definite lives annually and whenever events or circumstances indicate that an impairment may have occurred.

Interest Income, Net

Interest income, net consists primarily of interest earned on cash, cash equivalents and short-term and long-term investments held by us.

Other Income (Expense), Net

Other income (expense), net consists primarily of foreign currency gains (losses), and in the year ended December 31, 2015, a $3.0 million gain related to the sale of our Australian operations.

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Results of Consolidated Operations (in thousands)

	Year Ended December 31,		
	2015	2014	2013
	(in thousands, except per share data)		
Consolidated Statements of Operations:			
Net revenue	$2,249,885	$1,318,951	$915,843
Cost of goods sold (1)	1,709,161	1,007,853	691,602
Gross profit	540,724	311,098	224,241
Operating expenses:			
Customer service and merchant fees (1)	81,230	55,804	35,500
Advertising	278,224	191,284	108,469
Merchandising, marketing and sales (1)	106,149	80,113	33,506
Operations, technology, general and administrative (1)	155,580	130,701	62,246
Amortization of acquired intangible assets	891	980	539
Total operating expenses	622,074	458,882	240,260
Loss from operations	(81,350)	(147,784)	(16,019)
Interest income, net	1,284	350	245
Other income (expense), net	2,718	(489)	294
Loss before income taxes	(77,348)	(147,923)	(15,480)
Provision for income taxes	95	175	46
Net loss	(77,443)	(148,098)	(15,526)
Accretion of convertible redeemable preferred units	—	(2,071)	(25,388)
Net loss attributable to common stockholders	$(77,443)	$(150,169)	$(40,914)
Net loss attributable to common stockholders per share, basic and diluted	$(0.92)	$(2.97)	$(0.99)
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted	83,726	50,642	41,332

(1) Includes equity based compensation and related taxes as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Cost of goods sold	$280	$369	$—
Customer service and merchant fees	1,007	2,265	—
Merchandising, marketing and sales	15,436	28,514	—
Operations, technology, general and administrative	16,252	32,096	—
	$32,975	$63,244	$—

Comparison of the year ended December 31, 2015 and 2014

Net revenue

	Year Ended December 31,		
	2015	2014	% Change
Direct Retail	$2,040,238	$1,101,686	85.2%
Other	209,647	217,265	(3.5)%
Net revenue	$2,249,885	$1,318,951	70.6%

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In 2015, net revenue increased by $930.9 million, or 70.6% compared to 2014, primarily as a result of an increase in Direct Retail net revenue, partially offset by the 3.5% decrease in Other revenue. In 2015, Direct Retail net revenue increased by $938.6 million, or 85.2% compared to 2014. The increase in Direct Retail net revenue was primarily due to sales to a larger customer base, as the number of active customers increased 66.6% in 2015 compared to the number of active customers in 2014. Additionally, LTM net revenue per active customer increased 11.4% in 2015 compared with 2014. The decrease in Other revenue was primarily due to decreased sales through our retail partners.

Cost of Goods Sold

	Year Ended December 31,					
	2015		2014		% Change	
Cost of goods sold	$1,709,161		$1,007,853		69.6	%
As a percentage of net revenue	76.0	%	76.4	%		

In 2015, costs of goods sold increased by $701.3 million, or 69.6%, compared to 2014. Of the increase in cost of goods sold, $573.5 million was due to the increase in products sold to a larger customer base. In addition, shipping and fulfillment costs increased $127.8 million as a result of the increase in products sold during the period. Costs of goods sold as a percentage of net revenue decreased the year ended December 31, 2015 compared to the year ended December 31, 2014 as a result of changes in the mix of the products sold and shipping costs.

Operating Expenses

	Year Ended December 31,					
	2015		2014		% Change	
Customer service and merchant fees (1)	$81,230		$55,804		45.6	%
Advertising	278,224		191,284		45.5	
Merchandising, marketing and sales (1)	106,149		80,113		32.5	
Operations, technology, general and administrative (1)	155,580		130,701		19.0	
Amortization of acquired intangible assets	891		980		(9.1	)
Total operating expenses	$622,074		$458,882		35.6	%
As a percentage of net revenue						
Customer service and merchant fees	3.6	%	4.2	%		
Advertising	12.4	%	14.5	%		
Merchandising, marketing and sales	4.7	%	6.1	%		
Operations, technology, general and administrative	6.9	%	9.9	%		
Amortization of acquired intangible assets	—	%	0.1	%		
	27.6	%	34.8	%		

(1) Excluding equity based compensation and related taxes as follows:

Customer service and merchant fees	3.6	%	4.1	%
Merchandising, marketing and sales	4.0	%	3.9	%
Operations, technology, general and administrative	6.2	%	7.5	%

Excluding the impact of equity based compensation and related taxes of $1.0 million and $2.3 million recorded in 2015 and 2014, respectively, customer service costs and merchant processing fees increased by $26.7 million from $53.5 million in 2014 to $80.2 million in 2015 primarily due to the increase in net revenue during 2015. Our advertising expenses increased by $86.9 million from $191.3 million in 2014 to $278.2 million in 2015, primarily as a result of an increase in television and online advertising. Excluding the impact of equity based compensation and related taxes of $15.4 million and $28.5 million recorded in 2015 and 2014, respectively, merchandising, marketing and sales expenses increased by $39.1 million from $51.6 million in 2014 to $90.7 million in 2015. The increase in merchandising, marketing and sales expenses was due to an increase in headcount primarily to grow and retain our customer base.

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Excluding the impact of equity based compensation and related taxes of $16.3 million and $32.1 million recorded in 2015 and 2014, respectively, operations, technology, general and administrative expense increased by $40.7 million from $98.6 million in 2014 to $139.3 million in 2015. As our revenue continues to grow, we have invested in headcount in both operations and technology to continue to deliver a great experience for our customers.

The increase in operations, technology, general and administrative expense was primarily attributable to personnel costs, rent, information technology, depreciation and amortization and costs related to operating as a public company.

In 2015, amortization of purchased intangible assets decreased by $0.1 million, or 9.1%, compared to 2014.

Comparison of years ended December 31, 2014 and 2013

Net revenue

	Year ended December 31,		
	2014	2013	% Change
Direct Retail	$1,101,686	$673,446	63.6 %
Other	217,265	242,397	(10.4)%
Net revenue	$1,318,951	$915,843	44.0 %

In 2014, net revenue increased by $403.1 million, or 44.0% compared to 2013 primarily as a result of increase in Direct Retail net revenue. In 2014, Direct Retail net revenue increased by $428.2 million, or 63.6% compared to 2013. The increase in Direct Retail net revenue was primarily due to sales to a larger customer base, as the number of active customers increased 53.8% in 2014 compared to the number of active customers in 2013. Additionally, LTM net revenue per active customer increased 6.2% in 2014 compared with 2013. The increase in Other revenue was primarily due to increased sales through our existing and new retail partners.

Cost of Goods Sold

	Year ended December 31,		
	2014	2013	% Change
Cost of goods sold	$1,007,853	$691,602	45.7 %
As a percentage of net revenue	76.4 %	75.5 %	

In 2014, costs of goods sold increased by $316.3 million, or 45.7%, compared to 2013 primarily due to the 44% increase in sales of products. Of the increase in cost of goods sold, $249.9 million was due to the increase in products sold to a larger customer base. In addition, shipping and fulfillment costs increased $66.4 million as a result of the increase in products sold during the period. Costs of goods sold as a percentage of net revenue increased in the year ended December 31, 2014 compared to the year ended December 31, 2013 as a result of changes in product mix and more favorable customer return and free shipping policies.

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Operating expenses

	Year Ended December 31, 2014		2013		% Change	
Customer service and merchant fees (1)	$55,804		$35,500		57.2	%
Advertising	191,284		108,469		76.3	%
Merchandising, marketing and sales (1)	80,113		33,506		139.1	%
Operations, technology, general and administrative (1)	130,701		62,246		110.0	%
Amortization of acquired intangible assets	980		539		81.8	%
Total operating expenses	$458,882		$240,260		91.0	%
As a percentage of net revenue						
Customer service and merchant fees	4.2	%	3.9	%		
Advertising	14.5	%	11.7	%		
Merchandising, marketing and sales	6.1	%	3.7	%		
Operations, technology, general and administrative	9.9	%	6.8	%		
Amortization of acquired intangible assets	0.1	%	0.1	%		
	34.8	%	26.2	%		

(1) Excluding equity based compensation and related taxes as follows:

Customer service and merchant fees	4.1	%	3.9	%
Merchandising, marketing and sales	3.9	%	3.7	%
Operations, technology, general and administrative	7.5	%	6.8	%

Excluding the impact of equity based compensation and related taxes of $2.3 million recorded in 2014, customer service costs and merchant processing fees increased by $18.0 million from $35.5 million in 2013 to $53.5 million primarily due to the increase in sales of products during 2014. Our advertising expenses increased by $82.8 million from $108.5 million in 2013 to $191.3 million in 2014, primarily as a result of an increase in television and online advertising. Excluding the impact of equity based compensation and related taxes of $28.5 million recorded in 2014, merchandising, marketing and sales expenses increased by $18.1 million from $33.5 million in 2013 to $51.6 million. The increase in merchandising, marketing and sales expenses was due to an increase in headcount primarily to grow and retain our customer base.

Excluding the impact of equity based compensation and related taxes of $32.1 million recorded in 2014, operations, technology, general and administrative expense increased by $36.4 million from $62.2 million in 2013 to $98.6 million. As our revenue continues to grow, we have invested in headcount in both Operations and Technology to continue to deliver a great experience for our customers. The increase in general and administrative expense was primarily attributable to personnel costs, rent, information technology, depreciation and amortization and costs related to operating as a public company.

In 2014, amortization of purchased intangible assets increased by $0.4 million, or 81.8%, compared to 2013. The increase in amortization expense for 2014 was primarily the result of our acquisition of DwellStudio in July of 2013.

Unaudited Quarterly Results of Operations and Other Financial and Operations Data

The following tables set forth selected unaudited quarterly results of operations and other financial and operations data for the eight quarters ended December 31, 2015, as well as the percentage that each line item represents of net revenue. The information for each of these quarters has been prepared on the same basis as the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K and in the opinion of management, reflects all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of our consolidated results of operations for these periods. This data should be read in conjunction with our consolidated financial statements and related notes included elsewhere in the Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in the future.

