UNIVERSAL FOREST PRODUCTS INC
Form 10-Q
July 19, 2010

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UNIVERSAL FOREST PRODUCTS, INC.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 26, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-22684

UNIVERSAL FOREST PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Michigan	38-1465835
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2801 East Beltline NE, Grand Rapids, Michigan	49525
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code (616) 364-6161

NONE

(Former name or former address, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large Accelerated Filer þ	Accelerated Filer o	Non-Accelerated Filer o	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding as of June 26, 2010

Common stock, no par value	19,329,922

UNIVERSAL FOREST PRODUCTS, INC.

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

(in thousands, except share data)	June 26, 2010	December 26, 2009	June 27, 2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 21,246	$ 82,219	$ 32,633
Accounts receivable, net	229,199	107,383	197,901
Inventories:			
Raw materials	111,670	89,956	95,288
Finished goods	79,899	72,192	70,202
	191,569	162,148	165,490
Assets held for sale			3,057
Refundable income taxes		10,391	
Other current assets	18,110	21,208	19,728
TOTAL CURRENT ASSETS	460,124	383,349	418,809
OTHER ASSETS	5,300	4,478	3,456
GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS	158,636	157,058	156,936
OTHER INTANGIBLE ASSETS, net	13,429	16,693	20,767
PROPERTY, PLANT AND EQUIPMENT:			
Property, plant and equipment	518,816	510,774	506,519
Accumulated depreciation and amortization	(292,390)	(280,675)	(271,010)
PROPERTY, PLANT AND EQUIPMENT, NET	226,426	230,099	235,509
TOTAL ASSETS	$ 863,915	$ 791,677	$ 835,477
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 103,992	$ 64,473	$ 98,805
Accrued liabilities:			
Compensation and benefits	48,252	48,340	50,580
Income taxes	6,736		7,699
Other	22,995	21,698	27,180
Current portion of long-term debt and capital lease obligations	692	673	396
TOTAL CURRENT LIABILITIES	182,667	135,184	184,660
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	67,932	53,181	55,108
DEFERRED INCOME TAXES	21,539	21,707	17,746
OTHER LIABILITIES	11,929	12,659	14,766

TOTAL LIABILITIES	284,067	222,731	272,280
EQUITY:			
Controlling interest shareholders equity:			
Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none			
Common stock, no par value; shares authorized 40,000,000; issued and outstanding 19,329,922, 19,284,587 and 19,308,699	$ 19,330	$ 19,285	$ 19,309
Additional paid-in capital	135,710	132,765	130,405
Retained earnings	416,562	409,278	407,035
Accumulated other comprehensive earnings	4,018	3,633	2,615
	575,620	564,961	559,364
Employee stock notes receivable	(1,721)	(1,743)	(1,797)
	573,899	563,218	557,567
Noncontrolling interest	5,949	5,728	5,630
TOTAL EQUITY	579,848	568,946	563,197
TOTAL LIABILITIES AND EQUITY	$ 863,915	$ 791,677	$ 835,477

See notes to unaudited consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(Unaudited)

(in thousands, except per share data)	Three Months Ended June 26, 2010	Three Months Ended June 27, 2009	Six Months Ended June 26, 2010	Six Months Ended June 27, 2009
NET SALES	$ 638,635	$ 514,945	$ 1,031,593	$ 876,667
COST OF GOODS SOLD	560,749	432,460	902,073	747,361
GROSS PROFIT	77,886	82,485	129,520	129,306
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	54,041	56,020	102,530	105,112
NET LOSS (GAIN) ON DISPOSITION OF ASSETS AND OTHER IMPAIRMENT AND EXIT CHARGES	212	(716)	384	(1,852)
EARNINGS FROM OPERATIONS	23,633	27,181	26,606	26,046
INTEREST EXPENSE	903	1,429	1,789	2,503
INTEREST INCOME	(70)	(96)	(190)	(179)
	833	1,333	1,599	2,324
EARNINGS BEFORE INCOME TAXES	22,800	25,848	25,007	23,722
INCOME TAXES	8,332	9,393	8,819	8,430
NET EARNINGS	14,468	16,455	16,188	15,292
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(752)	(367)	(1,485)	(411)
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	$ 13,716	$ 16,088	$ 14,703	$ 14,881
EARNINGS PER SHARE BASIC	$ 0.71	$ 0.84	$ 0.76	$ 0.77
EARNINGS PER SHARE DILUTED	$ 0.70	$ 0.83	$ 0.75	$ 0.77

WEIGHTED AVERAGE SHARES OUTSTANDING	19,259	19,241	19,258	19,213
WEIGHTED AVERAGE SHARES OUTSTANDING WITH COMMON STOCK EQUIVALENTS	19,531	19,459	19,524	19,370

See notes to unaudited consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF EQUITY
(Unaudited)

	Controlling Interest Shareholders Equity						
(in thousands, except share and per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Employees Stock Notes Receivable	Noncontrolling Interest	Total
Balance at December 27, 2008	**$ 19,089**	**$ 128,830**	**$ 393,312**	**$ 2,353**	**$ (1,701)**	**$ 6,343**	**$ 548,226**
Comprehensive income:							
Net earnings			14,881			411	
Foreign currency translation adjustment				262		(37)	
Total comprehensive earnings							15,517
Purchase of additional noncontrolling interest		(853)				(917)	(1,770)
Distributions to noncontrolling interest						(170)	(170)
Cash dividends $0.060 per share			(1,158)				(1,158)
Issuance of 65,933 shares under employee stock plans	66	1,111					1,177
Issuance of 78,706 shares under stock grant programs	79	10					89
Issuance of 72,989 shares under deferred compensation plans	73	(73)					
Received 1,530 shares for the exercise of stock options	(2)	(30)					(32)
Tax benefits from non-qualified stock options exercised		276					276
Deferred income tax asset reversal for deferred compensation plans		(518)					(518)
Expense associated with share-based compensation arrangements		1,089					1,089
Accrued expense under deferred compensation plans		442					442
Issuance of 3,721 shares in exchange for employee stock notes receivable	4	121			(125)		
Payments received on employee stock notes receivable					29		29
Balance at June 27, 2009	**$ 19,309**	**$ 130,405**	**$ 407,035**	**$ 2,615**	**$ (1,797)**	**$ 5,630**	**$ 563,197**
Balance at December 26, 2009	**$ 19,285**	**$ 132,765**	**$ 409,278**	**$ 3,633**	**$ (1,743)**	**$ 5,728**	**$ 568,946**
Comprehensive income:							
Net earnings			14,703			1,485	
Foreign currency translation adjustment				385		140	
Total comprehensive earnings							16,713
Purchase of additional noncontrolling interest		(295)				(932)	(1,227)

Distributions to noncontrolling interest						(472)	(472)
Cash dividends $0.200 per share			(3,871)				(3,871)
Issuance of 62,029 shares under employee stock plans	62	1,269					1,331
Issuance of 76,143 shares under stock grant programs	76	41					117
Issuance of 6,669 shares under deferred compensation plans	7	(7)					
Repurchase of 100,300 shares	(100)		(3,548)				(3,648)
Tax benefits from non-qualified stock options exercised		379					379
Expense associated with share-based compensation arrangements		1,078					1,078
Accrued expense under deferred compensation plans		473					473
Issuance of 1,298 shares in exchange for employees stock notes receivable	1	49			(50)		
Notes receivable adjustment	(1)	(42)			(9)		(52)
Payments received on employee stock notes receivable					81		81
Balance at June 26, 2010	**$ 19,330**	**$ 135,710**	**$ 416,562**	**$ 4,018**	**$ (1,721)**	**$ 5,949**	**$ 579,848**

See notes to unaudited consolidated condensed financial statements.

