

Wayfair Inc.
Form 10-K
March 19, 2015

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

Form 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from _____ to _____
Commission File Number: 001-36666

Wayfair Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

4 Copley Place, 7th Floor, Boston, MA
(Address of principal executive offices)

(617) 532-6100

(Registrant's telephone number, including area code)

36-4791999
(I.R.S. Employer
Identification Number)

02116
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value	The New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	
None.	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 <input type="radio"/>	Accelerated filer <input type="radio"/>	Non-accelerated filer <input checked="" type="radio"/>	Smaller reporting company <input type="radio"/>
(Do not check if a smaller reporting company)			

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of December 31, 2014 computed by reference to the closing sale price of \$19.85 per share as reported on the New York Stock Exchange on that date was \$1,651 million. The registrant has provided this information as of December 31, 2014 because its common equity was not publicly traded as of the last business day of its most recently completed second fiscal quarter.

As of February 28, 2015, there were 37,199,841 shares of the registrant's Class A common stock, par value \$0.001 per share, and 46,192,680 shares of the registrant's Class B common stock, par value \$0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's definitive Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Rule 14A not later than 120 days after end of this fiscal year covered by this Form 10-K are incorporated by reference into Part III of this Form 10-K.

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Wayfair Inc.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2014

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical fact contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this Annual Report on Form 10-K are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K and are subject to a number of risks, uncertainties and assumptions described in the "Risk Factors" section and elsewhere in this Annual Report on Form 10-K. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events or otherwise.

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PART I

Item 1. Business.

Overview

Wayfair is one of the world's largest online destinations for the home. Through our e-commerce business model, we offer visually inspired browsing, compelling merchandising, easy product discovery and attractive prices for over seven million products from over 7,000 suppliers across five distinct brands: Wayfair.com, Joss & Main, AllModern, DwellStudio and Birch Lane.

The typical Wayfair customer is a 35 to 65 year old woman with an annual household income of \$60,000 to \$175,000, who we consider to be a mass market consumer and who we believe is underserved by traditional brick and mortar and other online retailers of home goods. Because each of our customers has a different taste, style, purchasing goal and budget when shopping for her home, we have built one of the largest online selections of furniture, home furnishings, décor and goods. We are able to offer this vast selection of products while holding minimal inventory because we typically ship products directly from our suppliers to our customers. This supplier direct fulfillment network is a key component of our custom-built technology and operational platform, which also includes extensive supplier integrations, a proprietary transportation delivery network and superior customer service.

We founded our company in May 2002 and have since delivered over 15 million orders. From 2002 through 2011, the Company was bootstrapped by our co-founders and operated as hundreds of niche websites, such as bedroomfurniture.com and allbarstools.com. In 2006, we launched AllModern. 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, home furnishings, décor and 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. In connection with our initial public offering, we formed Wayfair Inc. to be a holding company with no material assets other than 100% of the equity interests in Wayfair LLC.

Our co-founders are lifetime tech innovators who have worked together in the commercial internet sector since 1995 and have created a company culture deeply rooted in technology. Our technology and data focus facilitates critical e-commerce capabilities such as tailored shopping experiences across our five brands, consumer targeting and personalization, and "anytime, anywhere" shopping across our websites, mobile-optimized websites and mobile applications, which we collectively refer to as our sites.

Our Industry

The home goods market is large and characterized by specific consumer trends, structural challenges and market dynamics that are shaping the future of our industry.

Addressable Market Size and Growth

The home goods market is large, global and growing. We believe the mass market for home goods represents the largest addressable opportunity within the home goods sector and that the mass market consumer is underserved due to structural limitations of brick and mortar and other online retailers. In 2014, women represented 73% of our customers. According to a data released by the U.S. Census Bureau, there are 158 million women in the United States, of which 63 million are between the ages of 35 and 65. We believe these women control an outsized share of spending, particularly spending related to furniture, home furnishings, décor and goods. In addition, we believe there are approximately 70 million millennials (which we define as individuals currently between the ages of 19 to 32) in the United States, many of whom are accustomed to purchasing goods online. As millennials age, start new families and move into new homes, we expect online sales of home goods to increase. In addition, we believe the online home goods market will further grow as older generations of consumers become

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increasingly comfortable purchasing online. Additionally, mobile commerce is growing rapidly and is just beginning in home goods. The proliferation of smartphones and tablets has made mobile commerce one of the fastest growing online channels. Since consumers have access to their mobile devices virtually anytime and anywhere, they have the opportunity to browse, discover and shop throughout the day.

Why Home is Different

Home is Shopped Differently than Other Retail Verticals: Homes are personal expressions of self and identity, which is why many consumers seek uniqueness, crave originality and enjoy the feeling created by home design, furniture and décor. Consumers shopping for home goods often cannot articulate what they are looking for other than to describe a feeling or visual image that they want to capture in their home. In addition, while consumers typically know the names of big box and specialty retailers that offer various home products, we believe they rarely know the names of the product brands or suppliers. We believe traditional search-based sites that rely on directed product search (e.g., "running sneakers") or brand name search (e.g., "Samsung 32-inch LCD television") have difficulty serving customers shopping for home products in this more emotional, visual and inspirational manner.

Home Shoppers Desire Uniqueness, which Requires Vast Selection: In the mass market for home goods, consumers with different tastes, styles, purchasing goals and budgets require a broad selection of products and choices. This need for selection applies across many home categories, including furniture, décor, lighting, kitchen, bed & bath, outdoor, home improvement and baby & kids, each of which has dozens of sub-categories with hundreds to tens of thousands of products. Brick and mortar home goods retailers must balance a consumer's desire for uniqueness, which requires massive selection, with the challenges of high inventory carrying costs and limited showroom and storage space.