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	Three months ended							
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
	(in thousands, except per share data)							
Consolidated Statements of Operations:								
Net revenue	$278,707	$295,437	$336,188	$408,619	$424,371	$491,752	$593,972	$739,790
Cost of goods sold(1)	213,500	226,983	257,161	310,209	321,536	370,951	452,586	564,088
Gross profit	65,207	68,454	79,027	98,410	102,835	120,801	141,386	175,702
Operating expenses:								
Customer service and merchant fees(1)	10,969	12,113	14,239	18,483	15,978	18,330	21,109	25,813
Advertising	44,204	42,511	49,763	54,806	57,999	61,539	70,711	87,975
Merchandising, marketing and sales(1)	15,171	13,260	13,437	38,245	23,234	23,814	27,083	32,018
Operations, technology, general and administrative(1)	22,769	23,586	25,203	59,143	32,620	36,355	40,912	45,693
Amortization of acquired intangible assets	249	250	249	232	250	236	208	197
Total operating expenses	93,362	91,720	102,891	170,909	130,081	140,274	160,023	191,696
Loss from operations	(28,155)	(23,266)	(23,864)	(72,499)	(27,246)	(19,473)	(18,637)	(15,994)
Interest income, net	56	77	89	128	264	308	325	387
Other (expense) income, net	88	(184)	(309)	(84)	(108)	(96)	2,746	176
Loss before income taxes	(28,011)	(23,373)	(24,084)	(72,455)	(27,090)	(19,261)	(15,566)	(15,431)
Provision for income taxes	15	2	59	99	46	73	(88)	64
Net loss	(28,026)	(23,375)	(24,143)	(72,554)	(27,136)	(19,334)	(15,478)	(15,495)
Accretion of convertible redeemable preferred units	(7,150)	(4,605)	(4,748)	14,432	—	—	—	—
Net loss attributable to common stockholders	$(35,176)	$(27,980)	$(28,891)	$(58,122)	$(27,136)	$(19,334)	$(15,478)	$(15,495)

Net loss attributable to common stockholders per share, basic and diluted	$(0.85)	$(0.69)	$(0.71)	$(0.73)	$(0.33)	$(0.23)	$(0.18)	$(0.18)
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted	41,144	40,515	40,513	80,078	83,210	83,603	83,886	84,191

(1) Includes equity based compensation and related taxes as follows:

Cost of goods sold	$—	$—	$—	$369	$71	$79	$96	$34
Customer service and merchant fees	69	184	—	2,012	219	288	236	264
Merchandising, marketing and sales	3,858	196	—	24,460	3,866	3,204	3,414	4,952
Operations, technology, general and administrative	627	594	—	30,875	4,006	3,530	4,239	4,477
	$4,554	$974	$—	$57,716	$8,162	$7,101	$7,985	$9,727

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	Three months ended							
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
	(in thousands, except Average Order Value and LTM Net Revenue Per Active Customer)							
Consolidated Financial Metrics								
Net Revenue	$278,707	$295,437	$ 336,188	$ 408,619	$424,371	$491,752	$ 593,972	$ 739,790
Adjusted EBITDA	$(19,403)	$(17,599)	$ (18,317)	$ (7,218)	$(12,340)	$(4,972)	$ (1,445)	$ 2,828
Free Cash Flow	$(38,506)	$(31,744)	$ (22,398)	$ 50,788	$(51,368)	$10,989	$ 35,332	$ 77,984
Direct Retail Financial and Operating Metrics								
Direct Retail Net Revenue	$226,000	$243,534	$ 285,502	$ 346,650	$369,395	$440,297	$ 544,971	$ 685,573
Active Customers	2,409	2,635	2,858	3,217	3,597	4,044	4,591	5,360
LTM Net Revenue Per Active Customer	$323	$332	$ 342	$ 342	$346	$357	$ 371	$ 381
Orders Delivered	1,138	1,084	1,314	1,701	1,797	1,959	2,323	3,091
Average Order Value	$199	$225	$ 217	$ 204	$206	$225	$ 235	$ 222

The following table reflects the reconciliation of net loss to Adjusted EBITDA for each of the periods indicated (in thousands):

	Three months ended							
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Net loss	$(28,026)	$(23,375)	$ (24,143)	$ (72,554)	$(27,136)	$(19,334)	$ (15,478)	$ (15,495)
Depreciation and amortization	4,198	4,693	5,547	7,565	6,744	7,400	9,207	9,095
Equity based compensation	4,554	974	—	57,716	8,162	7,101	7,985	9,727
Interest income, net	(56)	(77)	(89)	(128)	(264)	(308)	(325)	(387)
Other (expense) income, net	(88)	184	309	84	108	96	(2,746)	(176)
Taxes	15	2	59	99	46	73	(88)	64
Adjusted EBITDA	$(19,403)	$(17,599)	$ (18,317)	$ (7,218)	$(12,340)	$(4,972)	$ (1,445)	$ 2,828

The following table presents a reconciliation of free cash flow to net cash provided by operating activities for each of the periods indicated (in thousands):

	Three months ended							
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015

Net cash provided by operating activities, net of acquisition	$(24,432)	$(15,339)	$ (11,066)	$ 54,962	$(35,202)	$28,453	$ 51,504	$ 90,366
Purchase of property, equipment, and leasehold improvements	(11,357)	(12,974)	(6,837)	(687)	(12,051)	(13,153)	(11,491)	(7,953)
Site and software development costs	(2,717)	(3,431)	(4,495)	(3,487)	(4,115)	(4,311)	(4,681)	(4,429)
Free cash flow	$(38,506)	$(31,744)	$ (22,398)	$ 50,788	$(51,368)	$10,989	$ 35,332	$ 77,984

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Liquidity and Capital Resources

Sources of Liquidity

	December 31, 2015	2014
	(in thousands)	
Cash and cash equivalents	$334,176	$355,859
Short-term investments	51,895	60,000
Accounts receivable, net	9,906	5,949
Long-term investments	79,883	—
Working capital	95,297	254,276

Historical Cash Flows

	Year Ended December 31, 2015	2014	2013
	(in thousands)		
Net loss	(77,443)	(148,098)	(15,526)
Net cash provided by operating activities	135,121	4,125	34,413
Net cash used in investing activities	(137,728)	(55,435)	(46,991)
Net cash (used in) provided by financing activities	(18,616)	341,150	—

Since our inception, we have financed our operations, capital expenditures and acquisitions primarily through cash flows generated by operations and, since 2011, also through private sales of convertible redeemable preferred stock and sales of common stock in connection with our IPO. Since inception through December 31, 2015, we have raised a total of approximately $646.0 million from the sale of preferred stock and common stock, net of costs and expenses associated with such financings, or approximately $453.8 million, net of repurchases of our securities and dividends paid to Series A redeemable convertible preferred stockholders.

On October 7, 2014, we completed our IPO of 12,650,000 shares of our Class A common stock at a public offering price of $29.00 per share, of which 10,500,000 shares were sold by us and 2,150,000 shares were sold by selling stockholders, including 1,650,000 shares pursuant to the underwriters' option to purchase additional shares, resulting in net proceeds to us of approximately $282.9 million, after deducting underwriting discounts and offering expenses. We did not receive any proceeds from the sale of shares by the selling stockholders. We used these proceeds to distribute $24.5 million of cash to our Series A redeemable convertible preferred stockholders and pay $22.6 million in minimum tax withholding obligations on the vesting of our restricted stock units upon the closing of our initial public offering.

We believe that our existing cash and cash equivalents, together with cash generated from operations, will be sufficient to meet our anticipated cash needs for at least the foreseeable future. However, our liquidity assumptions may prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. In addition, we may elect to raise additional funds at any time through equity, equity linked or debt financing arrangements. Capital expenditures were 2.8% of net revenue for the year ended December 31, 2015, and related primarily to additional capacity to support our supply chain infrastructure, including warehouses and our distribution network, investments in our technology and operational platform, including our mobile platform, and additional resources required to establish and expand our international operations. We expect capital expenditures to be approximately 3.0% to 4.0% of net revenues in 2016. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described in Part I, Item 1A, Risk Factors. We may not be able to secure additional financing to meet our operating requirements on acceptable terms, or at all.

Operating Activities

Cash provided by operating activities consisted of net loss adjusted for certain non-cash items including depreciation and amortization, equity-based compensation, and certain other non-cash expenses, as well as the effect of changes in working capital and other activities.

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Cash provided by operating activities in the year ended December 31, 2015 was $135.1 million and was driven primarily by cash provided by operating assets and liabilities of $149.1 million, certain non-cash items including depreciation and amortization expense of $32.4 million, equity based compensation of $31.0 million, and other non-cash items of $3.0 million, partially offset by net loss of $77.4 million and gain on sale of our Australian business of $3.0 million. Operating cash flows can be volatile and are sensitive to many factors, including changes in working capital and our net loss.

Cash provided by operating activities in the year ended December 31, 2014 was $4.1 million and was driven primarily by net loss of $148.1 million, adjusted for certain non-cash items including depreciation and amortization expense of $22.0 million, equity based compensation of $60.8 million and other non-cash items of $0.6 million and cash provided by operating assets and liabilities of $68.8 million. Operating cash flows can be volatile and are sensitive to many factors, including changes in working capital and our net loss.

Cash provided by operating activities in the year ended December 31, 2013 was $34.4 million and was driven by a net loss of $15.5 million, adjusted for certain non-cash items including depreciation and amortization expense of $13.1 million and other non-cash items of $0.1 million offset by cash provided by operating assets and liabilities of $36.7 million.

Investing Activities

Our primary investing activities consisted of purchases of property and equipment, particularly purchases of servers and networking equipment, investment in our sites and software development, purchases and disposal of short-term and long-term investments, leasehold improvements for our facilities and acquisitions of businesses.

Cash used in investing activities in the year ended December 31, 2015 was $137.7 million and was primarily driven by purchases of short-term and long-term investments of $207.3 million, property and equipment of purchases of property and equipment of $44.6 million, site and software development costs of $17.5 million, other net investing activities of $4.8 million, partially offset by sale and maturities of short-term investments of $133.6 million and cash received from the sale of a business (net of cash sold) of $2.9 million.

Cash used in investing activities in the year ended December 31, 2014 was $55.4 million and was primarily driven by net purchases of short-term investments of $10.0 million, purchases of property and equipment of $31.9 million, site and software development costs of $14.1 million partially offset by net decrease in restricted cash of $0.5 million.

Cash used in investing activities in the year ended December 31, 2013 was $47.0 million and was driven by net purchases of short-term investments of $27.0 million, purchases of property and equipment of $6.7 million, cash paid for the acquisition of DwellStudio of $3.7 million, site and software development costs of $9.0 million and other net investing activities of $0.5 million.

Financing Activities

Cash used in financing activities in the year ended December 31, 2015 was $18.6 million and was primarily due to statutory minimum taxes paid related to net share settlement of equity awards of $19.1 million, partially offset by net proceeds from exercise of stock options of $0.5 million.

Cash provided by financing activities in the year ended December 31, 2014 was $341.2 million and was primarily due to net proceeds from the IPO of $282.9 million, issuance of Series B convertible redeemable preferred units of $154.8 million partially offset by the dividend distribution to our Series A preferred unit holders of $39.5 million, the repurchase of our securities and our 2014 tender offer of $29.0 million and statutory minimum taxes paid related to net share settlement of equity awards of $28.0 million.

There were no financing activities in the year ended December 31, 2013.

Credit Agreement

For information regarding our credit agreement, see Note 13, Credit Agreement, in the Notes to the Consolidated Financial Statements included in Part II, Item 8, Consolidated Financial Statements, of this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet activities. We do not have any off-balance sheet interest in variable interest entities, which include special purpose entities and other structured finance entities.

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Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2015:

	Payment Due by Period				
	Less than 1 year	1 - 3 Years	3 - 5 Years	More than 5 Years	Total
Lease Obligations	$21,131	$56,857	$53,503	$109,071	$240,562

We lease office space under non-cancelable leases. These leases expire at various dates through 2028 and include discounted rental periods and fixed escalation clauses, which are amortized straight-line over the terms of the lease. We recognize rent expense on a straight-line basis over the lease periods.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, net revenue, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting policies. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. See Note 2, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements included in Part II, Item 8, Consolidated Financial Statements, of this Annual Report on Form 10-K for information about these critical accounting policies, as well as a description of our other significant accounting policies.

Revenue Recognition

We recognize revenue only when the following four criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured. We recognize net revenue from sales of our products upon delivery to the customer. As we ship a large volume of packages through multiple carriers, actual delivery dates may not always be available and as such we estimate delivery dates based on historical data. We record our product revenue at the gross amount as we are the primary obligor with the customer and provide the primary customer service for all products sold on our sites, have latitude in establishing price and selecting products sold on our sites, have discretion in selecting suppliers of products sold on our sites, maintain inventory risk from shipment through delivery date and upon accepting returns, and have credit risk. Net revenue includes shipping costs charged to the customer and are recorded net of taxes collected from customers, which are remitted to governmental authorities. Cash discounts, estimated returns and rebates are deducted from gross revenue in determining net revenue. We record an allowance for returns based on current period revenue and historical returns experience. We defer revenue when cash is collected from our customer prior to the satisfaction of the revenue recognition criteria.

We also earn revenue through third-party advertisers that pay us based on the number of advertisement related clicks, actions, or impressions for ads placed on our sites. Revenue earned under these arrangements is included in net revenue and is recognized in the period in which the click, action, or impression occurs.