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UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Six Months Ended June 26, 2010	June 27, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings attributable to controlling interest	$ 14,703	$ 14,881
Adjustments to reconcile net earnings attributable to controlling interest to net cash from operating activities:		
Depreciation	15,199	16,510
Amortization of intangibles	3,590	4,520
Expense associated with share-based compensation arrangements	1,078	1,089
Excess tax benefits from share-based compensation arrangements	(265)	(211)
Expense associated with stock grant plans	117	89
Deferred income taxes (credit)	(195)	195
Net earnings attributable to noncontrolling interest	1,485	411
Net loss (gain) on sale or impairment of property, plant and equipment	118	(2,457)
Changes in:		
Accounts receivable	(120,961)	(59,701)
Inventories	(26,175)	27,980
Accounts payable	39,466	35,576
Accrued liabilities and other	21,609	23,798
NET CASH FROM OPERATING ACTIVITIES	(50,231)	62,680
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(11,551)	(7,279)
Acquisitions, net of cash received	(5,834)	
Proceeds from sale of property, plant and equipment	382	10,241
Advances on notes receivable	(1,000)	(14)
Collections of notes receivable	103	68
Insurance proceeds		1,023
Other, net	21	11
NET CASH FROM INVESTING ACTIVITIES	(17,879)	4,050
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) under revolving credit facilities	15,000	(30,257)
Repayment of long-term debt	(255)	(16,213)
Borrowings of long-term debt		800
Proceeds from issuance of common stock	1,331	1,177
Purchase of additional noncontrolling interest	(1,227)	(1,770)
Distributions to noncontrolling interest	(472)	(170)
Dividends paid to shareholders	(3,871)	(1,158)
Repurchase of common stock	(3,648)	
Excess tax benefits from share-based compensation arrangements	265	211
Other, net	14	(54)

NET CASH FROM FINANCING ACTIVITIES &nbssize:10pt;">

21,109

91,286

55,417

Advertising

101,333

70,711

293,436

190,249

Merchandising, marketing and sales

48,550

27,083

129,679

74,131

Operations, technology, general and administrative

79,526

41,120

207,289

110,581

Total operating expenses

263,281

160,023

721,690

430,378

Loss from operations

(61,620
)

(18,637
)

(152,459
)

(65,356
)

Interest (expense) income, net

(292
)

325

791

897

Other income, net

889

2,746

1,804

2,542

Loss before income taxes

(61,023
)

(15,566
)

(149,864
)

(61,917
)
(Benefit from) provision for income taxes

(83
)

(88
)

555

31

Net loss

$
(60,940
)

$
(15,478
)

$
(150,419
)

$
(61,948
)
Net loss per share, basic and diluted

$
(0.72
)

$
(0.18
)

$
(1.77
)

$
(0.74
)
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted

85,105

83,886

84,779

83,569

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net loss	$(60,940)	$(15,478)	$(150,419)	$(61,948)
Other comprehensive loss:				
Foreign currency translation adjustments	(240)	371	(875)	323
Net unrealized (loss) gain on available-for-sale investments	(163)	(67)	465	(69)
Comprehensive loss	$(61,343)	$(15,174)	$(150,829)	$(61,694)

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

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

	Nine months ended September 30, 2016	2015
Cash flows from operating activities		
Net loss	$(150,419)	$(61,948)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	38,528	23,351
Equity based compensation	35,188	21,741
Gain on sale of a business	—	(2,997)
Other non-cash adjustments	(134)	1,395
Changes in operating assets and liabilities:		
Accounts receivable	(6,773)	(3,832)
Inventories	716	(2,778)
Prepaid expenses and other current assets	(12,493)	(28,419)
Accounts payable and accrued expenses	53,443	60,340
Deferred revenue and other liabilities	33,556	37,927
Other assets	(2,292)	(25)
Net cash (used in) provided by operating activities	(10,680)	44,755
Cash flows from investing activities		
Purchase of short-term and long-term investments	(76,458)	(141,309)
Sale and maturities of short-term investments	82,060	78,715
Purchase of property and equipment	(81,844)	(36,695)
Site and software development costs	(21,444)	(13,107)
Cash received from the sale of a business, net of cash sold	1,508	2,860
Other investing activities, net	(1,000)	302
Net cash used in investing activities	(97,178)	(109,234)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(18,426)	(12,899)
Net proceeds from exercise of stock options	166	374
Net cash used in financing activities	(18,260)	(12,525)
Effect of exchange rate changes on cash and cash equivalents	286	(165)
Net decrease in cash and cash equivalents	(125,832)	(77,169)
Cash and cash equivalents		
Beginning of period	334,176	355,859
End of period	$208,344	$278,690
Supplemental disclosure of non-cash investing activities		
Purchase of property and equipment included in accounts payable and accrued expenses and in other liabilities	$5,744	$2,636
Construction costs capitalized under finance lease obligations	$29,726	$8,687

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

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Notes to Consolidated and Condensed Financial Statements
(Unaudited)

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, 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 and condensed financial statements and other disclosures contained in this Quarterly Report on Form 10-Q are those of the Company. The consolidated and condensed balance sheet data as of December 31, 2015 was derived from audited financial statements. The accompanying consolidated and condensed balance sheet as of September 30, 2016, the consolidated statements of operations, consolidated statements of comprehensive loss, and consolidated statements of cash flows for the periods ended September 30, 2016 and 2015 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the audited consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company’s financial position as of September 30, 2016 and statements of operations, comprehensive loss, and cash flows for the periods ended September 30, 2016 and 2015. The financial data and the other information disclosed in these notes to the consolidated and condensed financial statements related to these periods are unaudited.
The consolidated and condensed statements of operations, comprehensive loss, and cash flows for the period ended September 30, 2016 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
The Company has identified the significant accounting policies that are critical to understanding its business and results of operations. The Company believes that there have been no significant changes during the nine months ended September 30, 2016 to the items disclosed in Note 2, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements included in Part II, Item 8, Financial Statements and Supplementary Data, of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 other than those noted below.
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 September 30, 2016, 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 September 30, 2016, the Company’s available-for-sale securities primarily consisted of corporate bonds and other government obligations that are priced at fair value. The cost basis of a marketable security sold is determined by the Company using the specific identification method.