Time Consuming and Inconvenient for Consumers to Shop across Brick and Mortar Home Retailers: To browse a vast selection of products across highly-fragmented brick and mortar retailers, consumers must shop multiple stores. For example, if a nearby furniture retailer has 20 bedroom sets on its showroom floor, a consumer may feel she must visit multiple stores to see a wide enough selection to make an informed purchase decision that satisfies her style and budget needs. We believe the lack of an easy-to-browse, one-stop shopping experience with massive selection has led to dissatisfaction with brick and mortar home goods shopping. In contrast, Wayfair.com offers over 1,000 bedroom sets across many styles and prices, which mitigates the need for a consumer to visit multiple stores to find the perfect item at a price she can afford.

Difficult to Browse, Value Shop and Price Compare: Mass market home goods shoppers frequently seek a wide variety of information from disparate online and offline sources to research home goods products. Because this information is not easily comparable, it is difficult for consumers to make informed home décor and design-related decisions. In addition, consumers may struggle to mix and match different home goods items they are considering buying from multiple traditional brick and mortar retailers.

Challenging Logistics for Consumers and Retailers: Logistics, fulfillment and customer service for home goods products are challenging given the various categories, shapes, sizes, weights and price points in the home market. Given the personal nature and high touch physical characteristics of home goods products, many consumers seek first-rate customer service so they are not burdened with managing delivery, shipping and return logistics on their own. However, we believe big box retailers that serve the mass market for home goods are often unable or unwilling to provide this level of service. In addition, many regional retailers do not ship nationally, which we believe is because they lack the required scalable technology, operations and distribution infrastructure.

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Our Solution

Key Benefits for Our Customers

We offer our consumers vast selection, easy access and value, inspirational content, personalized and mobile shopping experiences and superior customer service to help them find the perfect item at a price they can afford.

Broad Selection and Choice: We offer one of the largest online selections of furniture, home furnishings, décor and goods with over seven million products from over 7,000 suppliers.

Easy Access and Value: We offer consumers a one-stop shop with home goods pricing designed to be on par with big box retailers and a merchandising experience designed to be on par with specialty retailers.

Inspirational Photography and Editorial Content: To inspire customers, we produce beautiful imagery and highly-tailored editorial content both in house and through third parties.

Personalized and Mobile Shopping Experiences: We use personalization, based on past browsing, shopping patterns and personal preferences, to create a more engaging consumer experience. Our investment in mobile allows us to deliver value, convenience and inspiration to consumers anytime and anywhere.

Superior Customer Service: Our customer service organization has over 600 representatives who help consumers navigate our sites, answer questions and help complete orders. This team helps us build trust with consumers, build our brand awareness, enhance our reputation and drive sales.

Key Benefits for Our Suppliers

Through our technology platform, we offer our suppliers a cost-effective channel, the ability to leverage our technological expertise, a real-time view of our demand and proven logistics capabilities to help sell their products.

Cost-Effective Access to Our Large Customer Base: We sell products from over 7,000 suppliers, many of which are small, family-run operations without well-known product brands and without easy retail access to a large customer base. We provide our suppliers with access to our customer base of 3.2 million active customers, enabling them to increase their sales and access the growing e-commerce market.

Ability to Leverage Our Technological Expertise to Drive Sales: Our technology platform is designed to allow suppliers to easily provide us with their full product selection. Through our technology platform, we believe many of our suppliers have increased their sales, which has strengthened their loyalty to us.

Real-Time View of Demand and Inventory Needs via Data and Analytics: We offer our suppliers a real-time view of our demand and inventory needs via powerful data and analytics.

Proven Logistics Capabilities: Our logistics infrastructure allows us to ship directly from our suppliers to our customers. This supplier direct fulfillment network is a key component of our custom-built and seamlessly integrated technology and operational platform.

Our Strengths

We believe we have achieved our market leading position through the following key strengths:

our large scale drives powerful network effects;

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superior logistics infrastructure and supplier direct fulfillment network require minimal inventory and capital expenditures;

trusted brand with rapidly growing awareness;

personalized shopping experiences and differentiated use of data, analytics and technology drive high customer repeat rates;

powerful and custom-built technology platform;

well-positioned to benefit from platform shift to mobile; and

proven and operationally disciplined management team.

Our Growth Strategy

Our goal is to further improve our leadership in the home goods market by pursuing the following key strategies:

continue building leading retail home brands;

acquire more customers;

continue to invest in the consumer experience;

increase repeat purchasing through merchandising, data, analytics and technology;

add new suppliers and deepen relationships with our existing suppliers;

continue to invest in our technology and operational platform, including our mobile platform;

expand internationally; and

opportunistically pursue strategic acquisitions.

Brands

Each of our customers has a different taste, style, purchasing goal and budget when shopping for her home. To help her find the right products for her home, we offer five distinct brands: Wayfair.com, Joss & Main, AllModern, DwellStudio and Birch Lane. Each brand has a unique identity that offers a tailored shopping experience and rich product selection to a different target audience.

Wayfair.com: Wayfair.com is our flagship mass market brand that focuses on offering the largest selection of home furnishings and décor, from low- to high-end and across all styles.

Joss & Main: Joss & Main is our online flash sales site that combines inspiring home design with significant savings.

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AllModern: AllModern is an online destination for original design for modern home enthusiasts.

DwellStudio: DwellStudio is an online design studio for modern, fashion- forward home furnishings.

Birch Lane: Birch Lane is a new destination for classic style and timeless home designs.