Site and Software Development Costs

We capitalize certain external costs and internal labor-related costs, including equity based compensation, associated with the development of our sites and internal-use software products after the preliminary project stage is complete and until the software is ready for its intended use. Initial costs are charged to operating expenses prior to the selection of a vendor and determination of performance requirements. Costs incurred after the software is ready for use are charged to operating expenses as incurred. Abandoned projects previously capitalized are charged to operating expenses in the period of abandonment. The Company expenses site development costs that manage, monitor, and operate the Company's sites, except for costs that provide additional functionality, which are capitalized. Capitalized software costs are included in property and equipment within our consolidated balance sheets and are amortized over a two-year period.

Stock-Based Compensation

In 2010, the Company established an equity incentive plan and, in 2011, the plan was amended and restated as the Wayfair LLC Amended and Restated 2010 Common Unit Plan (the “2010 Plan”). The 2010 Plan was administered by the board of directors of Wayfair LLC and provided for the issuance of common option units, restricted common units (all common units), and deferred units, which currently represent Class A or Class B common stock of the Company. We issue equity awards to employees and non-employees, generally in the form of common stock options, common stock and restricted stock units ("RSUs"). We account for equity awards to our employees in accordance with Financial Accounting Standards Board, or FASB, Accounting Standard Codification Topic 718, Compensation—Stock Compensation, or ASC 718, which requires all equity-based payments to employees, including grants of employee options and restricted stock units and modifications to existing options and restricted stock units, to be recognized in the consolidated statements of operations and comprehensive loss based on their grant date fair values. We account for equity awards to non-employees in accordance with FASB ASC Topic 505-50, Equity-Based Payments to Non-Employees, which requires the fair value of an award to non-employees be remeasured at fair value as the award vests. All equity awards granted prior to the IPO were subject to two vesting triggers: a service period (typically five years) and a performance condition (a liquidity event in the form of either a change of control or an initial public offering, each as defined in the Amended Plan). Employees were able to retain provisionally vested stock options and shares upon departure. We determined that a liquidity event was not probable until the closing of our IPO on October 7, 2014, and as such, no expense was recognized until that date. After the IPO awards for employees still providing service will continue to vest over the remaining service period. In the fourth quarter of 2014 we recorded $57.7 million of equity based compensation and related employer taxes; the service period for the majority of this expense was satisfied prior to the IPO. Since April 2011, we have only granted restricted stock units and have not granted any stock options or restricted stock. Since our IPO, restricted stock unit values are determined based on the quoted market price of our common stock on the date of grant.

Until our IPO, our estimated fair value of our common stock was determined by our board. We have periodically determined for financial reporting purposes the estimated fair value of our common stock at various dates using contemporaneous valuations performed in accordance with the guidance outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held Company Equity Securities Issued as Compensation, also known as the Practice Aid. We generally used the income and market approaches prescribed in the Practice Aid, in particular the income approach's discounted cash flow method, which was based on our projections and estimated discount rate and the guideline public company, guideline transactions and precedent transaction methodologies, based on inputs from comparable public companies' equity valuations, comparable acquisition transactions and transactions in our own equity securities, to estimate the enterprise value of our company. We performed these contemporaneous valuations as of December 31, 2011, June 30, 2012, December 31, 2012, June 30, 2013, September 30, 2013, December 31, 2013, March 31, 2014 and June 30, 2014. The assumptions underlying these valuations represent management's best estimates, which involve inherent uncertainties and the application of management judgment. As a result, if factors or expected outcomes change and we use significantly different assumptions or estimates, our equity-based compensation could be materially different.

In connection with the preparation of the financial statements for the year ended December 31, 2013, we undertook a retrospective reassessment of the fair market value of our common stock for certain of our 2013 grants for financial reporting purposes. As part of that reassessment, we determined that the grant date fair values of our May, August and November 2013 grants to be $6.46, $10.88 and $20.87, respectively. Our fair value previously determined at various valuation dates increased substantially in 2013 and there was no particular transaction or event that caused this increase. The grants made in May, August and November 2013 were between the dates when we performed our valuations. Accordingly, we calculated grant date fair value for these grants on a linear basis between each valuation date and believe it to be a reasonable method. Similarly, in connection with the preparation of the financial statements for the quarter ended September 30, 2014, we undertook a retrospective reassessment of the fair market value of our common stock for our grants made in September 2014 to be equal to our October 2, 2014 IPO price of $29.00.

Inventory

Inventories consisting of finished goods are stated at the lower of cost or market, determined by the first-in, first-out (FIFO) method, and consist of merchandise for resale. This valuation requires us to make judgments based on currently-available information about the likely method of disposition, such as through sales to individual customers, liquidations, and expected recoverable values of each disposition category.

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Recent Accounting Pronouncements

For information about recent accounting pronouncements, see Note 2, Summary of Significant Accounting Policies, included in Part II, Item 8, Consolidated Financial Statements, of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business, including the effects of foreign currency fluctuations, interest rate changes and inflation. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

Interest Rate Sensitivity

Cash and cash equivalents and short-term and long-term investments were held primarily in cash deposits, certificates of deposit, money market funds, and corporate debt. The fair value of our cash, cash equivalents and short-term and long-term investments would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of these instruments. Interest on the revolving line of credit incurred pursuant to the credit agreement described above would accrue at a floating rate based on a formula tied to certain market rates at the time of incurrence; however, we do not expect that any change in prevailing interest rates will have a material impact on our results of operations.

Foreign Currency Risk

Most of our sales are denominated in U.S. dollars, and therefore, our revenue is not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, and may be subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound, and Euro. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions.

Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Wayfair Inc.
We have audited the accompanying consolidated balance sheets of Wayfair Inc. (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wayfair Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Wayfair Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 29, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Boston, Massachusetts
February 29, 2016

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WAYFAIR INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 31, 2015	2014
Assets		
Current assets		
Cash and cash equivalents	$334,176	$355,859
Short-term investments	51,895	60,000
Accounts receivable, net of allowance of $2,767 and $2,545 at December 31, 2015 and December 31, 2014, respectively	9,906	5,949
Inventories	19,900	19,798
Prepaid expenses and other current assets	76,446	45,262
Total current assets	492,323	486,868
Property and equipment, net	112,325	60,639
Goodwill and intangible assets, net	3,702	6,478
Long-term investments	79,883	—
Other noncurrent assets	6,348	1,538
Total assets	$694,581	$555,523
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$270,913	$147,873
Accrued expenses	51,560	42,335
Deferred revenue	50,884	26,784
Other current liabilities	23,669	15,600
Total current liabilities	397,026	232,592
Other liabilities	55,010	17,392
Total liabilities	452,036	249,984
Commitments and contingencies (Note 7)		
Convertible preferred stock, $0.001 par value per share: 10,000,000 shares authorized and none issued at December 31, 2015 and December 31, 2014	—	—
Stockholders’ equity:		
Class A common stock, par value $0.001 per share, 500,000,000 shares authorized, 45,814,237 and 37,002,874 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively	46	37
Class B common stock, par value $0.001 per share, 164,000,000 shares authorized, 38,496,562 and 46,179,192 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively	38	46
Additional paid-in capital	378,162	363,944
Accumulated deficit	(135,565)	(58,122)
Accumulated other comprehensive loss	(136)	(366)
Total stockholders’ equity	242,545	305,539
Total liabilities and stockholders’ equity	$694,581	$555,523

The accompanying notes are an integral part of these Consolidated Financial Statements.

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WAYFAIR INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Net revenue	$2,249,885	$1,318,951	$915,843
Cost of goods sold	1,709,161	1,007,853	691,602
Gross profit	540,724	311,098	224,241
Operating expenses:			
Customer service and merchant fees	81,230	55,804	35,500
Advertising	278,224	191,284	108,469
Merchandising, marketing and sales	106,149	80,113	33,506
Operations, technology, general and administrative	155,580	130,701	62,246
Amortization of acquired intangible assets	891	980	539
Total operating expenses	622,074	458,882	240,260
Loss from operations	(81,350)	(147,784)	(16,019)
Interest income, net	1,284	350	245
Other income (expense), net	2,718	(489)	294
Loss before income taxes	(77,348)	(147,923)	(15,480)
Provision for income taxes	95	175	46
Net loss	(77,443)	(148,098)	(15,526)
Accretion of convertible redeemable preferred units	—	(2,071)	(25,388)
Net loss attributable to common stockholders	$(77,443)	$(150,169)	$(40,914)
Net loss attributable to common stockholders per share, basic and diluted	$(0.92)	$(2.97)	$(0.99)
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted	83,726	50,642	41,332

The accompanying notes are an integral part of these Consolidated Financial Statements.

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WAYFAIR INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Net loss	$(77,443)	$(148,098)	$(15,526)
Other comprehensive loss:			
Foreign currency translation adjustments	532	(38)	(390)
Net unrealized loss on available-for-sale investments	(302)	—	—
Comprehensive loss	$(77,213)	$(148,136)	$(15,916)

The accompanying notes are an integral part of these Consolidated Financial Statements.

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WAYFAIR INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Series A Convertible Redeemable Preferred Units	Series A Convertible Redeemable Members' Equity	Series B Convertible Redeemable Preferred Units	Series B Convertible Redeemable Members' Equity	Common Units	Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' (Deficit) Equity
						Shares	Amount				
Balance at December 31, 2012	21,552	$215,798	—	$—	44,819	—	$—	$—	$(151,192)	$62	$(151,130)
Net loss	—	—	—	—	—	—	—	—	(15,526)	—	(15,526)
Cumulative translation adjustment	—	—	—	—	—	—	—	—	—	(390)	(390)
Accretion of Series A convertible redeemable preferred units	—	25,388	—	—	—	—	—	—	(25,388)	—	(25,388)
Forfeiture of unvested units	—	—	—	—	(56)	—	—	—	—	—	—
Equity issued as part of acquisition, net	—	—	—	—	141	—	—	—	1,194	—	1,194
Equity compensation expense	—	—	—	—	—	—	—	—	62	—	62
Balance at December 31, 2013	21,552	241,186	—	—	44,904	—	—	—	(190,850)	(328)	(191,178)
Net loss	—	—	—	—	—	—	—	—	(148,098)	—	(148,098)
Cumulative translation adjustment	—	—	—	—	—	—	—	—	—	(38)	(38)
Issuance of Series B convertible redeemable preferred units, net of issuance costs	—	—	5,995	154,774	—	—	—	—	—	—	—
Accretion of convertible redeemable	—	14,417	—	2,455	—	—	—	—	(16,872)	—	(16,872)

preferred units											
Reduction of carrying value of convertible redeemable preferred stock	—	(14,801)	—	—	—	—	—	—	14,801	—	14,801
Conversion of convertible redeemable preferred stock to common stock	(21,552)	(201,286)	(5,995)	(1)57,229	—	27,547	28	358,487	—	—	358,515
Conversion from LLC to Corporation	—	—	—	—	(44,904)	44,904	44	(306,229)	306,185	—	—
Issuance of Class A common stock—net of issuance costs	—	—	—	—	—	10,500	10	282,883	—	—	282,893
Forfeiture of unvested units	—	—	—	—	—	(104)	—	—	—	—	—
Repurchase of vested common units	—	—	—	—	—	(203)	—	—	—	—	—
Dividends paid to Series A convertible redeemable preferred unitholders	—	(39,516)	—	—	—	—	—	—	—	—	—
Exercise of options to purchase common stock	—	—	—	—	—	157	—	12	—	—	12
Issuance of common stock upon vesting of RSUs	—	—	—	—	—	2,199	2	—	—	—	2
Shares withheld related to net settlement of RSUs	—	—	—	—	—	(918)	(1)	(27,985)	—	—	(27,986)
Repurchase of common units	—	—	—	—	—	(896)	—	—	(23,500)	—	(23,500)
Return of equity held in escrow as part of acquisition	—	—	—	—	—	(4)	—	—	(49)	—	(49)
	—	—	—	—	—	—	—	56,776	261	—	57,037

Equity compensation expense											
Balance at December 31, 2014	—	—	—	—	—	83,182	83	363,944	(58,122)	(366)	305,539
Net loss	—	—	—	—	—	—	—	—	(77,443)	—	(77,443)
Other comprehensive income	—	—	—	—	—	—	—	—	—	230	230
Exercise of options to purchase common stock	—	—	—	—	—	164	—	495	—	—	495
Issuance of common stock upon vesting of RSUs	—	—	—	—	—	1,515	1	—	—	—	1
Shares withheld related to net settlement of RSUs	—	—	—	—	—	(550)	—	(19,111)	—	—	(19,111)
Equity compensation expense	—	—	—	—	—	—	—	32,834	—	—	32,834
Balance at December 31, 2015	—	$—	—	$—	—	84,311	$84	$378,162	$(135,565)	$(136)	$242,545

The accompanying notes are an integral part of these Consolidated Financial Statements.