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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	Lesser of useful life or lease term
Building	30

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 for product sales generated through the sites of the Company's five distinct brands and through sites operated by third parties 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, has latitude in establishing price and selecting products sold, has discretion in selecting suppliers of products sold, 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.

3. Marketable Securities and Fair Value Measurements

Marketable Securities

As of September 30, 2016 and December 31, 2015, all of the Company’s marketable securities were classified as available-for-sale and their estimated fair values were $101.2 million and $96.8 million, respectively. We periodically review our available-for-sale securities for other-than-temporary impairment. We consider factors such as the duration, severity and the reason for the decline in value, the potential recovery period, and our intent to sell. As of September 30, 2016, the Company’s available-for-sale securities primarily consisted of corporate bonds and other government obligations that are priced at fair value. During the three and nine months ended September 30, 2016 and 2015, we did not recognize any other-than-temporary impairment loss. The maturities of the Company’s long-term marketable securities generally range from one to three years. The cost basis of a marketable security sold is determined by the Company using the specific identification method. During the three and nine months ended September 30, 2016 and 2015, we did not have any realized gains or losses.

The following tables present details of the Company’s marketable securities as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term:				
Investment securities	$54,327	$ 21	$ (10)	$54,338
Commercial paper	5,135	—	(2)	5,133
Long-term:				
Investment securities	41,564	163	(9)	41,718
Total	$101,026	$ 184	$ (21)	$101,189

	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 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

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.

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The following tables set forth the fair value of the Company's financial assets measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 based on the three-tier value hierarchy (in thousands):

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$88,265	$—	$ —	$88,265
Commercial paper	—	5,133	—	5,133
Short-term investments:				
Certificates of deposit	25,000	—	—	25,000
Investment securities	—	54,338	—	54,338
Restricted cash:				
Certificate of deposit	5,000	—	—	5,000
Long-term:				
Investment securities	—	41,718	—	41,718
Total	$118,265	$101,189	$ —	$219,454

	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

4. Intangible Assets and Goodwill

The following table summarizes intangible assets as of September 30, 2016 and December 31, 2015 (in thousands):

	Weighted - Average Amortization Period (Years)	September 30, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trademarks	5	$1,900	$ (1,203)	$ 697
Technology	3	1,453	(40)	$ 1,413
Customer relationships	5	1,300	(823)	477
Other intangibles	3	373	(354)	19
Total		$5,026	$ (2,420)	$ 2,606

	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

Amortization expense related to intangible assets was $0.2 million for the three months ended September 30, 2016 and 2015, and $0.6 million and $0.7 million for the nine months ended September 30, 2016 and 2015, respectively. Goodwill as of September 30, 2016 was $1.9 million, unchanged from December 31, 2015.

5. Property and Equipment, net

The following table summarizes property and equipment, net as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Furniture and computer equipment	$127,565	$68,416
Site and software development costs	68,906	50,907
Leasehold improvements	58,322	29,315
Construction in progress	23,364	27,563
Building (leased - Note 6)	29,856	—
	308,013	176,201
Less accumulated depreciation and amortization	(96,728)	(63,876)
Property and equipment, net	$211,285	$112,325

Property and equipment depreciation and amortization expense was $15.2 million and $9.0 million for the three months ended September 30, 2016 and 2015, respectively, and $37.9 million and $22.7 million for the nine months ended September 30, 2016 and 2015, respectively.

6. Commitments and Contingencies

Leases

The Company leases office and warehouse spaces under non-cancelable leases. These leases expire at various dates through 2027 and include discounted rental periods and fixed escalation clauses, which are amortized straight-line over the terms of the lease. Rent expense under operating leases was $9.1 million and $3.8 million in the three months ended September 30, 2016 and 2015, respectively, and $23.9 million and $12.3 million in the nine months ended September 30, 2016 and 2015, respectively. The Company has issued letters of credit for approximately $10.6 million and $5.9 million as security for these lease agreements as of September 30, 2016 and December 31, 2015, respectively. The Company has entered into additional leases throughout the United States ("U.S.") and Europe 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 $358.5 million in the aggregate.

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 takes 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.

The construction of one warehouse lease arrangement was completed during the three months ended June 30, 2016, and because the Company concluded it had a letter of credit of $1.2 million, the Company did not meet the sale-leaseback criteria for derecognition of the building asset and liability. Therefore, the lease was accounted for as a financing obligation and $28.9 million was recorded in "Lease financing obligation" in the Company's unaudited consolidated and condensed balance sheets. The monthly rent payments made to the lessor under the lease agreement are recorded in the Company's financial statements as land lease expense and principal and interest on the financing obligation. Interest expense on the lease financing obligation reflects the portion of the Company's monthly lease payments that is allocated to interest expense. For the three and nine months ended September 30, 2016, land lease expense was $0.1 million and interest expense on lease financing obligation was $0.8 million. As of September 30, 2016, future minimum commitments related to the financing obligation were $2.1 million and $12.0 million for principal and interest, respectively, through September 30, 2021.

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, California, Illinois, Texas, New Jersey, and North Carolina. 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 $28.2 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

In September 2016, a putative class action complaint was filed against the Company in the Superior Court of the province of Quebec (Naomi Zouzout v. Wayfair LLC, Case No. PQ 500-06-000809-166) by an individual on behalf of herself and on behalf of all other similarly situated individuals alleging violations of various Canadian consumer protection statutes. Among other remedies, this lawsuit seeks compensatory and punitive money damages, costs, and various fees. The Company intends to defend the lawsuit vigorously. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of this case or determine an estimate, or a range of estimates, of potential losses.

From time to time the Company is involved in claims that arise during the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, the Company does not currently believe that the outcome of any of these other legal matters will have a material adverse effect on the Company's results of operation or financial condition. Regardless of the outcome, litigation can be costly and time consuming, as it can divert management's attention from important business matters and initiatives, negatively impacting the Company's overall operations. In addition, the Company may also find itself at greater risk to outside party claims as it increases its operations in jurisdictions where the laws with respect to the potential liability of online retailers are uncertain, unfavorable, or unclear.

7. 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, restricted stock units ("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 5,949,611 shares had been issued as of September 30, 2016. 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. In addition, on the first day of each calendar year beginning January 1, 2016 and ending on and including January 1, 2024, the shares available for future grant are increased in accordance with the 2014 Plan.

The following table presents activity relating to stock options for the nine months ended September 30, 2016:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 31, 2015	279,591	$ 2.98	5.5
Options exercised	(55,827)	$ 2.98	
Options forfeited/canceled	(176)	$ 3.42	
Outstanding at September 30, 2016	223,588	$ 2.98	4.7
Exercisable at September 30, 2016	223,588	$ 2.98	4.7

Intrinsic value of stock options exercised was $2.1 million for the nine months ended September 30, 2016. Aggregate intrinsic value of stock options outstanding and currently exercisable is $8.1 million. All stock options were fully vested at September 30, 2016.