In addition to our five brands, we also generate net revenue through two other sources:

Retail Partners: A portion of our net revenue is generated online by retail partners. These relationships allow consumers to purchase Wayfair products through the retail partners' sites.

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Wayfair Media Solutions: Wayfair helps selected manufacturers, retailers and other advertisers market to our large consumer audience.

Technology

We have custom-built our proprietary technology and operational platform to deliver the best experience for both our customers and suppliers. Our success has been built on a culture of data-driven decision-making, operational discipline and an unwavering focus on the customer. We employ over 300 engineers and data scientists and believe we are able to attract and retain some of the best technological minds. Our engineering department is organized into four operating groups that have built a full set of technology solutions specific for the home goods market:

Storefront: A large set of tools and systems with which our customers directly interact. Our storefront team develops an experience specifically tuned for shopping the home goods category.

Operations: A majority of the software we have written is designed to deliver the reliable and consistent experience consumers desire, but is not consumer facing.

Infrastructure: We have developed a variety of tools and systems that enable us to move quickly and efficiently as we scale our organization. Our infrastructure group supports a variety of proprietary, purchased as well as open source systems. Our infrastructure group is primarily focused on the tools, processes, systems and platforms that provide the technical infrastructure that drives our business.

Corporate IT: In addition to developing a large amount of software that is specific to our business, we run systems common across multiple industries.

Competition

The market for online home goods and furniture is highly competitive, fragmented and rapidly changing. While we are primarily focused on the mass market, we compete across all segments of the home goods market. Our competition includes furniture stores, big box retailers, department stores, specialty retailers and online retailers and marketplaces:

Furniture Stores: Ashley Furniture, Bob's Discount Furniture, Havertys, Raymour & Flanigan and Rooms To Go;

Big Box Retailers: Bed Bath & Beyond, Home Depot, IKEA, Lowe's, Target and Walmart;

Department Stores: JCPenney and Macy's;

Specialty Retailers: Crate and Barrel, Ethan Allen, HomeGoods, Pottery Barn and Restoration Hardware; and

Online Retailers and Marketplaces: Amazon and eBay.

We believe that the primary competitive factors in the mass market are vast selection, visually inspiring browsing, compelling merchandising, ease of product discovery, price, convenience, reliability, speed of fulfillment and customer service. We believe our technological and operational expertise allows us to provide our customers with a vast selection of goods, attractive price points, reliable and timely fulfillment, plus superior customer service, and that the combination of these capabilities is what provides us with a sustainable competitive advantage.

Sales and Marketing

Our sales and marketing efforts bring new and repeat customers to our sites and help us acquire their email addresses through various paid and non-paid advertising methods. Our paid advertising efforts include search engine marketing, display advertising, paid social media, catalog and television

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advertisements. Our non-paid advertising efforts include search engine optimization, non-paid social media, mobile "push" notifications and email. Upon acquiring a customer or a potential customer's email address, we seek to increase their engagement with our sites and drive repeat purchases. This effort to increase engagement and repeat purchasing is primarily accomplished via unpaid mobile "push" notifications and email marketing efforts. We rigorously manage our paid marketing efforts, to ensure that each new spending initiative is cost-effective with a measurable return on investment within a short period of time.

Employees

As of December 31, 2014, we had 2,353 full-time equivalent employees. Additionally, we rely on independent contractors and temporary personnel to supplement our workforce, primarily in our fulfillment centers. None of our employees is represented by a labor union or covered by a collective bargaining agreement. We consider our relationship with our employees to be good.

Intellectual Property

Our intellectual property, including any trademarks, copyrights, domain names, patents, trade dress, trade secrets and proprietary technologies, is an important part of our business. To protect our intellectual property, we rely on a combination of laws and regulations, as well as contractual restrictions. We pursue the registration of our trademarks, including "Wayfair" and certain variations thereon, copyrights and domain names in the United States and certain foreign locations. We also rely on the protection of laws regarding unregistered copyrights for our proprietary software and certain other content we create. We will continue to evaluate the merits applying for copyright registrations in the future. We have an issued patent regarding our proprietary technology and we are evaluating additional patent applications. We expect to consider filing patent applications for future technology inventions. We also rely on trade secret laws to protect our proprietary technology and other intellectual property. To further protect our intellectual property, we enter into confidentiality and assignment of invention assignment agreements with employees and certain contractors and confidentiality agreements with other third parties, such as suppliers.

Company Information

We began operating as Smart Tech Toys, Inc., a Massachusetts corporation, in May 2002 and changed our name to CSN Stores, Inc. in February 2003. In March 2008, we formed, and contributed all of the assets and liabilities of CSN Stores, Inc. to, a subsidiary, CSN Stores LLC, and we continued operating our business through this Delaware limited liability company. In late 2011, we changed the name of CSN Stores, Inc. to SK Retail, Inc. and changed our name from CSN Stores LLC to Wayfair LLC. In connection with our initial public offering, we completed an internal restructuring, as a result of which Wayfair Inc. was formed to be a holding company with no material assets other than 100% of the equity interests in Wayfair LLC and SK Retail, Inc. The holders of the equity interests in Wayfair LLC held the same ownership interests in Wayfair Inc. as they did in Wayfair LLC immediately prior to the internal restructuring. SK Retail, Inc. was the only holder of equity interest in Wayfair LLC with operations. Accordingly the historical financial statements of SK Retail, Inc. have been combined with the historical financial statements of Wayfair LLC for the periods presented. In addition, all of our outstanding common units and incentive units of Wayfair LLC were exchanged for shares of common stock or incentive units for common stock, and then were converted into shares of Class B common stock or incentive units for Class B common stock. In addition, all of outstanding preferred units were exchanged for shares of Series A and Series B convertible preferred stock. Immediately prior to the completion of the IPO, all of our outstanding shares of Series A and Series B convertible preferred stock converted into shares of Class B common stock.