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WAYFAIR INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities			
Net loss	$(77,443)	$(148,098)	$(15,526)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	32,446	22,003	13,091
Equity based compensation	31,015	60,809	—
Gain on sale of a business	(2,997)	—	—
Other non-cash adjustments	3,027	570	121
Changes in operating assets and liabilities:			
Accounts receivable	(4,033)	1,741	8,112
Inventories	(131)	(4,835)	(6,630)
Prepaid expenses and other current assets	(29,513)	(20,143)	(9,159)
Accounts payable and accrued expenses	135,855	59,521	40,853
Deferred revenue and other liabilities	47,031	32,616	4,195
Other assets	(136)	(59)	(644)
Net cash provided by operating activities	135,121	4,125	34,413
Cash flows from investing activities			
Purchase of short-term and long-term investments	(207,303)	(135,000)	(93,000)
Sale and maturities of short-term investments	133,596	125,019	65,998
Purchase of property and equipment	(44,648)	(31,855)	(6,739)
Site and software development costs	(17,536)	(14,130)	(9,040)
Cash received from the sale of a business (net of cash sold)	2,860	—	—
Cash paid for acquisition	—	—	(3,741)
Other investing activities, net	(4,697)	531	(469)
Net cash used in investing activities	(137,728)	(55,435)	(46,991)
Cash flows from financing activities			
Taxes paid related to net share settlement of equity awards	(19,111)	(27,985)	—
Net proceeds from exercise of stock options	495	12	—
Net proceeds from issuance of Series B convertible redeemable preferred units	—	154,774	—
Repurchase of common units	—	(23,500)	—
Dividends paid to Series A convertible redeemable preferred holders	—	(39,516)	—
Repurchase of employee equity	—	(5,528)	—
Proceeds from initial public offering, net of fees	—	282,893	—
Net cash (used in) provided by financing activities	(18,616)	341,150	—
Effect of exchange rate changes on cash and cash equivalents	(460)	730	6
Net (decrease) increase in cash and cash equivalents	(21,683)	290,570	(12,572)
Cash and cash equivalents			
Beginning of year	355,859	65,289	77,861
End of year	$334,176	$355,859	$65,289

Supplemental disclosure of non-cash investing activities			
Purchase of property and equipment included in accounts payable and accrued expenses and in other liabilities	$5,258	$7,567	$—
Construction costs capitalized under finance lease obligations	$27,295	$3,960	$—
Issuance of common units in connection with acquisition	$—	$—	$1,194
Supplemental disclosure of non-cash financing activities			
Accretion of preferred unit dividends	$—	$2,071	$25,388

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

1. Basis of Presentation

Wayfair Inc. (the “Company”) is an e-commerce business offering visually inspiring browsing, compelling merchandising, easy product discovery and attractive prices for over seven million products from over 7,000 suppliers across five distinct brands— Wayfair.com, Joss & Main, AllModern, DwellStudio, and Birch Lane. In addition to generating net revenue through Direct Retail sales, which includes all sales generated primarily through the Company’s websites, mobile optimized websites, and mobile applications (“sites”), net revenue is also generated through sites operated by third parties and through third party advertising distribution providers that pay the Company based on the number of advertisement related clicks, actions, or impressions for advertisements placed on the Company’s sites.

The consolidated financial statements and other disclosures contained in this Annual Report on Form 10-K are those of the Company. The Company was incorporated as a Delaware corporation on August 8, 2014. Prior to the effectiveness of Wayfair Inc.'s registration statement on Form S-1 related to its initial public offering ("IPO") in October 2014, Wayfair LLC was the principal operating entity. In connection with the IPO of the Company, Wayfair LLC completed a corporate reorganization pursuant to which Wayfair LLC became a wholly-owned subsidiary of the Company, and the holders of equity interests in Wayfair LLC became stockholders of the Company. The Company accounted for this restructuring in accordance with the guidance provided for entities under common ownership because the holders of the equity interests in Wayfair LLC held the same ownership interests in Wayfair Inc. as they did in Wayfair LLC immediately prior to the corporate reorganization. SK Retail, Inc. was the only holder of equity interest in Wayfair LLC with operations. Accordingly, the historical financial statements of SK Retail, Inc. have been combined with the historical financial statements of Wayfair LLC for the periods presented. In addition, all of our outstanding common units of Wayfair LLC were exchanged for, and all of our incentive units converted into, shares of Class B common stock. In addition, all of outstanding preferred units were exchanged for shares of Series A and Series B convertible preferred stock. Immediately prior to the completion of the IPO, all of our outstanding shares of Series A and Series B convertible preferred stock converted into shares of Class B common stock. In connection with this the Company also reclassified members' deficit of $306.2 million, accumulated under Wayfair LLC, to additional paid in capital.

The consolidated statements of operations, comprehensive loss, and cash flows for the year ended December 31, 2015 are not necessarily indicative of the results of operations and cash flows that may be expected for the year ending December 31, 2016, or for any other period.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements of Wayfair Inc. include its wholly owned subsidiaries including the accounts of Wayfair LLC and its wholly owned subsidiaries (collectively the "Company" or "Wayfair"). All intercompany accounts and transactions have been eliminated. Below is a summary of the wholly-owned subsidiaries of the Company with operations:

Subsidiary	Location
Wayfair LLC	USA
Wayfair Securities Corporation	USA
SK Retail, Inc.	USA
Wayfair Stores Limited	Republic of Ireland
Wayfair (UK) Limited	United Kingdom
Wayfair GmbH	Germany
Wayfair (BVI) Ltd.	British Virgin Islands

Notes to Consolidated Financial Statements (Continued)

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. On an ongoing basis, management evaluates these estimates and judgments, including those related to revenue recognition, capitalization of site and software development costs, stock-based compensation, and inventory. Actual results could differ from those estimates.
Cash and Cash Equivalents
The Company considers all highly liquid investments purchased with an original maturity (at the date of purchase) of three months or less to be the equivalent of cash for the purpose of consolidated balance sheets and statements of cash flows presentation. Cash equivalents, which consist primarily of money market accounts, are carried at cost, which approximates market value.
Restricted Cash
As of December 31, 2015 and 2014, there was $5.0 million and $0.3 million, respectively, of cash that was restricted from withdrawal and held by banks to guarantee the Company's letters of credit issued principally for certain vendor arrangements and to secure certain property leases, respectively.
Short-Term Investments
Short-term investments consist of certificates of deposits and marketable securities with original maturities of greater than three months and mature in less than twelve months.
Accounts Receivable
Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Company estimates the allowance for doubtful accounts based on historical losses, existing economic conditions, and other information available at the consolidated balance sheets dates. Uncollectible amounts are written off against the allowance after all collection efforts have been exhausted.
Marketable Securities
The Company classifies its marketable securities as “available-for-sale” securities. Available-for-sale securities are classified as short term investments and long-term investments on the consolidated balance sheets and are carried at fair value. Unrealized gains and losses on available-for-sale securities that are considered temporary are recorded, net of taxes, in the “Accumulated other comprehensive loss” caption of the Company’s consolidated balance sheets. Unrealized losses, excluding losses related to the credit rating of the security (credit losses), on available-for-sale securities that are considered other-than-temporary but relate to securities that the Company (i) does not intend to sell and (ii) will not be required to sell below cost are also recorded, net of taxes, in “Accumulated other comprehensive loss.” Further, the Company does not believe it will be required to sell such securities below cost. Therefore, the only other-than-temporary losses the Company records in “Other income, net” in its consolidated statements of operations are related to credit losses. As of December 31, 2015, the Company’s available-for-sale securities consisted of investment securities. The maturities of the Company’s long-term marketable securities generally range from one to three years. As of December 31, 2015, the Company’s available-for-sale securities primarily consisted of corporate bonds and other government obligations that are priced at fair value.
Fair Value of Financial Instruments
The Company's financial assets and liabilities are measured at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The three levels of inputs used to measure fair value are as follows:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are

observable or can be corroborated by observable market data for substantially the full-term of the asset or liability

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability

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This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The Company measures its cash equivalents and short-term and long-term investments at fair value. The Company classifies its cash equivalents and restricted cash within Level 1 because the Company values these investments using quoted market prices. The fair value of the Company's Level 1 financial assets is based on quoted market prices of the identical underlying security. The Company classifies short-term and long-term investments within Level 2 because unadjusted quoted prices for identical or similar assets in markets are not active. The Company does not have any assets or liabilities classified as Level 3 financial assets. Refer to Note 3, Fair Value Measurements, for additional detail.

Concentrations of Credit Risk

Financial instruments that subject the Company to credit risk consist of cash and cash equivalents, short-term and long-term investments, and accounts receivable. The risk with respect to cash and cash equivalents and short-term and long-term investments is minimized by the Company's policy of investing in financial instruments (i.e., cash equivalents) with near-term maturities issued by highly rated financial institutions. At times, these balances may exceed federally insured limits; however, to date, the Company has not incurred any losses on these investments. As of December 31, 2015 and 2014, the Company had $3.9 million and $2.1 million, respectively, in banks located outside the United States. The risk with respect to accounts receivable is managed by the Company through its policy of monitoring the creditworthiness of its customers to which it grants credit terms in the normal course of business.

Leases

The Company leases office space in several countries around the world under non-cancelable lease agreements. The Company generally leases its office facilities under operating lease agreements. Office facilities subject to an operating lease and the related lease payments are not recorded on the balance sheet. The terms of certain lease agreements provide for rental payments on a graduated basis, however, the Company recognizes rent expense on a straight-line basis over the lease period in accordance with authoritative accounting guidance. Any lease incentives are recognized as reductions of rental expense on a straight-line basis over the term of the lease. The lease term begins on the date the Company becomes legally obligated for the rent payments or when it takes possession of the office space, whichever is earlier.

The Company establishes assets and liabilities for the estimated construction costs incurred under lease arrangements where the Company is considered the owner for accounting purposes only, or build-to-suit leases, to the extent the Company is involved in the construction of structural improvements or take construction risk prior to commencement of a lease. Upon occupancy of facilities under build-to-suit leases, the Company assesses whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If the Company continues to be the deemed owner, the facilities are accounted for as financing leases.

Foreign Currency Translation

The functional currency of the Company is the United States dollar, while the functional currency of certain wholly-owned subsidiaries outside of the United States is as follows:

Subsidiary	Currency
Wayfair Stores Limited	Euro
Wayfair (UK) Limited	Pound sterling
Wayfair GmbH	Euro
Wayfair (BVI) Ltd.	Euro

The financial statements of the Company are translated to United States dollars using year-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transaction occurred. The effects of foreign currency translation are included in other comprehensive loss in the consolidated statements of comprehensive loss. Transaction gains and losses are included in the Company's consolidated statements of operations. Translation adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive loss within

total stockholders' equity.