The following table presents activity relating to restricted common stock for the nine months ended September 30, 2016:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2015	1,993	$ 4.75
Restricted stock granted	60,000	$ 44.34
Restricted stock vested	(1,993)	$ 4.75
Unvested at September 30, 2016	60,000	$ 39.37
Expected to vest at September 30, 2016	49,171	$ 39.37

The intrinsic value of restricted common stock vested was less than $0.1 million for the nine months ended September 30, 2016. Aggregate intrinsic value of restricted common stock unvested is $2.4 million as of September 30, 2016. Unrecognized equity based compensation expense related to restricted common stock expected to vest over time is $1.8 million with a weighted average remaining vesting term of 2.2 years as of September 30, 2016.

The following table presents activity relating to RSUs for the nine months ended September 30, 2016:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2015	5,607,867	$ 28.30
RSUs granted	2,851,452	$ 39.65
RSUs vested	(1,431,327)	$ 25.14
RSUs forfeited/canceled	(517,519)	$ 33.18
Outstanding at September 30, 2016	6,510,473	$ 33.60
Expected to vest at September 30, 2016	5,002,821	$ 34.01

The intrinsic value of RSUs vested was $58.4 million for the nine months ended September 30, 2016. Aggregate intrinsic value of RSUs outstanding is $256.3 million as of September 30, 2016. Unrecognized equity based compensation expense related to RSUs expected to vest over time is $148.1 million with a weighted average remaining vesting term of 1.7 years at September 30, 2016.

8. 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.

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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):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net revenue				
Direct Retail	$832,398	$544,971	$2,299,901	$1,354,665
Other	29,127	49,001	95,900	155,430
Net revenue	$861,525	$593,972	$2,395,801	$1,510,095

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):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Geographic net revenue:				
United States	$787,801	$566,227	$2,226,395	$1,431,466
International (1)	73,724	27,745	169,406	78,629
Total	$861,525	$593,972	$2,395,801	$1,510,095

(1) In the three and nine months ended September 30, 2015, international net revenue included $0.7 million and $5.4 million, respectively, from our Australian business, which we sold in July 2015.

	September 30, 2016	December 31, 2015
Geographic long-lived assets:		
United States	$205,113	$110,042
International	6,172	2,283
Total	$211,285	$112,325

9. Income Taxes

Income tax (benefit) expense was less than $(0.1 million) for the three months ended September 30, 2016 and 2015, and $0.6 million and less than $0.1 million for the nine months ended September 30, 2016 and 2015, respectively. The income tax expense recorded in the three and nine months ended September 30, 2016 and 2015 is primarily related to various foreign income tax assessments, state income taxes and to a lesser extent the amortization of goodwill for tax purposes for which there is no corresponding book deduction.

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The Company has deferred tax assets related to its net operating loss carryforwards accumulated since the fourth quarter of 2014 and related to net operating loss carryforwards of certain of its foreign subsidiaries. A valuation allowance against net deferred tax assets is required if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company reassesses the valuation allowance on a quarterly basis and has provided a valuation allowance for the full amount of its net deferred tax assets.

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The Company had no unrecognized tax benefits as of September 30, 2016 and December 31, 2015. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense.

10. Stockholders' Equity

Preferred Stock

The Company authorized 10,000,000 shares of undesignated preferred stock, $0.001 par value per share, for future issuance. As of September 30, 2016, the Company had no shares of undesignated preferred stock issued or outstanding.

Common Stock

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 49,303,861 and 45,814,237 shares of Class A common stock and 36,100,764 and 38,496,562 shares of Class B common stock were outstanding as of September 30, 2016 and December 31, 2015, 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 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 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 September 30, 2016, 34,563,880 shares of Class B common stock were converted to Class A common stock.

11. Credit Agreement

The Company has a credit agreement with Bank of America, which was renewed on July 31, 2016. The credit agreement provides the Company with a $20.0 million revolving line of credit to support direct borrowings and letters of credit, provided that a maximum of $5.0 million may be applied to direct borrowings under the revolving line of credit, plus an additional $45.0 million credit card program, for a maximum aggregate commitment of $65.0 million. The credit agreement is renewable on an annual basis and, if not renewed, will expire on July 31, 2017. The renewed credit agreement is on substantially the same terms and conditions as the prior credit agreement. Subject to the terms and conditions of the credit agreement, advances under the line of credit, if any, will bear interest at the LIBOR rate, plus 1.75%. Under the credit agreement, the Company is also required to maintain certain covenants, including debt service coverage, tangible net worth and unencumbered liquid assets, with which the Company was compliant at September 30, 2016 and December 31, 2015. The Company did not borrow any amounts under the credit agreement during the three and nine months ended September 30, 2016 and the year ended December 31, 2015.

12. Net Loss per Share

Basic and diluted net loss 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. For additional information on the rights of the holders of Class A and Class B common stock, see Note 10, Stockholders' Equity, in the Notes to the Unaudited Consolidated and Condensed Financial Statements included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q. Basic net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed using the weighted-average number of shares of common stock and, if dilutive, common stock equivalents outstanding 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 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 loss per share. As a result, basic and diluted net loss per Class A and Class B shares are equivalent.
The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net loss	$(60,940)	$(15,478)	$(150,419)	$(61,948)
Weighted average common shares used for basic and diluted net loss per share computation	85,105	83,886	84,779	83,569
Net loss per share:				
Basic and Diluted	$(0.72)	$(0.18)	$(1.77)	$(0.74)

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

	Three and nine months ended September 30,	
	2016	2015
Stock options	223,588	302,617
Restricted stock	60,000	6,001
Restricted stock units	6,510,473	4,915,338
Total	6,794,061	5,223,956

13. Recent Accounting Pronouncements

Stock Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Compensation - Stock Compensation" ("ASU 2016-09"). This ASU revises the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and an option to recognized gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is permitted. Management is currently evaluating the impact of the adoption of this ASU on the Company's consolidated financial statements.

Leases

In February 2016, the FASB issued 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.

Revenue Recognition

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 was originally effective for annual reporting periods beginning after December 15, 2016 and early adoption was not permitted.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date" (ASU-2015-14), which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. Accordingly, ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting year.

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In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers - Principal versus Agent Considerations" ("ASU 2016-08"). This ASU clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. This ASU is effective at the same period as ASU 2015-14 and ASU 2014-09. Management is currently evaluating when to adopt the revenue recognition accounting pronouncements, which transition approach to use, and the impact of the adoption of this ASU on the Company’s consolidated financial statements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated and condensed financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "Wayfair," "the Company," "we," "us" or "our" refer to Wayfair Inc. and its consolidated subsidiaries.

Overview

Through our e-commerce business model, we offer 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, Joss & Main, AllModern, DwellStudio and Birch Lane. We have built one of the largest online selections of furniture, décor, decorative accents, housewares, seasonal décor and other home goods.