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Our executive offices are located at 4 Copley Place, 7th Floor, Boston, MA 02116, and our telephone number is (617) 532-6100. Our corporate website address is Wayfair.com. The information contained in, or accessible through, our website does not constitute part of this Annual Report on Form 10-K.

Available Information

We encourage investors to use our investor relations website, investor.wayfair.com, to find information about us. We promptly make available on this website, free of charge, the reports that we file or furnish with the Securities and Exchange Commission ("SEC"), and corporate governance information (including our Code of Business Conduct and Ethics). We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Exchange Act. All material we file with the SEC is publicly available at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding Wayfair and other issuers that file electronically with the SEC. Our website and the information contained therein or connected thereto are not a part of, or incorporated into, this Annual Report on Form 10-K.

Item 1A. Risk Factors.

RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below. We caution you that the following important factors, among others, could cause our actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf in filings with the SEC, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in this Annual Report on Form 10-K and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may differ materially from those anticipated in forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosure we make in our reports filed with the SEC.

Risks Related to Our Business and Industry

Our recent growth rates may not be sustainable or indicative of our future growth.

In late 2011, we closed and permanently redirected over 240 of our niche websites into Wayfair.com. Additionally, we launched Joss & Main. In 2013, we acquired DwellStudio, and in 2014, we launched Birch Lane. Because we launched most of our brands recently, we have a limited amount of information regarding the purchasing patterns of our customers on these websites. We depend heavily on this information to plan and forecast our business, including anticipated customer acquisition costs, net revenue per active customer and other key performance metrics. If our assumptions prove to be wrong, we may spend more than we anticipate to acquire and retain customers or may generate less net revenue per active customer than anticipated, any of which could have a negative impact on our business and results of operations. In addition, our historical growth rates may not be sustainable or indicative of future growth.

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We believe that our continued revenue growth will depend upon, among other factors, our ability to:

build our brands and launch new brands;

acquire more customers;

develop new features to enhance the consumer experience on our websites, mobile-optimized websites and mobile applications, which we collectively refer to as our sites;

increase the frequency with which new and repeat customers purchase products on our sites through merchandising, data, analytics and technology;

add new suppliers and deepen our relationships with our existing suppliers;

enhance the systems our consumers use to interact with our sites and invest in our infrastructure platform;

expand internationally; and

pursue strategic acquisitions.

We cannot assure you we will be able to achieve any of the foregoing. Our customer base may not continue to grow or may decline as a result of increased competition and the maturation of our business. Failure to continue our revenue growth rates could have a material adverse effect on our financial condition and results of operations. You should not rely on our historical rate of revenue growth as an indication of our future performance.

If we fail to manage our growth effectively, our business, financial condition and operating results could be harmed.

To manage our growth effectively, we must continue to implement our operational plans and strategies, improve and expand our infrastructure of people and information systems and expand, train and manage our employee base. We have rapidly increased employee headcount since our inception to support the growth in our business. The number of our employees increased from 1,558 full-time equivalents as of December 31, 2013 to 2,353 full-time equivalents as of December 31, 2014. To support continued growth, we must effectively integrate, develop and motivate a large number of new employees. We face significant competition for personnel, particularly in the Boston, Massachusetts area where our headquarters are located. Failure to manage our hiring needs effectively or successfully integrate our new hires may have a material adverse effect on our business, financial condition and operating results.

Additionally, the growth of our business places significant demands on our management and other employees. For example, we typically launch hundreds of promotional events across thousands of products each month on Wayfair.com, in addition to hundreds of promotional events or "Daily Events" on Joss & Main in which we promote thousands of products via emails, "push" notifications and personalized displays. These events require us to produce updates of our sites and emails to our customers on a daily basis with different products, photos and text. The growth of our business may require significant additional resources to meet these daily requirements, which may not scale in a cost-effective manner or may negatively affect the quality of our sites and customer experience. We are also required to manage relationships with a growing number of suppliers, customers and other third parties. Our information technology systems and our internal controls and procedures may not be adequate to support future growth of our supplier base. If we are unable to manage the growth of our organization effectively, our business, financial condition and operating results may be materially adversely affected.

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If we fail to acquire new customers, or fail to do so in a cost-effective manner, we may not be able to increase net revenue per active customer or achieve profitability.

Our success depends on our ability to acquire customers in a cost-effective manner. In order to expand our customer base, we must appeal to and acquire customers who have historically used other means of commerce to purchase home goods and may prefer alternatives to our offerings, such as traditional brick and mortar retailers, the websites of our competitors or our suppliers' own websites. We have made significant investments related to customer acquisition and expect to continue to spend significant amounts to acquire additional customers. For example, we have continued to expand our national U.S. television branding and advertising campaigns. Such campaigns are expensive and may not result in the cost-effective acquisition of customers. We cannot assure you that the net profit from new customers we acquire will ultimately exceed the cost of acquiring those customers. If we fail to deliver a quality shopping experience, or if consumers do not perceive the products we offer to be of high value and quality, we may not be able to acquire new customers. If we are unable to acquire new customers who purchase products in numbers sufficient to grow our business, we may not be able to generate the scale necessary to drive beneficial network effects with our suppliers, our net revenue may decrease, and our business, financial condition and operating results may be materially adversely affected.

We believe that many of our new customers originate from word-of-mouth and other non-paid referrals from existing customers. Therefore we must ensure that our existing customers remain loyal to us in order to continue receiving those referrals. If our efforts to satisfy our existing customers are not successful, we may not be able to acquire new customers in sufficient numbers to continue to grow our business, or we may be required to incur significantly higher marketing expenses in order to acquire new customers.