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Notes to Consolidated Financial Statements (Continued)

Inventories

Inventories consisting of finished goods are stated at the lower of cost or market, determined by the first-in, first-out (FIFO) method, and consist of product for resale. Inventory costs consist of cost of product and inbound shipping and handling costs. Inventory costs also include direct and indirect labor costs, rents and depreciation expenses associated with the Company's fulfillment centers. Inventory valuation requires the Company to make judgments, based on currently-available information, about the likely method of disposition, such as through sales to individual customers, liquidations, and expected recoverable values of each disposition category.

Goods In-Transit

Goods in-transit directly from suppliers to customers are recorded in prepaid expenses and other current assets. Risk of loss and the transfer of title from the supplier to the Company occur at freight on board shipping point. As of December 31, 2015 and 2014, goods in-transit amounted to $34.1 million, and $19.6 million, respectively.

Property and Equipment

Property and equipment are stated at cost, net of depreciation and amortization. Depreciation and amortization on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Class	Range of Life (In Years)
Furniture and computer equipment	3 to 7
Site and software development costs	2
Leasehold improvements	The lesser of useful life or lease term

Site and Software Development Costs

The Company capitalizes costs associated with the development of its sites and internal-use software products after the preliminary project stage is complete and until the software is ready for its intended use. The capitalized costs are amortized over a two-year period. Costs incurred in the preliminary stages of development, after the software is ready for its intended use and for maintenance of internal-use software are expensed as incurred. Upgrade and enhancements are capitalized to the extent they will result in added functionality.

Total costs capitalized, net of accumulated amortization, totaled $18.1 million and $14.2 million as of December 31, 2015 and 2014, respectively, and are included in property and equipment, net in the accompanying consolidated balance sheets. Amortization expense for the years ended December 31, 2015, 2014 and 2013 were $15.3 million, $9.9 million, and $7.0 million, respectively. Capitalized site and software development costs are included in property and equipment within our consolidated balance sheets.

Goodwill

Goodwill represents the excess of cost over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed. Goodwill is not amortized, but is subject to an annual impairment test, or more frequently as impairment indicators arise.

The Company tests goodwill for impairment at least annually. The Company reviews goodwill for impairment on the last day of its fiscal year and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. The assessment is performed at the reporting unit level. The Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the two-step impairment test is not required. If the qualitative assessment requires the Company to perform the two-step goodwill impairment test to identify potential goodwill impairment, then the first step is to compare the fair value of the reporting unit to the book value including goodwill. If the fair value of the reporting unit exceeds the book value, goodwill is not impaired. If the book value exceeds the fair value,

the second step of the process is performed to measure the amount of impairment.

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Notes to Consolidated Financial Statements (Continued)

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances, such as service discontinuance or technological obsolescence, indicate that the carrying amount of the long-lived asset may not be recoverable. When such events occur, the Company compares the carrying amount of the asset to the undiscounted expected future cash flows related to the asset. If the comparison indicates that an impairment exists, the amount of the impairment is calculated as the difference between the excess of the carrying amount over the fair value of the asset. If a readily determinable market price does not exist, fair value is estimated using discounted expected cash flows attributable to the asset. For the years ended December 31, 2015, 2014 and 2013, no impairment of long-lived assets or identifiable intangibles had been indicated.

Revenue Recognition

The Company generates net revenue through product sales generated primarily through the sites of the Company's five distinct brands and through sites operated by third parties.

The Company recognizes revenue only when the following four criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured. The Company recognizes net revenue from sales of its products, upon delivery to the customer. The Company records product revenue at the gross amount as the Company is the primary obligor with the customer and provides the primary customer service for all products sold on its sites, has latitude in establishing price and selecting products sold on its sites, has discretion in selecting suppliers of products sold on its sites, maintains inventory risk from shipment through delivery date and upon accepting returns, and has credit risk. Net revenue includes shipping costs charged to the customer and is recorded net of taxes collected from customers, which are remitted to governmental authorities. Cash discounts, returns and rebates are deducted from gross revenue in determining net revenue. In addition, the Company defers revenue when cash is collected from its customer prior to the satisfaction of the revenue recognition criteria.

The Company maintains a membership rewards program that allows enrolled customers to earn points which can be redeemed for future purchases. The Company defers a portion of its revenue associated with rewards that are ultimately expected to be redeemed prior to expiration.

The Company also earns revenue through third-party advertisers that pay based on the number of advertisement related clicks, actions, or impressions for advertisements placed on the Company's sites. Revenue earned under these arrangements is included in net revenue and is recognized in the period in which the click, action, or impression occurs.

Vendor Rebates

The Company earns rebates under a volume incentive programs with its suppliers. These rebates are earned upon shipment of goods. Amounts earned and due from suppliers under these rebate programs are included in other current assets on the consolidated balance sheets and are reflected as a reduction of cost of goods sold on the consolidated statements of operations. Vendor allowances received by the Company reduce the carrying cost of inventory and are recognized in cost of goods sold when the related inventory is sold.

Costs of Goods Sold

Cost of goods sold consists of the cost of product sold to customers, shipping and handling costs and shipping supplies and fulfillment costs. Fulfillment costs include costs incurred in operating and staffing the fulfillment centers, such as costs attributed to receiving, inspecting, picking, packaging and preparing customer orders for shipment. Cost of goods sold also includes direct and indirect labor costs for fulfillment center oversight, including payroll and related benefit costs.

Advertising Costs

Expenditures for advertising are expensed in the period that the advertising first takes place. Advertising expense amounted to approximately $278.2 million, $191.3 million, and $108.5 million in the years ended December 31, 2015, 2014, and 2013, respectively. Included in prepaid expenses at December 31, 2015 and 2014 are approximately $1.2

million and $0.6 million, respectively, of prepaid advertising costs.

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Notes to Consolidated Financial Statements (Continued)

Merchant Processing Fees

Merchant processing fees totaling $46.9 million, $27.6 million, and $19.4 million in the years ended December 31, 2015, 2014, and 2013, respectively, are included in customer service and merchant fees expense in the accompanying consolidated statements of operations. These fees are charged by third parties that provide merchant processing services for credit cards and debit cards.

Retail Partner Fees

The Company sells its products through sites owned and operated by third-party online retailers, or retail partners. The Company pays a fee for sales generated through these sites and records them as merchant processing fees and advertising costs. Retail partner fees included in merchant processing fees are $3.5 million, $4.4 million, and $4.3 million for the years ended December 31, 2015, 2014, and 2013, respectively. Retail partner fees included in advertising costs are $20.2 million, $24.3 million, and $25.2 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Equity-Based Compensation

The Company accounts for its equity-based compensation awards in accordance with ASC Topic 718, Compensation—Stock Compensation ("ASC 718"). ASC 718 requires all equity-based payments to employees, to be recognized as expense in the statements of operations based on their grant date fair values. The Company has granted stock options, restricted shares and restricted stock units. Since April 2011, the Company has only granted restricted stock units and has not granted any stock options or restricted stock. Restricted stock unit values are determined based on the quoted market price of our Class A common stock on the date of grant. The Company accounts for equity awards to non-employees in accordance with FASB ASC Topic 505-50, Equity-Based Payments to Non-Employees, which requires the fair value of an award to non-employees be remeasured at fair value as the award vests.

The Company estimated the grant date fair value of each common stock option award using the Black-Scholes option-pricing model. The use of the Black-Scholes option-pricing model required management to make assumptions with respect to the expected term of the option, the expected volatility of the common stock consistent with the expected life of the option, risk-free interest rates and expected dividend yields of the common stock. Until its IPO in October 2014, the fair value of restricted stock and restricted stock units on the date of grant was determined by the board. Since April 2011, the Company has only granted restricted stock units and has not granted any stock options or restricted stock. Since our IPO, restricted stock unit values are determined based on the quoted market price of our common stock on the date of grant.

Prior to the IPO the Company periodically determined for financial reporting purposes the estimated fair value of our common stock at various dates using contemporaneous valuations performed in accordance with the guidance outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately Held Company Equity Securities Issued as Compensation, also known as the Practice Aid. The Company generally used the income and market approaches prescribed in the Practice Aid, in particular the income approach's discounted cash flow method, which was based on the Company's projections and estimated discount rate and the guideline public company, guideline transactions and precedent transaction methodologies, based on inputs from comparable public companies' equity valuations, comparable acquisition transactions and transactions in the Company's own equity securities, to estimate the enterprise value of the company.

In connection with the preparation of the financial statements for the year ended December 31, 2013, the Company undertook a retrospective reassessment of the fair market value of its common stock for certain of its 2013 grants for financial reporting purposes. As part of that reassessment, the Company determined that the grant date fair values of its May, August and November 2013 grants to be $6.46, $10.88 and $20.87, respectively. The fair value previously determined at various valuation dates increased substantially in 2013 and there was no particular transaction or event that caused this increase. The grants made in May, August and November 2013 were between the dates when the Company performed its valuation. Accordingly, the Company calculated grant date fair value for these grants on a linear basis between each valuation date and believe it to be a reasonable method. Similarly, in connection with the

preparation of the financial statements for the quarter ended September 30, 2014, the Company undertook a retrospective reassessment of the fair market value of our common stock for our grants made in September 2014 to be equal to our October 2, 2014 IPO price of $29.00.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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Notes to Consolidated Financial Statements (Continued)

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records valuation allowances to reduce deferred income tax assets to the amount that is more likely than not to be realized. The Company determines whether it is more likely than not that a tax position will be sustained upon examination. If it is not more likely than not that a position will be sustained, no amount of benefit attributable to the position is recognized. The tax benefit to be recognized of any tax position that meets the more likely than not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the contingency.

Prior to the IPO, the Company's main operating entity had not been subject to U.S. federal income taxes as it was organized as a limited liability company. As such, the taxable income or loss was passed through to and included in the tax returns of the members. The Company was subject to entity level taxation in certain states, and certain domestic and foreign subsidiaries were subject to entity level U.S. and foreign income taxes. As a result of the internal restructuring prior to the IPO, a portion of the Company's income will be subject to U.S. federal, state, local, and foreign income taxes and taxed at the prevailing corporate tax rates.

Net Loss Attributable to Common Stockholders Per Share

The Company follows the two-class method when computing net loss attributable to common stockholders per share as the Company had issued shares that meet the definition of participating securities which converted to common stock upon the IPO. Prior to the corporate reorganization, the Company's convertible redeemable preferred units contractually entitled the holders of such units to participate in dividends, but did not contractually require the holders of such units to participate in losses of the Company. Accordingly, in periods prior to 2014 in which the Company reports a net loss or a net loss attributable to common stockholders resulting from preferred stock dividends or accretion, net losses are not allocated to participating securities. After the IPO the Company has continued to follow the two-class method because it has issued two classes of common stock—Class A and Class B.

Basic net income (loss) attributable to common stockholders per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of common stock outstanding for the period. For periods in which the Company has reported net losses, diluted net loss per share attributable to common shareholders is the same as basic net loss per share attributable to common stockholders, since dilutive common stock are not assumed to have been issued if their effect is anti-dilutive.

Subsequent Events

The Company considers events or transactions that have occurred after the balance sheet date of December 31, 2015, but prior to the filing of the financial statements with the U.S. Securities and Exchange Commission, to provide additional evidence relative to certain estimates or to identify matters that require additional recognition or disclosure. Subsequent events have been evaluated through the filing of these financial statements.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases" ("ASU 2016-02"). This ASU revises the accounting related to leases by requiring lessees to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions. This ASU is effective for annual reporting periods beginning after December 15, 2018 and early adoption is permitted. Management is currently evaluating the impact of the adoption of this ASU on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The standard requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. The Company early adopted its provisions during fiscal year 2015 on a prospective basis. Accordingly, as permitted by ASU 2015-17, the current deferred taxes have been classified as noncurrent on the Balance Sheet. The prospective adoption of ASU 2015-17

does not require a restatement of prior year balances; as such, they have not been adjusted.
In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements, Going Concern." ("ASU 2014-15"). ASU-2014-15 will explicitly require management to assess an entity’s ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period

ending after December 15, 2016 and earlier adoption is permitted. Management does not expect that the application of ASU 2014-15 will have an impact on the Company’s financial condition, results of operations or cash flows.
In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, the Company will adopt this ASU on January 1, 2017. Management is currently evaluating which transition approach to use and the impact of the adoption of this ASU on the Company’s financial condition, results of operations or cash flows.
3. Marketable Securities and Fair Value Measurements
Marketable Securities
As of December 31, 2015, all of the Company’s marketable securities were classified as available-for-sale and their estimated fair values were $96.8 million The Company did not hold any available-for-sale securities at December 31, 2014.