We founded our company in May 2002 and have since delivered over 32 million orders. From 2003 to 2011, we grew our net revenue organically from \$7.7 million to \$517.3 million, representing a 69.2% CAGR. In late 2011, we made the strategic decision to close and permanently redirect over 240 of our niche websites into Wayfair.com to create a one-stop shop for furniture, décor, decorative accents, housewares, seasonal décor and other home goods and to build brand awareness, drive customer loyalty and increase repeat purchasing. We also changed our name from CSN Stores LLC to Wayfair LLC.

We plan to grow our customer base by attracting more unique visitors to our sites through two main strategies—increasing brand awareness and expanding direct online marketing—and then converting those visitors to active customers. Our online efforts are focused on building brand awareness to drive visitor traffic via direct navigation, search engine optimization and email marketing campaigns. In addition, we have made significant investments to improve the consumer experience on our sites, such as creating highly engaging visual imagery and merchandising, as well as easy-to-use navigation tools and personalization features that enable better product discovery. We plan to continue investing in our infrastructure, including enhancing our merchandising, data, analytics, and technology platform, as well as developing additional logistics and transportation solutions, self-service tools for our suppliers, fulfillment offerings and enhancing our development, testing and deployment systems.

Until late 2012, we were primarily focused on growing our U.S. business. In 2012, we began laying the groundwork for expanding our international business by building our international infrastructure, developing deeper country-specific knowledge, building international supplier networks and establishing our brand presence in select international regions. We currently deliver products to customers in a number of countries, including the United States, the United Kingdom, Canada, and Germany. In the year ended December 31, 2015, we generated net revenue outside of the U.S. of \$114.4 million or 5.1% of our total net revenue.

In the three and nine months ended September 30, 2016, we generated net revenue of \$861.5 million and \$2,395.8 million, increases of 45.0% and 58.7%, respectively, over the same periods in 2015. Our net revenue in the three and nine months ended September 30, 2016 included \$832.4 million and \$2,299.9 million, respectively, from Direct Retail, which we define as sales generated primarily through the sites of our five brands. Our net revenue in the three and nine months ended September 30, 2016 included \$29.1 million and \$95.9 million, respectively, from Other, which we define as net revenue generated primarily online through third parties, which we refer to as our retail partners, and net revenue from media advertisers.

In the three months ended September 30, 2016, we generated a net loss of \$60.9 million and Adjusted EBITDA of \$(30.8) million, increases of \$45.5 million and \$29.4 million, respectively, over the same period in 2015. Our net loss and Adjusted EBITDA results were driven primarily by our increased investment in advertising, including in Europe and Canada, and investment in headcount across our global business. For additional information about Adjusted EBITDA, our use of this measure, the limitations of this measure as an analytical tool, and the reconciliation of Adjusted EBITDA to net loss, the most directly comparable generally accepted accounting principle ("GAAP") financial measure, refer to Key Financial and Operating Metrics below.

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Key Financial and Operating Metrics

We measure our business using both financial and operating metrics. Our net revenue, Adjusted EBITDA and free cash flow metrics are measured on a consolidated basis. All other key financial and operating metrics are derived and reported from our Direct Retail sales, which includes sales generated primarily through the sites of our five distinct brands. These metrics do not include net revenue derived from the sites operated by our retail partners. We do not have access to certain customer level information on net revenue derived through our retail partners and therefore cannot measure or disclose it.

We use the following metrics to assess the near-term and longer-term performance of our overall business (in thousands, except LTM Net Revenue per Active Customer and Average Order Value):

	Three months ended September 30,		
	2016	2015	% Change
Consolidated Financial Metrics			
Net Revenue	$861,525	$593,972	45.0 %
Adjusted EBITDA	$(30,849)	$(1,445)	
Free cash flow	$(13,968)	$35,332	
Direct Retail Financial and Operating Metrics			
Direct Retail Net Revenue	$832,398	$544,971	52.7 %
Active Customers	7,362	4,591	60.4 %
LTM Net Revenue per Active Customer	$406	$371	9.4 %
Orders Delivered	3,417	2,323	47.1 %
Average Order Value	$244	$235	3.8 %

	Nine months ended September 30,		
	2016	2015	% Change
Consolidated Financial Metrics			
Net Revenue	$2,395,801	$1,510,095	58.7 %
Adjusted EBITDA	$(76,666)	$(18,757)	
Free cash flow	$(113,968)	$(5,047)	
Direct Retail Financial and Operating Metrics			
Direct Retail Net Revenue	$2,299,901	$1,354,665	69.8 %
Active Customers	7,362	4,591	60.4 %
LTM Net Revenue per Active Customer	$406	$371	9.4 %
Orders Delivered	9,343	6,079	53.7 %
Average Order Value	$246	$223	10.3 %

Non-GAAP Financial Measures

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed here and elsewhere in this Quarterly Report on Form 10-Q Adjusted EBITDA, a non-GAAP financial measure that we calculate as loss before depreciation and amortization, equity-based compensation and related taxes, interest and other income and expense, provision for income taxes, and non-recurring items. We have provided a reconciliation below of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect equity based compensation and related taxes;
- Adjusted EBITDA does not reflect changes in our working capital;
- Adjusted EBITDA does not reflect income tax payments that may represent a reduction in cash available to us;
- Adjusted EBITDA does not reflect depreciation and interest expenses associated with the lease financing obligation; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Reconciliation of Adjusted EBITDA				
Net loss	$(60,940)	$(15,478)	$(150,419)	$(61,948)
Depreciation and amortization	15,463	9,207	38,528	23,351
Equity based compensation and related taxes	15,308	7,985	37,265	23,248
Interest expense (income), net	292	(325)	(791)	(897)
Other (income), net	(889)	(2,746)	(1,804)	(2,542)
(Benefit from) provision for income taxes	(83)	(88)	555	31
Adjusted EBITDA	$(30,849)	$(1,445)	$(76,666)	$(18,757)

Free Cash Flow

To provide investors with additional information regarding our financial results, we have also disclosed here and elsewhere in this Quarterly Report on Form 10-Q free cash flow, a non-GAAP financial measure that we calculate as net cash provided by (used in) operating activities less net cash used to purchase property and equipment and site and software development costs. We have provided a reconciliation below of free cash flow to net cash provided by (used in) operating activities, the most directly comparable GAAP financial measure.

We have included free cash flow in this Quarterly Report on Form 10-Q because it is an important indicator of our business performance as it measures the amount of cash we generate. Accordingly, we believe that free cash flow provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management.

Free cash flow has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. There are limitations to using non-GAAP financial measures, including that other companies, including companies in our industry, may calculate free cash flow differently. Because of these limitations, you should consider free cash flow alongside other financial performance measures, including net cash provided by (used in) operating activities, capital expenditures and our other GAAP results.

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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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net cash provided by (used in) operating activities	$15,621	$51,504	$(10,680)	$44,755
Purchase of property and equipment	(20,408)	(11,491)	(81,844)	(36,695)
Site and software development costs	(9,181)	(4,681)	(21,444)	(13,107)
Free cash flow	$(13,968)	$35,332	$(113,968)	$(5,047)

Key Operating Metrics (Direct Retail)

Active Customers

As of the last date of each reported period, we determine our number of active customers by counting the total number of individual customers who have purchased at least once directly from our sites during the preceding twelve-month period. The change in active customers in a reported period captures both the inflow of new customers as well as the outflow of existing customers who have not made a purchase in the last twelve months. We view the number of active customers as a key indicator of our growth.