We also utilize paid and non-paid advertising. Our paid advertising includes search engine marketing, display advertising, paid social media and television advertisements. Our non-paid advertising efforts include search engine optimization, non-paid social media, mobile "push" notifications and email. We obtain a significant amount of traffic via search engines and, therefore, rely on search engines such as Google, Bing and Yahoo!. Search engines frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our sites can be negatively affected. Moreover, a search engine could, for competitive or other purposes, alter its search algorithms or results, causing our sites to place lower in search query results. A major search engine could change its algorithms in a manner that negatively affects our paid or non-paid search ranking, and competitive dynamics could impact the effectiveness of search engine marketing or search engine optimization. We also obtain a significant amount of traffic via social networking websites or other channels used by our current and prospective customers. As e-commerce and social networking continue to rapidly evolve, we must continue to establish relationships with these channels and may be unable to develop or maintain these relationships on acceptable terms. If we are unable to cost-effectively drive traffic to our sites, our ability to acquire new customers and our financial condition would suffer.

Our success depends in part on our ability to increase our net revenue per active customer. If our efforts to increase customer loyalty and repeat purchasing as well as maintain high levels of customer engagement and average order values of our customers are not successful, our growth prospects and revenue will be materially adversely affected.

Our ability to grow our business depends on our ability to retain our existing customer base and generate increased revenue and repeat purchases from this customer base, and maintain high levels of

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customer engagement. To do this, we must continue to provide our customers and potential customers with a unified, convenient, efficient and differentiated shopping experience by:

providing imagery, tools and technology that attract customers who historically would have bought elsewhere;

maintaining a high-quality and diverse portfolio of products;

managing over 7,000 suppliers to deliver products on time and without damage; and

continuing to invest in our mobile platforms.

If we fail to increase net revenue per active customer, generate repeat purchases or maintain high levels of customer engagement and average order value, our growth prospects, operating results and financial condition could be materially adversely affected.

Our business depends on our ability to build and maintain strong brands. We may not be able to maintain and enhance our existing brands if we receive unfavorable customer complaints, negative publicity or otherwise fail to live up to consumers' expectations, which could materially adversely affect our business, results of operations and growth prospects.

We currently offer five distinct brands to our customers, but we have a limited operating history with most of these brands. Maintaining and enhancing these brands are critical to expanding our base of customers and suppliers. However, a significant portion of our customers' brand experience depends on third parties outside of our control, including suppliers and logistics providers such as FedEx, UPS and the U.S. Postal Service. If these third parties do not meet our or our customers' expectations, our brand may suffer irreparable damage. In addition, maintaining and enhancing these brands may require us to make substantial investments, and these investments may not be successful. If we fail to promote and maintain our brands, or if we incur excessive expenses in this effort, our business, operating results and financial condition may be materially adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brands may become increasingly difficult and expensive. Maintaining and enhancing our brands will depend largely on our ability to provide high quality products to our customers and a reliable, trustworthy and profitable sales channel to our suppliers, which we may not do successfully.

Customer complaints or negative publicity about our sites, products, product delivery times, customer data handling and security practices or customer support, especially on blogs, social media websites and our sites, could rapidly and severely diminish consumer use of our sites and consumer and supplier confidence in us and result in harm to our brands.

Our efforts to launch new brands and expand our existing brand portfolio internationally may not be successful.

Our business success depends to some extent on our ability to expand our customer offerings by launching new brands and expanding our existing brand portfolio into new geographies. For example, in 2014 we launched Birch Lane in the United States and Canada, and we launched our Joss & Main brand in the United Kingdom, France and Germany. Launching new brands or expanding our existing brand portfolio internationally requires significant upfront investments, including investments in marketing, information technology and additional personnel. Expanding our brands internationally is particularly challenging because it requires us to gain country-specific knowledge about consumers and regional competitors, construct home goods catalogs specific to the country, build local logistics capabilities and customize portions of our technology for local markets. We may not be able to generate satisfactory revenue from these efforts to offset these upfront costs. Any lack of market acceptance of our efforts to launch new brands or expand our existing brand portfolio could have a material adverse effect on our business, prospects, financial condition and results of operations.

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Expansion of our international operations will require management attention and resources, involves additional risks, and may be unsuccessful, which could harm our future business development and existing domestic operations.

We believe international expansion represents a significant growth opportunity for us. Today, we deliver products to customers in a number of countries, including the United States, the United Kingdom, Canada, Australia, Germany, France, Austria, Ireland and New Zealand. We plan to expand into other international markets in order to grow our business, which will require significant management attention and resources. For example, we have made and will continue to make significant investments in information technology, logistics, supplier relationships, merchandising and marketing in the foreign jurisdictions in which we operate or plan to operate. We have limited experience in selling our products to conform to different local cultures, standards and regulations, and the products we offer may not appeal to customers in the same manner, if at all, in other geographies. We may have to compete with local companies which understand the local market better than we do and/or may have greater brand recognition than we do. In addition, to deliver satisfactory performance for customers in international locations, it may be necessary to locate physical facilities, such as consolidation centers, in foreign markets, and we may have to invest in these facilities before we can determine whether or not our foreign operations are successful. We have limited experience establishing such facilities internationally and therefore may decide not to continue with the expansion of operations. We may not be successful in expanding into additional international markets or in generating net revenue from foreign operations. Furthermore, different privacy, censorship, liability, intellectual property and other laws and regulations in foreign countries may cause our business, financial condition and operating results to be materially adversely affected.