The following table presents details of the Company’s marketable securities as of December 31, 2015 (in thousands):

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term:				
Investment securities	$16,908	$—	$(13)	$16,895
Long-term:				
Investment securities	80,172	2	(291)	79,883
Total	$97,080	$2	$(304)	$96,778

Fair Value Measurements
The following tables set forth the fair value of the Company's financial assets measured at fair value on a recurring basis as of December 31, 2015 and 2014 based on the three-tier value hierarchy (in thousands):

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$267,300	$—	$—	$267,300
Short-term investments:				
Certificates of deposit	35,000	—	—	35,000
Investment securities	—	16,895	—	16,895
Restricted cash:				
Certificate of deposit	5,000	—	—	5,000
Long-term:				
Investment securities	—	79,883	—	79,883
Total	$307,300	$96,778	$—	$404,078

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Notes to Consolidated Financial Statements (Continued)

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$302,595	$—	$—	$302,595
Short-term investments:				
Certificates of deposit	60,000	—	—	60,000
Restricted cash:				
Money market funds	302	—	—	302
Total	$362,897	$—	$—	$362,897

4. Intangible assets and Goodwill

The following table summarizes intangible assets as of December 31, 2015 and 2014 (in thousands):

	Weighted-Average Amortization Period (Years)	December 31, 2015 Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trademarks	5	$1,900	$(918)	$982
Customer relationships	5	1,300	(628)	672
Non-compete agreements	3 - 5	100	(81)	19
Other intangibles	3	373	(270)	103
Domain names	5	2,687	(2,685)	2
Total		$6,360	$(4,582)	$1,778

	Weighted-Average Amortization Period (Years)	December 31, 2014 Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trademarks	5	$2,001	$(604)	$1,397
Customer relationships	5	1,300	(368)	932
Non-compete agreements	3 - 5	108	(52)	56
Technology	5	718	(467)	251
Other intangibles	3	373	(158)	215
Domain names	5	2,687	(2,684)	3
Total		$7,187	$(4,333)	$2,854

Amortization expense related to intangible assets was $0.9 million, $1.0 million, and $0.5 million for the years ended December 31, 2015 and 2014, and 2013, respectively. The estimated future amortization expense of purchased intangible assets as of December 31, 2015, is as follows (in thousands):

	Total
2016	$765
2017	640
2018	373
Thereafter	—
Total	$1,778

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Notes to Consolidated Financial Statements (Continued)

The following table presents the changes in goodwill during the years ended December 31, 2015 and 2014, respectively (in thousands):

	Net Book Value
Goodwill as of December 31, 2014	$3,624
Sale during the period	(1,520)
Foreign currency exchange rate effect	(180)
Goodwill as of December 31, 2015	$1,924

In July 2015, the Company sold its Australian business. At the time of the sale, the net carrying amounts of the goodwill and intangible assets of the Australian business were $1.5 million and $0.2 million, respectively. The proceeds from the sale exceeded the carrying value of the Australian business, resulting in a $3.0 million gain, recorded in "Other income (expense), net" in the unaudited consolidated statements of operations.

5. Property and Equipment, net

The following table summarizes property and equipment, net as of December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	2014
Furniture and computer equipment	$68,416	$48,399
Site and software development costs	50,907	36,294
Leasehold improvements	29,315	14,290
Construction in progress	27,563	4,800
	176,201	103,783
Less accumulated depreciation and amortization	(63,876)	(43,144)
Property and equipment, net	$112,325	$60,639

Property and equipment depreciation and amortization expense was $31.6 million, $20.8 million, and $12.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

6. Prepaid Expenses and Other Current Assets, Accrued Expenses and Other Liabilities

The following table presents the components of selected balance sheet items as of December 31, 2015 and 2014 (in thousands):

	December 31,	
Prepaid expenses and other current assets:	2015	2014
Deferred costs in transit	$34,102	$19,621
Supplier receivable	17,316	9,507
Supplier credits receivable	7,344	3,989
Other prepaid and other current assets	17,684	12,145
Total prepaid expenses and other current assets	$76,446	$45,262

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Notes to Consolidated Financial Statements (Continued)

	December 31,	
Accrued expenses:	2015	2014
Employee compensation and related benefits	$24,928	$15,244
Advertising	6,695	9,561
Accrued property, plant and equipment	3,069	7,151
Credit card	6,621	3,560
Audit, legal and professional fees	2,326	898
Other accrued expenses	7,921	5,921
Total accrued expenses	$51,560	$42,335

	December 31,	
Other liabilities:	2015	2014
Deferred rent	$24,669	$12,821
Construction costs capitalized under finance lease obligations	27,295	3,960
Other liabilities	3,046	611
Total other liabilities	$55,010	$17,392

7. Commitments and Contingencies

Leases

The Company maintains its principal offices in Boston, Massachusetts and fulfillment center, customer service center and office space in various locations throughout the United States and abroad. Future minimum rental commitments under non-cancelable leases with initial or remaining terms in excess of one year at December 31, 2015 were as follows (in thousands):

	Amount
2016	$21,131
2017	27,871
2018	28,986
2019	27,497
2020	26,006
Thereafter	109,071
Total	$240,562

Rent expense under operating leases was $16.3 million, $11.4 million, and $4.6 million in the years ended December 31, 2015, 2014 and 2013, respectively. The Company has issued letters of credit for approximately $5.9 million as security for these lease agreements as of December 31, 2015.

Future lease payments have not been reduced by minimum sublease rentals of $3.2 million due to the Company in the future under non-cancelable subleases through 2017. The Company has entered into additional leases throughout the United States subsequent to December 31, 2015, where the future minimum rental commitments under non-cancelable leases with initial or remaining terms in excess of one year are $12.7 million in the aggregate.

Restricted Cash

The Company has deposited $5.0 million and $0.3 million with Bank of America as collateral for letters of credit and has classified these amounts as “Other noncurrent assets” on its consolidated balance sheets at December 31, 2015 and 2014, respectively.

Collection of Sales or Other Similar Taxes

Based on the location of the Company’s current operations, it collects and remits sales tax in Kentucky, Massachusetts, New York, Utah, and California. The Company does not currently collect sales or other similar taxes for the sale of goods in states where no obligation to collect these taxes is required under applicable law. Several states have presented the Company with assessments, alleging that it is required to collect and remit sales or other similar taxes. The aggregate amount of claims from these states, not including taxes allegedly owed for periods subsequent to such assessments or interest and penalties after the date the Company last received such assessments, is approximately $12.9 million. The Company does not believe that it was obligated to collect and remit such taxes, and intends to vigorously defend its position. At this time, the Company believes a loss is not probable and therefore has not recorded a liability; however, no assurance can be given as to the outcome of these assessments.

Legal Matters

On September 2, 2015, a putative class action complaint was filed against the Company in the U.S. District Court for the Southern District of New York (Dingee v. Wayfair Inc., et al., Case No. 1:15-cv-06941) by an individual on behalf of himself and on behalf of all other similarly situated individuals, or collectively, the Dingee Plaintiffs, under sections 10(b) and 20(a) of the Exchange Act related to a drop in stock price that had followed a report issued by Citron Research. On September 3, 2015 a second putative class action complaint was filed, asserting nearly identical claims (Jenkins v. Wayfair Inc., et al., Case No. 1:15-cv-06985). On November 2, 2015, the plaintiff in the Dingee action moved to consolidate the two lawsuits, and to designate himself as lead plaintiff in the class action and his attorney as lead counsel for the class. On November 3, 2015 plaintiff in the Jenkins action voluntarily dismissed his complaint. As a result, only the Dingee action remains pending. On November 13, 2015, the Court appointed Dingee as lead plaintiff. On January 11, 2016, Dingee filed an amended complaint along with a second named plaintiff, Michael Lamp. The Dingee Plaintiff’s complaint seeks class certification, damages in an unspecified amount, and attorney’s fees and costs. The Company believes a loss is not probable and intends to defend the lawsuit vigorously.

On February 2, 2016, a putative class action complaint was filed against the Company in the U.S. District Court for the Central District of California (Carson, et al., v. Wayfair Inc., Case No. 2:16-cv-00716) by two individuals on behalf of themselves and on behalf of all other similarly situated individuals (collectively, the "Carson Plaintiffs"). The complaint alleges that Wayfair engaged in a deceptive marketing campaign in which the Company advertised certain “original” or “regular” retail prices, which the Carson Plaintiffs allege were false. The Carson Plaintiffs’ complaint seeks injunctive relief, attorney’s fees, punitive damages and damages. The Company believes a loss is not probable and intends to defend the lawsuit vigorously.

The Company is subject to legal proceedings and claims in the ordinary course of business. However, the Company is not currently aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the Company’s financial position, results of operations or cash flows.

8. Employee Benefit Plans

The Company has a defined-contribution, incentive savings plan pursuant to Section 401(k) of the Internal Revenue Code. The plan covers all full-time employees who have reached the age of 21 years. Employees may elect to defer compensation up to a dollar limit (as allowable by the Internal Revenue Code), of which up to 4% of an employee's salary will be matched by the Company. The amounts deferred by the employee and the matching amounts contributed by the Company both vest immediately. The amount expensed under the plan totaled approximately $3.3 million, $2.4 million, and $1.8 million in the years ended December 31, 2015, 2014 and 2013, respectively.

9. Equity-Based Compensation

In 2010, the Company established an equity incentive plan and, in 2011, the plan was amended and restated as the Wayfair LLC Amended and Restated 2010 Common Unit Plan (the “2010 Plan”). The 2010 Plan was administered by the board of directors of Wayfair LLC and provided for the issuance of common option units, restricted common units (all common units), and deferred units, which currently represent Class A or Class B common stock of the Company.

In connection with the IPO, the board of directors of the Company adopted the 2014 Incentive Award Plan ("2014 Plan") to grant cash and equity incentive awards to eligible service providers in order to attract, motivate and retain the talent for which the Company competes. The 2014 Plan is administered by the board of directors of the Company with respect to awards to non-employee directors and by the compensation committee with respect to other participants and provides for the issuance of stock options, SARs, restricted stock, RSUs, performance shares, stock payments, cash payments, dividend awards and other incentives. The 2014 Plan authorizes up to 8,603,066 shares of Class A common stock to be issued, of which RSUs for 3,098,159 shares had

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Notes to Consolidated Financial Statements (Continued)

been issued as of December 31, 2015. Shares or RSUs forfeited, withheld for minimum statutory tax obligations, and unexercised stock option lapses from the 2010 and 2014 Plans are available for grants of awards under the 2014 Plan. All equity awards granted prior to the IPO were subject to two vesting triggers: a service period (typically five years) and a performance condition (a liquidity event in the form of either a change of control or an initial public offering, each as defined in the 2010 Plan). Employees were able to retain provisionally vested stock options and shares upon departure. The Company determined that a liquidity event was not probable until the closing of its IPO on October 7, 2014, and as such, no expense was recognized until that date. After the IPO awards for employees still providing service will continue to vest over the remaining service period. Any future grants of awards are expected to vest over the service period.