LTM Net Revenue Per Active Customer

We define LTM net revenue per active customer as our total net revenue derived from Direct Retail sales in the last twelve months divided by our total number of active customers for the same preceding twelve-month period. We view LTM net revenue per active customer as a key indicator of our customers' purchasing patterns, including their initial and repeat purchase behavior.

Orders Delivered

We define orders delivered as the total Direct Retail orders delivered in any period, inclusive of orders that may eventually be returned. 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 recognize net revenue when an order is delivered and therefore orders delivered, together with average order value, is an indicator of the net revenue we expect to recognize in a given period. We view orders delivered as a key indicator of our growth.

Average Order Value

We define average order value as total Direct Retail net revenue in a given period divided by the orders delivered in that period. We view average order value as a key indicator of the mix of products on our sites, the mix of offers and promotions and the purchasing behavior of our customers.

Factors Affecting our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us but also pose risks and challenges, including those discussed in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q and those set forth under Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2015.

Growth in Brand Awareness and Visitors to our Sites

We intend to continue investing in our brand awareness strategy and direct online marketing efforts. In late 2011, we made a strategic decision to close and permanently redirect over 240 of our niche websites into Wayfair.com. Since late 2011, we have marketed our brands, in particular Wayfair.com, through TV advertising, display advertising, paid search advertising, social media advertising and direct mail, catalog and print advertising. We believe that attracting new visitors to our sites and converting them into customers is key to driving our net revenue growth and operating results.

Growth in Customer Acquisition and Customer Retention

Our goal is to convert visitors into active customers and then encourage repeat purchases because it increases our operating leverage since it costs more to acquire a customer than to retain one. Our continued investments in infrastructure, including enhancing our merchandising, data, analytics, and technology platform, allow us to deliver increasingly tailored and

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personalized shopping experiences for customers across our sites. We believe our focus on a personalized shopping experience drives sales from new customers as well as repeat customers.

Revenue Growth Through Mobile Platform

Mobile is an increasingly important part of our business. We launched our mobile applications for Joss & Main in 2012, Wayfair.com in 2014, and AllModern in 2015, and all of our sites are mobile-optimized. Due to the relative newness of smartphones, tablets, and mobile shopping in general, we do not know if this increase in mobile use will continue.

Investment in Growth

We have aggressively invested in the growth of our business and this investment will continue. We anticipate that our operating expenses will increase substantially as we continue to increase our advertising spending, hire additional personnel primarily in merchandising, technology, operations, customer service and general and administrative functions and continue to develop features on our sites. We have continued to increase our office space to accommodate the anticipated growth of our headcount in our corporate headquarters and have expanded our warehouse space. These investments are expected to continue to generate losses near term and yield returns in the long term, but there is no guarantee that we will be able to realize the return on our investments.

Net Revenue

Net revenue consists primarily of sales of product from our sites and through the sites of our online retail partners and includes related shipping fees. We deduct cash discounts, allowances and estimated returns from gross revenue to determine net revenue. We recognize product revenue upon delivery to our customers. Net revenue is primarily driven by growth of new and active customers and the frequency with which customers purchase. The products offered on our sites are primarily fulfilled with product we ship to our customers directly from our suppliers and, to a lesser extent, from our fulfillment centers. We also generate net revenue through third-party advertisers that pay us based on the number of advertisement related clicks, actions, or impressions for advertisements placed on our sites. Net revenue earned under these arrangements is included in net revenue and net revenue through our third-party advertisers is recognized in the period in which the click, action or impression occurs. This revenue has not been material to date.

Cost 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 including equity-based compensation for fulfillment center oversight, including payroll and related benefit costs. The increase in cost of goods sold is primarily driven by growth in orders delivered, the mix of the product available for sale on our sites and transportation costs related to delivering orders to our customers. We earn rebates on our incentive programs with our suppliers. These rebates are earned upon shipment of goods. Amounts due from suppliers as a result of these rebate programs are included as a receivable and are reflected as a reduction of cost of goods sold on the consolidated statements of operations. We expect cost of goods sold expenses to remain relatively stable as a percentage of net revenue but some fluctuations are expected due to the wide variety of products we sell.

Customer Service and Merchant Fees

Customer service and merchant fees consist of labor-related costs including equity-based compensation of our employees involved in customer service activities and merchant processing fees associated with customer payments made by credit cards. Increases in our customer service and merchant fees are driven by the growth in our revenue and are expected to remain relatively consistent as a percentage of revenue.

Advertising

Advertising consists of direct response performance marketing costs, such as television advertising, display advertising, paid search advertising, social media advertising, search engine optimization, comparison shopping engine advertising, direct mail, catalog and print advertising. We expect advertising expense to continue to increase but decrease as a percentage of net revenue over time due to our increasing mix of orders from repeat customers.

Merchandising, Marketing and Sales

Merchandising, marketing and sales expenses include labor-related costs including equity-based compensation for our category managers, buyers, site merchandisers, merchants, marketers and the team who executes our advertising strategy. Sales,

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marketing and merchandising expenses are primarily driven by investments to grow and retain our customer base. We expect merchandising, marketing and sales expenses to continue to increase as we grow our net revenue.

Operations, Technology and General and Administrative

Operations, 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.

Interest (Expense) Income, Net

Interest (expense) income, net consists primarily of interest expense on the lease financing obligation and interest earned on cash, cash equivalents and short-term and long-term investments held by us.

Other Income, Net

Other income, net consists primarily of foreign currency gains (losses).

Results of Consolidated Operations (in thousands)

Comparison of the three months ended September 30, 2016 and 2015

Net revenue

	Three months ended September 30,		
	2016	2015	% Change
Net revenue			
Direct Retail	$832,398	$544,971	52.7 %
Other	29,127	49,001	(40.6)%
Net revenue	$861,525	$593,972	45.0 %

In the three months ended September 30, 2016, net revenue increased by $267.6 million, or 45.0% compared to the same period in 2015, primarily as a result of an increase in Direct Retail net revenue. In the three months ended September 30, 2016, Direct Retail net revenue increased by $287.4 million, or 52.7% compared to the same period in 2015, primarily due to sales to a larger customer base, as the number of active customers increased 60.4% as of September 30, 2016 compared to September 30, 2015. Additionally, LTM net revenue per active customer increased 9.4% as of September 30, 2016 compared to September 30, 2015. The $19.8 million or 40.6% decrease in Other revenue in the three months ended September 30, 2016 as compared to the same period in 2015 was primarily due to decreased sales through our retail partners, as we continue to focus more on our Direct Retail business over time.