Our future results could be materially adversely affected by a number of factors inherent in international operations, including:

localization of our product offerings, including translation into foreign languages and adaptation for local practices;

the need to vary our practices in ways with which we have limited or no experience or which are less profitable or carry more risk to us;

unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;

differing labor regulations where labor laws may be more advantageous to employees as compared to the United States;

more stringent regulations relating to data privacy and security, including the use of commercial and personal information, particularly in the European Union;

changes in a specific country's or region's political or economic conditions;

the rising cost of labor in the foreign countries in which our suppliers operate, resulting in increases in our costs of doing business internationally;

challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs and maintain our corporate culture across geographies;

risks resulting from changes in currency exchange rates;

limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;

different or lesser intellectual property protection;

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exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions;

import/export controls; and

logistics and sourcing.

Operating internationally requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to establish and expand our international operations will produce desired levels of net revenue or profitability. If we invest substantial time and resources to establish and expand our international operations and are unable to do so successfully and in a timely manner, our business, financial condition and operating results may be materially adversely affected.

We have a history of losses and expect to have increasing operating losses and negative cash flow as we continue to expand our business.

We have a history of losses, and we accumulated \$306.2 million in common members' deficit as Wayfair LLC and an additional \$58.1 million loss as Wayfair Inc. through December 31, 2014. We expect our operating losses and negative cash flow to continue in the near-term as we increase investment in our business. Because the market for purchasing home goods online is rapidly evolving and has not yet reached widespread adoption, it is difficult for us to predict our future operating results. As a result, our losses may be larger than anticipated, and we may never achieve profitability. We expect our operating expenses to increase over the next several years as we increase our advertising budget, hire additional personnel and continue to develop features on our sites. In particular, we intend to continue to invest substantial resources in marketing to acquire new customers. In addition, as we grow as a newly public company, we have and will continue to incur additional significant legal, accounting and other expenses that we did not previously incur as a private company. Furthermore, if our future growth and operating performance fail to meet investor or analyst expectations, or if we have future negative cash flow or losses resulting from our investment in acquiring new customers, our financial condition and stock price could be materially adversely affected.

System interruptions that impair customer access to our sites or other performance failures in our technology infrastructure could damage our business, reputation and brand and substantially harm our business and results of operations.

The satisfactory performance, reliability and availability of our sites, transaction processing systems and technology infrastructure are critical to our reputation and our ability to acquire and retain customers, as well as maintain adequate customer service levels.

We currently utilize two third-party data center hosting facilities. If the main facility where substantially all of our computer and communications hardware is located fails, or if we suffer an interruption or degradation of services at our main facility, we could lose customer data and miss order fulfillment deadlines, which could harm our business. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, cyber-attacks, data loss, acts of war, break-ins, earthquake and similar events. In the event of a failure of our main facility, the failover to our back-up facility could take substantial time, during which time our sites could be completely shut down. Our back-up facility is designed to support transaction volume at a level slightly above our average daily sales, but is not adequate to support spikes in demand. The back-up facility may not process effectively during time of higher traffic to our sites and may process transactions more slowly and may not support all of our sites' functionality.

We use complex proprietary software in our technology infrastructure, which we seek to continually update and improve. We may not always be successful in executing these upgrades and improvements,

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and the operation of our systems may be subject to failure. In particular, we have in the past and may in the future experience slowdowns or interruptions in some or all of our sites when we are updating them, and new technologies or infrastructures may not be fully integrated with existing systems on a timely basis, or at all. Additionally, if we expand our use of third-party services, including cloud-based services, our technology infrastructure may be subject to increased risk of slowdown or interruption as a result of integration with such services and/or failures by such third-parties, which are out of our control. Our net revenue depends on the number of visitors who shop on our sites and the volume of orders we can handle. Unavailability of our sites or reduced order fulfillment performance would reduce the volume of goods sold and could also materially adversely affect consumer perception of our brand. We may experience periodic system interruptions from time to time. In addition, continued growth in our transaction volume, as well as surges in online traffic and orders associated with promotional activities or seasonal trends in our business, place additional demands on our technology platform and could cause or exacerbate slowdowns or interruptions. If there is a substantial increase in the volume of traffic on our sites or the number of orders placed by customers, we will be required to further expand and upgrade our technology, transaction processing systems and network infrastructure. There can be no assurance that we will be able to accurately project the rate or timing of increases, if any, in the use of our sites or expand and upgrade our systems and infrastructure to accommodate such increases on a timely basis. In order to remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our sites, which is particularly challenging given the rapid rate at which new technologies, customer preferences and expectations and industry standards and practices are evolving in the e-commerce industry. Accordingly, we redesign and enhance various functions on our sites on a regular basis, and we may experience instability and performance issues as a result of these changes.

Any slowdown or failure of our sites and the underlying technology infrastructure could harm our business, reputation and our ability to acquire, retain and serve our customers, which could materially adversely affect our results of operations. Our disaster recovery plan may be inadequate, and our business interruption insurance may not be sufficient to compensate us for the losses that could occur.

Our business is highly competitive. Competition presents an ongoing threat to the success of our business.

Our business is rapidly evolving and intensely competitive, and we have many competitors in different industries. Our competition includes: furniture stores, big box retailers, department stores, specialty retailers, and online retailers and marketplaces, including:

Furniture Stores: Ashley Furniture, Bob's Discount Furniture, Havertys, Raymour & Flanagan and Rooms To Go;

Big Box Retailers: Bed, Bath & Beyond, Home Depot, IKEA, Lowe's, Target and Walmart;

Department Stores: JCPenney and Macy's;

Specialty Retailers: Crate and Barrel, Ethan Allen, HomeGoods, Pottery Barn and Restoration Hardware; and

Online Retailers and Online Marketplaces: Amazon and eBay.