In April 2014, the Company completed a tender offer to repurchase provisionally vested (defined as service period completed) stock options and restricted common stock from certain employees at a price of $26.23 per share. A total of 202,757 shares of restricted common stock and 9,028 stock options were tendered for an aggregate of approximately $5.5 million in net cash after adjusting for the exercise prices associated with the stock options. This tender offer was accounted for as a modification resulting in a $5.5 million compensation charge when accepted by the employee in 2014.

A summary of the status and activity for awards of stock options for the year ended December 31, 2015 is as follows:

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 31, 2014	449,046	$ 2.98	6.5
Exercised	(164,590)	$ 2.96	
Forfeited/cancelled	(4,865)	$ 3.19	
Outstanding at December 31, 2015	279,591	$ 2.98	5.5
Exercisable at December 31, 2015	277,937	$ 2.98	5.5
Expected to vest as of December 31, 2015	1,022	$ 3.42	5.5

Intrinsic value of stock options exercised and repurchased was $5.2 million and $4.3 million for the years ended December 31, 2015 and 2014, respectively. Aggregate intrinsic value of stock options outstanding and currently exercisable is $12.5 million and $12.4 million respectively. Unrecognized equity based compensation expense related to stock options expected to vest is less than $0.1 million with a weighted average remaining vesting term of 0.2 years as of December 31, 2015.

A summary of the status and activity for awards of restricted common stock for the year ended December 31, 2015 is as follows:

	Restricted Stock	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2014	161,476	$ 4.75
Vested	(159,483)	$ 4.75
Unvested at December 31, 2015	1,993	$ 4.75
Expected to vest as of December 31, 2015	1,228	$ 4.75

The intrinsic value of restricted common stock vested and repurchased was $4.3 million and $101.5 million for the years ended December 31, 2015 and 2014, respectively. Aggregate intrinsic value of restricted common stock unvested is $0.1 million as of December 31, 2015. Unrecognized equity based compensation expense related to restricted common stock expected to vest is less than $0.1 million with a weighted average remaining vesting term of 0.1 years as of December 31, 2015.

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Notes to Consolidated Financial Statements (Continued)

A summary of the status and activity for awards of RSUs for the year ended December 31, 2015 is as follows:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2014	4,542,231	$ 17.67
Granted	3,098,159	$ 36.91
Vested	(1,514,576)	$ 17.28
Forfeited/cancelled	(517,947)	$ 21.56
Unvested at December 31, 2015	5,607,867	$ 28.30
Expected to vest as of December 31, 2015	4,161,263	$ 28.82

The intrinsic value of RSU vested was $51.6 million and $69.0 million for the years ended December 31, 2015 and 2014, respectively. Aggregate intrinsic value of RSUs unvested is $267.0 million as of December 31, 2015. Unrecognized equity based compensation expense related to RSUs expected to vest is $91.0 million with a weighted average remaining vesting term of 1.7 years as of December 31, 2015.

10. Stockholders' Equity (Deficit)

Series A and Series B Convertible Redeemable Preferred Units of Wayfair LLC

In connection with the corporate reorganization, all of the outstanding Series A and Series B preferred units of Wayfair LLC were exchanged for shares of Series A and Series B convertible preferred stock of Wayfair Inc. Immediately prior to the completion of the IPO, all of the outstanding shares of Series A and Series B convertible preferred stock converted into 27,546,934 shares of Class B common stock of Wayfair Inc.

The Company recognized changes in the redemption value of the convertible redeemable preferred stock immediately as they occurred by adjusting the carrying amount of the redeemable security to what would be the redemption amount assuming the security was redeemable at the balance sheet date. Accordingly, the Company recorded accretion of the Series A convertible preferred stock of $14.4 million credit, $25.4 million, and $12.2 million for the years ended December 31, 2014, 2013, and 2012, respectively. At the time of the conversion of Series A and Series B convertible preferred stock an adjustment of $14.8 million was recorded as a reduction of accretion expense when the carrying value of the convertible redeemable preferred units was reduced to its conversion value. The Company recorded accretion on the Series B redeemable convertible preferred stock of $2.5 million for the year ended December 31, 2014.

Upon the issuance of Series B preferred units by Wayfair LLC in March 2014, the Company distributed $15.0 million in accrued dividends to Series A convertible preferred stock holders and upon the completion of the IPO in October 2014 distributed the remaining accrued dividends of $24.5 million to Series A convertible preferred stock holders.

Preferred Stock

Upon the closing of the IPO in October 2014, the Company authorized 10,000,000 shares of undesignated preferred stock, $0.001 par value per share, for future issuance. As of December 31, 2015, the Company had no shares of undesignated preferred stock issued or outstanding.

Common Stock

On October 7, 2014, the Company completed its IPO of 12,650,000 shares of its Class A common stock at a public offering price of $29.00 per share, of which 10,500,000 shares were sold by the Company and 2,150,000 shares were sold by its selling stockholders, including 1,650,000 shares pursuant to the underwriters' option to purchase additional shares, resulting in net proceeds to the Company of approximately $282.9 million, after deducting underwriting discounts and offering expenses. The Company did not receive any proceeds from the sale of shares by the selling stockholders.

The Company authorized 500,000,000 shares of Class A common stock, $0.001 par value per share, and 164,000,000 shares of Class B common stock, $0.001 par value per share, of which 45,814,237 and 37,002,874 shares of Class A common stock and 38,496,562 and 46,179,192 shares of Class B common stock were outstanding as of December 31,

2015 and 2014, respectively. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion rights. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is

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Notes to Consolidated Financial Statements (Continued)

entitled to ten votes per share and is convertible into one share of Class A common stock. Each share of Class B common stock may be converted into one share of Class A common stock at the option of its holder and will be automatically converted into one share of Class A common stock upon transfer thereof, subject to certain exceptions. In addition, upon the date on which the outstanding shares of Class B common stock represent less than 10% of the aggregate number of shares of the then outstanding Class A common stock and Class B common stock, or in the event of the affirmative vote or written consent of holders of at least 66 2/3% of the outstanding shares of Class B common stock, all outstanding shares of Class B common stock shall convert automatically into Class A common stock. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock are entitled to receive dividends out of funds legally available if the Board, in its discretion, determines to issue dividends and then only at the times and in the amounts that the Board may determine. Since the IPO through December 31, 2015, 32,124,686 shares of Class B common stock were converted to Class A common stock.

11. Segment and Geographic Information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated on a regular basis by the Chief Operating Decision Maker (“CODM”) in deciding how to allocate resources to an individual segment and in assessing performance. The Company’s CODM is its Chief Executive Officer.

The CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources and evaluating financial performance. As a result, the Company identified that it has one operating and reportable segment.

The following table presents the activity related to the Company’s net revenue from Direct Retail sales derived through the Company’s sites and Other sales derived through sites operated by third parties and fees from third-party advertising distribution providers (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Net revenue			
Direct Retail	$2,040,238	$1,101,686	$673,446
Other	209,647	217,265	242,397
Net revenue	$2,249,885	$1,318,951	$915,843

Revenue from external customers for each group of similar products and services are not reported to the CODM. Separate identification of this information for purposes of segment disclosure is impractical, as it is not readily available and the cost to develop it would be excessive. No individual country outside of the United States provided greater than 10% of total revenue.

The following table presents revenue and long-lived assets by geographic area (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Geographic net revenue:			
United States	$2,135,492	$1,236,215	$857,001
International	114,393	82,736	58,842
Total	$2,249,885	$1,318,951	$915,843

	Year Ended December 31,	
	2015	2014
Geographic long-lived assets:		
United States	$110,042	$59,013
International	2,283	1,626
Total	$112,325	$60,639

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Notes to Consolidated Financial Statements (Continued)

12. Income Taxes

Income tax expense (benefit) for the years ended December 31, 2015, 2014 and 2013 attributable to income (loss) from operation is presented below (in thousands):

Year ended December 31, 2015	Current	Deferred	Total
Federal	$—	$54	$54
State	(202)	7	(195)
Foreign	331	(95)	236
	$129	$(34)	$95

Year ended December 31, 2014	Current	Deferred	Total
Federal	$—	$32	$32
State	1	4	5
Foreign	138	—	138
	$139	$36	$175

Year ended December 31, 2013	Current	Deferred	Total
Federal	$—	$—	$—
State	1	—	1
Foreign	41	4	45
	42	4	46

The actual income tax expense (benefit) differs from the expected income tax expense (benefit) computed by applying the United States Federal corporate income tax rate of 35% to income before tax expense (benefit) as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Computed expected tax expense (benefit)	$(27,072)	$(51,773)	$(5,417)
Decrease in income taxes resulting from:			
Partnership losses not creating tax benefit	—	21,369	3,920
Effect of conversion to C-corporation	—	(28,034)	—
State income tax expense, net of federal benefit	(1,424)	(2,517)	(269)
Foreign tax rate differential	9,278	2,826	619
Equity based compensation expense	1,415	5,555	—
Change in valuation allowance	12,394	52,921	1,418
Impact of sale of Australian subsidiary	4,248	—	—
Other	1,256	(172)	(225)
Net income tax expense	$95	$175	$46

The components of results of income before income tax expense (benefit) determined by tax jurisdiction, are as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
United States	$(38,963)	$(128,505)	$(9,895)
Foreign	(38,385)	(19,418)	(5,585)
Total	$(77,348)	$(147,923)	$(15,480)

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Notes to Consolidated Financial Statements (Continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities for the periods presented are as follows (in thousands):

	December 31	
	2015	2014
Deferred tax asset:		
Accounts receivable	$926	$1,009
Inventories	280	295
Operating loss carry-forwards	32,678	17,939
Equity based compensation expense	10,716	11,529
Intangibles	24,205	26,557
Accrued expenses	307	3,555
Charitable contributions	143	18
Deferred rent	21,219	7,161
Gross deferred tax asset	90,474	68,063
Less: Valuation allowance	(70,614)	(58,980)
Net deferred tax asset	19,860	9,083
Deferred tax liability:		
Prepaid expenses	(561)	(783)
Capitalized technology	(6,444)	(5,019)
Property and equipment	(12,646)	(3,281)
Goodwill	(96)	(36)
Other	(126)	—
Total deferred tax liabilities	(19,873)	(9,119)
Net deferred tax assets (liabilities)	(13)	(36)
Current net deferred tax asset	—	—
Current net deferred tax liability	—	(55)
Non-current net deferred tax asset	—	19
Non-current net deferred tax liability	(13)	—
	(13)	(36)

As of December 31, 2015, the Company had federal net operating loss carryforwards available to offset future federal taxable income of $141.7 million. Approximately $82.2 million of the federal net operating loss carryforward will result in an increase to additional paid-in capital if and when these carryforwards are used to reduce income taxes payable.

In addition, the Company had state net operating loss carryforwards available in the amount of $130.0 million which are available to offset future state taxable income. Approximately $74.4 million of the state net operating loss carryforward will result in an increase to additional paid-in capital if and when these carryforwards are used to reduce income taxes payable.

The federal net operating loss carryforwards begin to expire in the year ended December 31, 2034. The state net operating loss carryforwards begin to expire in the year ended December 31, 2029.

The Company's ability to utilize these federal and state net operating loss carry-forwards may be limited in the future if the Company experiences an ownership change pursuant to Internal Revenue Code Section 382. An ownership change occurs when the ownership percentages of 5% or greater stockholders change by more than 50% over a three-year period.

The Company also had foreign net operating loss carry-forwards available to offset future foreign income of $73.3 million. Approximately $0.8 million of the foreign net operating loss carryforward will result in an increase to additional paid-in-capital if and when these carryforwards are used to reduce income taxes payable. The foreign net

operating loss carryforwards have no expiration.

In assessing the realizability of its net deferred tax assets, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends upon the

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generation of future taxable income during the periods in which those temporary differences become deductible. As of December 31, 2015, based upon an evaluation of the positive and negative evidence, the Company concluded that an increase of $11.6 million of the deferred tax asset valuation allowance was appropriate, resulting in a valuation allowance of $70.6 million as of December 31, 2015. The total expense from the net change in valuation allowance is $(12.4) million.