Cost of goods sold

	Three months ended September 30,		
	2016	2015	% Change
Cost of goods sold			
Cost of goods sold	$659,864	$452,586	45.8 %
As a percentage of net revenue	76.6 %	76.2 %	

In the three months ended September 30, 2016, cost of goods sold increased by $207.3 million, or 45.8%, compared to the same period in 2015. Of the increase in cost of goods sold, $165.0 million was due to the increase in products sold to our larger customer base. In addition, shipping and fulfillment costs increased $42.3 million as a result of the increase in products sold during the period. Cost of goods sold as a percentage of net revenue increased in the three months ended September 30, 2016 compared to the same period in 2015 as a result of changes in the mix of the products sold.

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Operating expenses

	Three months ended September 30,		
	2016	2015	% Change
Customer service and merchant fees (1)	$33,872	$21,109	60.5 %
Advertising	101,333	70,711	43.3 %
Merchandising, marketing and sales (1)	48,550	27,083	79.3 %
Operations, technology, general and administrative (1)	79,526	41,120	93.4 %
	$263,281	$160,023	64.5 %
As a percentage of net revenue:			
Customer service and merchant fees (1)	3.9 %	3.6 %	
Advertising	11.8 %	11.9 %	
Merchandising, marketing and sales (1)	5.6 %	4.6 %	
Operations, technology, general and administrative (1)	9.2 %	6.9 %	
	30.5 %	27.0 %	

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

	Three months ended September 30,	
	2016	2015
Customer service and merchant fees	$627	$236
Merchandising, marketing and sales	$6,588	$3,414
Operations, technology, general and administrative	$7,881	$4,239

The following table summarizes operating expenses as a percentage of net revenue, excluding equity-based compensation and related taxes:

	Three months ended September 30,	
	2016	2015
Customer service and merchant fees	3.9%	3.5%
Merchandising, marketing and sales	4.9%	4.0%
Operations, technology, general and administrative	8.3%	6.2%

Excluding the impact of equity based compensation and related taxes, customer service costs and merchant processing fees increased by $12.3 million in the three months ended September 30, 2016 compared to the same period in 2015, primarily due to the increase in net revenue during the three months ended September 30, 2016.

Our advertising expenses increased by $30.6 million in the three months ended September 30, 2016 compared to the same period in 2015, primarily as a result of an increase in online and television advertising. Advertising decreased as a percentage of net revenue in the three months ended September 30, 2016 compared to the same period in 2015, primarily due to increased leverage from our growing base of repeat customers, and television advertising expense not increasing at the same rate as revenue growth in the United States, partially offset by advertising investments in Europe and Canada.

Excluding the impact of equity based compensation and related taxes, merchandising, marketing and sales expenses increased by $18.3 million in the three months ended September 30, 2016 compared to the same period in 2015, primarily due to the increase in headcount to grow and retain our customer base.

Excluding the impact of equity based compensation and related taxes, operations, technology, general and administrative expense increased by $34.7 million in the three months ended September 30, 2016 compared to the same period 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, and depreciation and amortization.

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Comparison of the nine months ended September 30, 2016 and 2015

Net revenue

	Nine months ended September 30, 2016	2015	% Change
Net revenue			
Direct Retail	$2,299,901	$1,354,665	69.8 %
Other	95,900	155,430	(38.3)%
Net revenue	$2,395,801	$1,510,095	58.7 %

In the nine months ended September 30, 2016, net revenue increased by $885.7 million, or 58.7% compared to the same period in 2015, primarily as a result of an increase in Direct Retail net revenue. In the nine months ended September 30, 2016, Direct Retail net revenue increased by $945.2 million, or 69.8% compared to the same period in 2015, primarily due to sales to a larger customer base, as the number of active customers increased 60.4% as of September 30, 2016 compared to September 30, 2015. Additionally, LTM net revenue per active customer increased 9.4% as of September 30, 2016 compared to September 30, 2015. The $59.5 million or 38.3% decrease in Other revenue in the nine months ended September 30, 2016 as compared to the same period in 2015 was primarily due to decreased sales through our retail partners, as we continue to focus more on our Direct Retail business over time.

Cost of goods sold

	Nine months ended September 30, 2016	2015	% Change
Cost of goods sold			
Cost of goods sold	$1,826,570	$1,145,073	59.5 %
As a percentage of net revenue	76.2 %	75.8 %	

In the nine months ended September 30, 2016, cost of goods sold increased by $681.5 million, or 59.5%, compared to the same period in 2015. Of the increase in cost of goods sold, $552.5 million was due to the increase in products sold to our larger customer base. In addition, shipping and fulfillment costs increased $129.0 million as a result of the increase in products sold during the period. Cost of goods sold as a percentage of net revenue increased in the nine months ended September 30, 2016 compared to the same period in 2015 as a result of changes in the mix of the products sold.

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Operating expenses

	Nine months ended September 30,		
	2016	2015	% Change
Customer service and merchant fees (1)	$91,286	$55,417	64.7 %
Advertising	293,436	190,249	54.2 %
Merchandising, marketing and sales (1)	129,679	74,131	74.9 %
Operations, technology, general and administrative (1)	207,289	110,581	87.5 %
	$721,690	$430,378	67.7 %
As a percentage of net revenue			
Customer service and merchant fees (1)	3.8 %	3.7 %	
Advertising	12.2 %	12.6 %	
Merchandising, marketing and sales (1)	5.4 %	4.9 %	
Operations, technology, general and administrative (1)	8.7 %	7.3 %	
	30.1 %	28.5 %	

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

	Nine months ended September 30,	
	2016	2015
Customer service and merchant fees	$1,488	$743
Merchandising, marketing and sales	$16,910	$10,484
Operations, technology, general and administrative	$18,510	$11,775

The following table summarizes operating expenses as a percentage of net revenue, excluding equity-based compensation and related taxes:

	Nine months ended September 30,	
	2016	2015
Customer service and merchant fees	3.7%	3.6%
Merchandising, marketing and sales	4.7%	4.2%
Operations, technology, general and administrative	7.9%	6.5%

Excluding the impact of equity based compensation and related taxes, customer service costs and merchant processing fees increased by $35.1 million in the nine months ended September 30, 2016 compared to the same period in 2015, primarily due to the increase in net revenue during the nine months ended September 30, 2016.

Our advertising expenses increased by $103.2 million in the nine months ended September 30, 2016 compared to the same period in 2015, primarily as a result of an increase in online and television advertising. Advertising decreased as a percentage of net revenue in the nine months ended September 30, 2016 compared to the same period in 2015 primarily due to increased leverage from our growing base of repeat customers, and television advertising expense not increasing at the same rate as revenue growth in the United States, partially offset by advertising investments in Europe and Canada.

Excluding the impact of equity based compensation and related taxes, merchandising, marketing and sales expenses increased by $49.2 million in the nine months ended September 30, 2016 compared to the same period in 2015, primarily due to an increase in headcount to grow and retain our customer base.

Excluding the impact of equity based compensation and related taxes operations, technology, general and administrative expense increased by $90.0 million in the nine months ended September 30, 2016 compared to the same period 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, and depreciation and amortization.