We expect competition in e-commerce generally to continue to increase. We believe that our ability to compete successfully depends upon many factors both within and beyond our control, including:

the size and composition of our customer base;

the number of suppliers and products we feature on our sites;

our selling and marketing efforts;

the quality, price and reliability of products offered either by us;

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the convenience of the shopping experience that we provide;

our ability to distribute our products and manage our operations; and

our reputation and brand strength.

Many of our current competitors have, and potential competitors may have, longer operating histories, greater brand recognition, larger fulfillment infrastructures, greater technical capabilities, faster and less costly shipping, significantly greater financial, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to derive greater net revenue and profits from their existing customer base, acquire customers at lower costs or respond more quickly than we can to new or emerging technologies and changes in consumer habits. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build larger customer bases or generate net revenue from their customer bases more effectively than we do.

Purchasers of home goods may not choose to shop online, which would prevent us from growing our business.

The online market for home goods in the United States is less developed than the online market for apparel, consumer electronics and other consumer products in the United States and, we believe, only accounts for a small portion of the market as a whole. If the online market for home goods does not gain acceptance, our business may suffer. Our success will depend, in part, on our ability to attract consumers who have historically purchased home goods through traditional retailers. Furthermore, we may have to incur significantly higher and more sustained advertising and promotional expenditures in order to attract additional online consumers to our sites and convert them into purchasing customers. Specific factors that could impact consumers' willingness to purchase home goods from us include:

concerns about buying products, and in particular larger products, without a physical storefront, face-to-face interaction with sales personnel and the ability to physically examine products;

delivery time associated with online orders;

actual or perceived lack of security of online transactions and concerns regarding the privacy of personal information;

delayed shipments or shipments of incorrect or damaged products;

inconvenience associated with returning or exchanging items purchased online; and

usability, functionality and features of our sites.

If the shopping experience we provide does not appeal to consumers or meet the expectations of existing customers, we may not acquire new customers at rates consistent with historical periods, and existing customers' buying patterns and levels may be less than historical rates.

We may be subject to product liability claims if people or property are harmed by the products we sell.

Some of the products we sell or have manufactured for us may expose us to product liability claims and litigation or regulatory action relating to personal injury, death or environmental or property damage. Some of our agreements with our suppliers and international manufacturers may not indemnify us from product liability for a particular supplier's or international manufacturer's products, or our suppliers or international manufacturers may not have sufficient resources or insurance to satisfy their indemnity and defense obligations. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

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Risks associated with the suppliers from whom our products are sourced could materially adversely affect our financial performance as well as our reputation and brand.

We depend on our ability to provide our customers with a wide range of products from qualified suppliers in a timely and efficient manner. Political and economic instability, the financial stability of suppliers, suppliers' ability to meet our standards, labor problems experienced by suppliers, the availability of raw materials, merchandise quality issues, currency exchange rates, transport availability and cost, transport security, inflation, and other factors relating to the suppliers are beyond our control.

Our agreements with most of our suppliers do not provide for the long-term availability of merchandise or the continuation of particular pricing practices, nor do they restrict such suppliers from selling products to other buyers. There can be no assurance that our current suppliers will continue to seek to sell us products on current terms or that we will be able to establish new or otherwise extend current supply relationships to ensure product acquisitions in a timely and efficient manner and on acceptable commercial terms. Our ability to develop and maintain relationships with reputable suppliers and offer high quality merchandise to our customers is critical to our success. If we are unable to develop and maintain relationships with suppliers that would allow us to offer a sufficient amount and variety of quality merchandise on acceptable commercial terms, our ability to satisfy our customers' needs, and therefore our long-term growth prospects, would be materially adversely affected.

We also are unable to predict whether any of the countries in which our suppliers' products are currently manufactured or may be manufactured in the future will be subject to trade restrictions imposed by the U.S. or foreign governments or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from suppliers with international manufacturing operations, including the imposition of additional import restrictions, restrictions on the transfer of funds or increased tariffs or quotas, could increase the cost or reduce the supply of merchandise available to our customers and materially adversely affect our financial performance as well as our reputation and brand. Furthermore, some or all of our suppliers' foreign operations may be adversely affected by political and financial instability, resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds or other trade disruptions.

In addition, our business with foreign suppliers, particularly with respect to our international sites, may be affected by changes in the value of the U.S. dollar relative to other foreign currencies. For example, any movement by any other foreign currency against the U.S. dollar may result in higher costs to us for those goods. Declines in foreign currencies and currency exchange rates might negatively affect the profitability and business prospects of one or more of our foreign suppliers. This, in turn, might cause such foreign suppliers to demand higher prices for merchandise in their effort to offset any lost profits associated with any currency devaluation, delay merchandise shipments, or discontinue selling to us altogether, any of which could ultimately reduce our sales or increase our costs.

We may be unable to source additional or strengthen our relationships with suppliers.

As of December 31, 2014, we had relationships with over 7,000 suppliers. Our agreements with suppliers are generally terminable at will by either party upon short notice. If we do not maintain our existing relationships or build new relationships with suppliers on acceptable commercial terms, we may not be able to maintain a broad selection of merchandise, and our business and prospects would suffer severely.

In order to attract quality suppliers to our platform, we must:

demonstrate our ability to help our suppliers increase their sales;

offer suppliers a high quality, cost-effective fulfillment process; and

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continue to provide suppliers a dynamic and real-time view of our demand and inventory needs via powerful data and analytics capabilities.

If we are unable to provide our suppliers with a compelling return on investment and an ability to increase their sales, we may be unable to maintain and/or expand our supplier network, which would negatively impact our business.