As of December 31, 2015, the Company has not provided for U.S. deferred income taxes on undistributed earnings of its foreign subsidiaries of approximately $1.5 million since these earnings are to be indefinitely reinvested. Upon distribution of those earnings in the form of dividends or otherwise, the Company will be subject to additional U.S. and state income taxes (less foreign tax credits), as well as withholding taxes in its foreign locations. The amount of taxes attributable to the undistributed earnings is not practicably determinable.

The Company establishes reserves for uncertain tax positions based on management's assessment of exposure associated with tax deductions, permanent tax differences and tax credits. The tax reserves are analyzed periodically and adjustments are made as events occur to warrant adjustment to the reserve. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense.

The Company had gross unrecognized tax benefits of $0.2 million as of December 31, 2014 and 2013. In 2015 the Company recognized the tax benefit of $0.2 million upon the expiration of the applicable statute of limitations. Accordingly, the Company does not have any gross unrecognized tax benefit as of December 31, 2015

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company did not accrue any penalties and interest during 2015, 2014, and 2013, respectively, because it believes that such additional interest and penalties would be insignificant.

The Company's tax jurisdictions include the United States, the UK, Germany, Ireland, Australia, and the British Virgin Islands. The statute of limitations with respect to the Company's United States federal income taxes has expired for years prior to 2012. The relevant state and foreign statutes vary. However, preceding years remain open to examination by United States federal and state and foreign taxing authorities to the extent of future utilization of net operating losses and research and development tax credits generated in each preceding year.

13. Credit Agreement

The Company has a credit agreement with Bank of America, which provides the Company with an unused line of credit and a credit card program with a maximum commitment of $35.0 million, $45.0 million and $35.0 million for the periods of July 31, 2015 through September 30, 2015, October 1, 2015 through February 28, 2016 and March 1, 2016 through July 31, 2016, respectively, with the committed amounts of $10.0 million to be used for a revolving line of credit and to support letters of credit and the remainder to be used to support the Company’s credit card program. The credit agreement is renewable on an annual basis and, if not renewed, will expire on July 31, 2016. The Company is required to maintain certain covenants, including tangible net worth and unencumbered liquid assets, with which the Company was compliant at December 31, 2015 and 2014. The Company did not borrow any amounts under the credit agreement during the years ended December 31, 2015, 2014 and 2013.

14. Net Loss per Share

Basic and diluted net (loss) income per share is presented using the two class method required for participating securities. Class A and Class B common stock are the only outstanding equity in the Company since our IPO in October 2014. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. The Class B common stock also has approval rights over certain corporate actions. Each share of Class B common stock may be converted into one share of Class A common stock at any time at the option of the stockholder, and will be automatically converted into one share of Class A common stock upon a sale or transfer, subject to certain limited exceptions. In addition, upon the date on which the

outstanding shares of Class B common stock represent less than 10% of the aggregate number of shares of the then outstanding Class A common stock and Class B common stock, or in the event of the affirmative vote or written consent of at least 66 2/3% of the outstanding shares of Class B common stock, all outstanding shares of Class B common stock will automatically convert into Class A common stock.
Basic net income (loss) per share attributable to common stockholders is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share attributable to common stockholders is computed using the weighted-average number of shares of common stock and, if dilutive, common stock equivalents outstanding

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Notes to Consolidated Financial Statements (Continued)

during the period. The Company's common stock equivalents consist of shares issuable upon the release of restricted stock units, and to a lesser extent, the incremental shares of common stock issuable upon the exercise of stock options and unvested restricted stock. The dilutive effect of these common stock equivalents is reflected in diluted earnings per share by application of the treasury stock method. The Company's basic and diluted net loss per share are the same because the Company has generated net loss to common stockholders and common stock equivalents are excluded from diluted net loss per share because they have an antidilutive impact.
The Company allocates undistributed earnings between the classes on a one-to-one basis when computing net income (loss) per share. As a result, basic and diluted net income (loss) per Class A and Class B shares are equivalent.
Even prior to the conversion of its Series A and Series B convertible preferred stock to common stock, effective October 7, 2014, the Company applied the two class method for calculating and presenting earnings per share. Under the two class method, net (loss) income attributable to common stockholders is determined by allocating undistributed earnings between common stock and participating securities. Undistributed earnings are calculated as net income (loss) less distributed earnings and accretion of Series A and Series B convertible preferred stock. As holders of Series A and Series B convertible preferred stock did not have a contractual obligation to share in the losses of the Company, the net loss attributable to common stockholders for each period prior to the IPO was not allocated between common stock and participating securities. Accordingly, Series A and Series B convertible preferred stock are excluded from the calculation of basic and diluted net loss per share. The Company's basic and diluted net loss per share are the same because the Company has generated net loss to common stockholders and common stock equivalents are excluded from diluted net loss per share because they have an antidilutive impact.
The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net loss	$(77,443)	$(148,098)	$(15,526)
Accretion of preferred units to redemption value	—	(2,071)	(25,388)
Net loss attributable to common stockholders per share—basic and diluted	$(77,443)	$(150,169)	$(40,914)
Denominator:			
Weighted average shares used for basic and diluted net loss per share computation	83,726	50,642	41,332
Net loss per common share attributable to common stockholders:			
Basic and Diluted	$(0.92)	$(2.97)	$(0.99)

The following have been excluded from the computation of basic and diluted net loss per share attributable to common stockholders as their effect would have been antidilutive:

	Year Ended December 31,		
	2015	2014	2013
Series A convertible redeemable preferred units	—	—	21,551,801
Stock options	279,591	449,046	664,232
Restricted stock	1,993	161,476	3,490,968
Restricted stock units	5,607,867	4,542,231	5,255,113
	5,889,451	5,152,753	30,962,114

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None

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Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of December 31, 2015. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2015, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this evaluation, management concluded that our internal control over financial report was effective as of December 31, 2015. Management reviewed the results of its assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included immediately following Item 9A. Controls and Procedures, in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, occurred during the quarter ended December 31, 2015 that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Limitations on Disclosure Controls and Procedures and Internal Control over Financial Reporting

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Wayfair Inc.
We have audited Wayfair Inc.’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Wayfair Inc.’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
In our opinion, Wayfair Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Wayfair Inc. (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015 of Wayfair Inc. and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Boston, Massachusetts
February 29, 2016

Item 9B. Other Information
None.
PART III

Item 10. Directors, Executive Officers and Corporate Governance
We have adopted a written code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The code of business conduct and ethics is available on our website at investor.wayfair.com.
The other information required by this item is incorporated by reference from our proxy statement for our 2016 annual meeting of stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.
Item 11. Executive Compensation
The information required by this item is incorporated by reference from our proxy statement for our 2016 annual meeting of stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
The information required by this item is incorporated by reference from our proxy statement for our 2016 annual meeting of stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.
Item 13. Certain Relationships and Related Transactions, and Director Independence
The information required by this item is incorporated by reference from our proxy statement for our 2016 annual meeting of stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.
Item 14. Principal Accounting Fees and Services
The information required by this item is incorporated by reference from our proxy statement for our 2016 annual meeting of stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.
PART IV

ITEM 15. Exhibits and Financial Statement Schedules
(a) Financial Statements
The following financial statements and supplementary data are included in Part II of Item 8 filed of this Annual Report on Form 10-K:
- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Comprehensive Loss
- Consolidated Statements of Stockholders' Equity (Deficit)
- Consolidated Statements of Cash Flows

- Notes to Consolidated Financial Statements

(b) Financial Statement Schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes herein

(c) Exhibits

See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

WAYFAIR INC.
By: /s/ NIRAJ SHAH
Niraj Shah
Chief Executive Officer and Co-Founder
Date: February 29, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed by the following persons on behalf of the registrant in the capacities indicated.

Signature	Title	Date
/s/ NIRAJ SHAH Niraj Shah	Chief Executive Officer, Co-Founder and Director (Principal Executive Officer)	February 29, 2016
/s/ MICHAEL FLEISHER Michael Fleisher	Chief Financial Officer (Principal Financial Officer)	February 29, 2016
/s/ NICHOLAS MALONE Nicholas Malone	Chief Administrative Officer (Principal Accounting Officer)	February 29, 2016
/s/ STEVEN CONINE Steven Conine	Co-Founder and Director	February 29, 2016
/s/ NEERAJ AGRAWAL Neeraj Agrawal	Director	February 29, 2016
/s/ JULIE BRADLEY Julie Bradley	Director	February 29, 2016
/s/ ROBERT GAMGORT Robert Gamgort	Director	February 29, 2016
/s/ MICHAEL KUMIN Michael Kumin	Director	February 29, 2016
/s/ IAN LANE Ian Lane	Director	February 29, 2016
/s/ ROMERO RODRIGUES Romero Rodrigues	Director	February 29, 2016

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Filing Date	Exhibit Number
2.1	Contribution and Exchange Agreement dated as of August 15, 2014 between the Company and the other and the other parties thereto		S-1	333-198171	8/15/2014	2.1
3.1	Restated Certificate of Incorporation of the Company		8-K	001-36666	10/8/2014	3.1
3.2	Amended and Restated Bylaws of the Company		8-K	001-36666	10/8/2014	3.2
4.1	Specimen stock certificate evidencing the shares of Class A common stock of the Company		S-1	333-198171	9/19/2014	4.1
10.1	Second Amended and Restated 2010 Incentive Plan		S-1	333-198171	8/15/2014	10.1
10.2	Form of Deferred Unit Agreement under the Second Amended and Restated 2010 Incentive Plan		S-1	333-198171	8/15/2014	10.2
10.3	2014 Incentive Award Plan		S-1	333-198171	9/19/2014	10.3
10.4	Form of Option Agreement under the 2014 Incentive Award Plan		S-1	333-198171	9/19/2014	10.4
10.5	Form of Restricted Stock Unit Agreement under the 2014 Incentive Award Plan		S-1	333-198171	9/19/2014	10.5
10.6	Form of Restricted Stock Award Agreement under the 2014 Incentive Award Plan		S-1	333-198171	9/19/2014	10.6
10.7	Investors' Rights Agreement, dated August 15, 2014, by and among the Company and the other parties thereto		10-K	001-36666	3/19/2015	10.7
10.8	Form of Indemnification Agreement for Directors and Officers		S-1	333-198171	8/15/2014	10.8
10.9	Office Lease dated April 18, 2013 between Copley Place Associates, LLC and the Company, as amended by the First Amendment to Lease dated February 11, 2014, as further amended by the Second Amendment to Lease dated October 24, 2014, as further amended by the Third Amendment to Lease dated October 8, 2015, and as further amended by the Fourth Amendment to Lease dated February 3, 2016	X				

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Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Filing Date	Exhibit Number
10.10	Wayfair International Assignment Agreement dated April 1, 2015 between the Company and John Mulliken		10-Q	001-36666	5/15/2015	10.10
10.11	Form of Amended and Restated Letter Agreement dated May 6, 2014 between the Company and each of Niraj Shah and Steven Conine		S-1	333-198171	8/15/2014	10.11
10.12	Letter Agreement dated October 2, 2013 between the Company and Michael Fleisher, as amended May 5, 2014		S-1	333-198171	8/15/2014	10.12
10.13	Loan Agreement dated October 29, 2012 between Bank of America, N.A. and the Company, as amended by amendments dated October 29, 2013, June 6, 2014 and July 31, 2015	X				
21.1	Subsidiaries of the Company	X				
23.1	Consent of Ernst & Young LLP	X				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X				
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Schema Linkbase Document	X				

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Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference			
			Form	File No.	Filing Date	Exhibit Number
101.CAL	XBRL Taxonomy Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Labels Linkbase Document	X				
101.PRE	XBRL Taxonomy Presentation Linkbase Document	X				