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Liquidity and Capital Resources

Sources of Liquidity

	9/30/2016	12/31/2015
	(in thousands)	
Cash and cash equivalents	$208,344	$334,176
Short-term investments	$84,471	$51,895
Accounts receivable, net	$16,689	$9,906
Long-term investments	$41,718	$79,883
Working capital	$(56,883)	$95,297

Historical Cash Flows

	Nine months ended September 30,	
	2016	2015
	(in thousands)	
Net loss	$(150,419)	$(61,948)
Net cash (used in) provided by operating activities	$(10,680)	$44,755
Net cash used in investing activities	$(97,178)	$(109,234)
Net cash used in financing activities	$(18,260)	$(12,525)

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 September 30, 2016, 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 and investments, 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. Capital expenditures were 3.4% of net revenue for the three months ended September 30, 2016, and related primarily to putting a new data center online, our ongoing investments in our technology infrastructure, and equipment purchases and improvements for leased warehouses within our expanding supply chain network. We expect capital expenditures to be approximately 4.0% of net revenue for the full year 2016, as we continue our investment in our technology infrastructure and roll out our supply chain network. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described herein and in our other filings with the SEC, including those set forth under in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2015. We may not be able to secure additional financing to meet our operating requirements on acceptable terms, or at all.

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Operating Activities

Cash (used in) 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.

Cash used in operating activities in the nine months ended September 30, 2016 was $10.7 million and was driven primarily by net loss of $150.4 million and other non-cash items of $0.1 million, partially offset by cash provided by operating assets and liabilities of $66.1 million, and certain non-cash items including depreciation and amortization expense of $38.5 million and equity based compensation of $35.2 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 nine months ended September 30, 2015 was $44.8 million and was driven primarily by cash provided by operating assets and liabilities of $63.2 million, certain non-cash items including depreciation and amortization expense of $23.4 million, equity based compensation of $21.7 million, and other non-cash items of $1.4 million, partially offset by net loss of $61.9 million and gain on sale of a 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.

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, and leasehold improvements for our facilities.

Cash used in investing activities in the nine months ended September 30, 2016 was $97.2 million and was primarily driven by purchases of property and equipment of $81.8 million, purchases of short-term and long-term investments of $76.5 million, site, and software development costs of $21.5 million, and other net investing activities of $1.0 million, partially offset by net increase in the maturity of short-term investments of $82.1 million, and cash received from the sale of a business (net of cash sold) of $1.5 million.

Cash used in investing activities in the nine months ended September 30, 2015 was $109.2 million and was primarily driven by purchases of short-term and long-term investments of $141.3 million, purchases of property and equipment of $36.7 million, and site and software development costs of $13.1 million, partially offset by net increase in the maturity of short-term investments of $78.7 million, cash received from the sale of a business (net of cash sold) of $2.9 million, and other net investing activities of $0.3 million.

Financing Activities

Cash used in financing activities in the nine months ended September 30, 2016 was $18.3 million and was primarily due to $18.5 million statutory minimum taxes paid related to net share settlements of equity awards, partially offset by $0.2 million net proceeds from exercise of stock options.

Cash used in financing activities in the nine months ended September 30, 2015 was $12.5 million and was primarily due to $12.9 million statutory minimum taxes paid related to net share settlements of equity awards, partially offset by $0.4 million net proceeds from exercise of stock options.

Credit Agreement

For information regarding our credit agreement, see Note 11, Credit Agreement, in the Notes to the Unaudited Consolidated and Condensed Financial Statements included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q.

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.

Contractual Obligations

There have been no material changes to our contractual obligations and estimates as compared to the contractual obligations described in Contractual Obligations included in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, except as disclosed in Note 6, Commitments and Contingencies, in the Notes to the Unaudited

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Consolidated and Condensed Financial Statements included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q.

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.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in Note 2, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements included in Part II, Item 8, Financial Statements and Supplementary Data, of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 other than those noted below.

Revenue Recognition

We generate net revenue through product sales generated primarily through the sites of our five distinct brands and through sites operated by third parties.

We recognize revenue for product sales generated through the sites of our five distinct brands and through sites operated by third parties 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. We record 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, have latitude in establishing price and selecting products sold, have discretion in selecting suppliers of products sold, 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 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, we defer revenue when cash is collected from our customer prior to the satisfaction of the revenue recognition criteria.

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

We also earn revenue through third-party advertisers that pay based on the number of advertisement related clicks, actions, or impressions for advertisements 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.

Recent Accounting Pronouncements

For information about recent accounting pronouncements, see Note 13, Recent Accounting Pronouncements, included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 herein 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 4. CONTROLS AND PROCEDURES

Evaluation of 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 of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission, or SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding our legal proceedings, see Note 6, Commitments and Contingencies - Legal Matters, in the Notes to the Consolidated and Condensed Financial Statements included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q, which is incorporated into this item by reference.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Sales of Unregistered Securities

During the three months ended September 30, 2016, we issued 426,907 shares of Class B common stock upon the vesting of outstanding restricted stock units, net of shares withheld to satisfy statutory minimum tax withholding obligations. The issuance of these securities were pursuant to written compensatory plans or arrangements with our employees, consultants, advisors and directors in reliance on the exemption provided by Rule 701 promulgated under the Securities Act, relative to transactions by an issuer not involving any public offering, to the extent an exemption from registration was required.

Use of Proceeds from Public Offering of Common Stock

On October 1, 2014 the SEC declared our Registration Statement on Form S-1 (File No. 333-198171), as amended, effective in connection with our IPO.

There have been no material changes in the planned use of proceeds from the offering as described in the Registration Statement and in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/Period End Date
10.1	Amendment No. 4 to Loan Agreement, dated as of July 31, 2016, by and between Bank of America, N.A. and Wayfair LLC.	8-K	8/4/2016
10.2*	Fifth Amendment to Office Lease between Copley Place Associates, LLC and Wayfair LLC (such lease, as amended to date, the "Copley Lease"), dated as of July 29, 2016, by and between Copley Place Associates, LLC and Wayfair LLC.		
10.3*	Elevator Side Letter to Copley Lease, dated as of July 28, 2016, by and between Copley Place Associates, LLC and Wayfair LLC.		
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.		
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.		
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.		
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.		
101.INS*	XBRL Instance Document		
101.SCH*	XBRL Taxonomy Extension Schema Document		
101.CAL*	XBRL Taxonomy Calculation Linkbase Document		
101.DEF*	XBRL Taxonomy Definition Linkbase Document		
101.LAB*	XBRL Taxonomy Labels Linkbase Document		
101.PRE*	XBRL Taxonomy Presentation Linkbase Document		

* Exhibits filed herewith.

** Exhibits furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WAYFAIR INC.

Date: November 8, 2016 By: /s/ NIRAJ SHAH
Niraj Shah
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2016 By: /s/ MICHAEL FLEISHER
Michael Fleisher
Chief Financial Officer
(Principal Financial Officer)

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