We depend on our suppliers to perform certain services regarding the products that we offer.

As part of offering our suppliers' products for sale on our sites, these suppliers generally agree to conduct a number of traditional retail operations with respect to their respective products, including maintaining inventory and preparing merchandise for shipment to our customers. We may be unable to ensure that these suppliers will continue to perform these services to our or our customers' satisfaction in a manner that provides our customer with a unified brand experience or on commercially reasonable terms. If our customers become dissatisfied with the services provided by our suppliers, our business, reputation and brands could suffer.

We depend on our relationships with other third parties, including our retail partners, and changes in our relationships with these parties could adversely impact our revenue and profits.

In the years ending December 31, 2014 and 2013, approximately 16% and 26%, respectively, of our net revenue was generated from other operations, consisting primarily of revenue generated online by third parties, which we refer to as our retail partners. Our relationships with our retail partners allow consumers to purchase products offered by us through their websites and mobile applications. Because our agreements with our retail partners are generally terminable at will, we may be unable to maintain these relationships, and our results of operations could fluctuate significantly from period to period depending on the performance of our retail partners and their willingness to continue to offer and/or promote our products. Our agreements with our retail partners may also restrict our ability to market certain products, and not all of our suppliers may permit us to market through all of our retail partners' sites. Because some of our retail partners are competitors or potential competitors in the home goods market, some or all of our retail partners may in the future determine they no longer wish to do business with us or may decide to take other actions that could harm our business. We may also determine that we no longer want to do business with them. Because we do business with a small number of retail partners, if any one of our contracts with our retailer partners were to terminate, our revenue from our retail partners may decline and our relationships with our suppliers may be adversely affected.

Because we rely on FedEx, UPS and the U.S. Postal Service to deliver most of the small parcel products we offer on our sites, we are subject to shipping delays or disruptions caused by inclement weather, natural disasters, labor activism, health epidemics or bioterrorism. In addition, because we rely on national and regional major transportation companies for the delivery of some of our other products, we are also subject to risks of breakage or other damage during delivery by any of these third parties. We also use and rely on other services from third parties, such as our telecommunications services, and those services may be subject to outages and interruptions that are not within our control. For example, failures by our telecommunications providers have in the past and may in the future interrupt our ability to provide phone support to our customers. If these products are not delivered in a timely fashion or are damaged during the delivery process, or if we are not able to provide adequate customer support, our customers could become dissatisfied and cease buying products through our sites, which would adversely affect our operating results.

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If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price.

We were a private company for 12 years prior to our initial public offering in October 2014 and, as such, have not historically had the internal control and financial reporting requirements that are required of a publicly-traded company. Commencing in 2015 we are required to comply with the requirements of The Sarbanes-Oxley Act of 2002, which requires that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation, document our controls and perform testing of our key control over financial reporting to allow management and our independent public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock would likely decline and we could be subject to lawsuits, sanctions or investigations by regulatory authorities, which would require additional financial and management resources.

We continue to invest in more robust technology and in more resources in order to manage those reporting requirements. Implementing the appropriate changes to our internal controls may distract our officers and employees, result in substantial costs if we implement new processes or modify our existing processes and require significant time to complete. Any difficulties or delays in implementing these controls could impact our ability to timely report our financial results. In addition, we currently rely on a manual process in some areas which increases our exposure to human error or intervention in reporting our financial results. For these reasons, we may encounter difficulties in the timely and accurate reporting of our financial results, which would impact our ability to provide our investors with information in a timely manner. As a result, our investors could lose confidence in our reported financial information, and our stock price could decline.

In addition, any such changes do not guarantee that we will be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy could prevent us from accurately reporting our financial results.

We may be unable to accurately forecast net revenue and appropriately plan our expenses in the future.

Net revenue and operating results are difficult to forecast because they generally depend on the volume, timing and type of the orders we receive, all of which are uncertain. We base our expense levels and investment plans on our estimates of total net revenue and gross margins and have not historically relied on a formalized forecasting and budgeting process. In addition, we have been operating as five distinct brands for a short period of time, and we cannot be sure the same growth rates, trends and other key performance metrics are meaningful predictors of future growth. Our business is affected by general economic and business conditions in the United States, and we anticipate that it will be increasingly affected by conditions in international markets. In addition, we experience seasonal trends in our business, and our mix of product offerings is highly variable from day-to-day and quarter-to-quarter. This variability makes it difficult to predict sales and could result in significant fluctuations in our net revenue from period-to-period. A significant portion of our expenses is fixed, and as a result, we may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in net revenue. Any failure to accurately predict net revenue or gross margins could cause our operating results to be lower than expected, which could materially adversely affect our financial condition and stock price.

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Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

In the future, we could be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. We may sell Class A common stock, convertible securities and other equity securities in one or more transactions at prices and in a manner as we may determine from time to time. If we sell any such securities in subsequent transactions, investors may be materially diluted. New investors in such subsequent transactions could gain rights, preferences and privileges senior to those of holders of our Class A common stock. Debt financing, if available, may involve restrictive covenants and could reduce our operational flexibility or profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

Our business may be adversely affected if we are unable to provide our customers a cost-effective shopping platform that is able to respond and adapt to rapid changes in technology.

The number of people who access the Internet through devices other than personal computers, including mobile phones, smartphones, handheld computers such as notebooks and tablets, video game consoles, and television set-top devices, has increased dramatically in the past few years. The smaller screen size, functionality, and memory associated with some alternative devices may make the use of our sites and purchasing our products more difficult. The versions of our sites developed for these devices may not be compelling to consumers. In addition, it is time consuming and costly to keep pace with rapidly changing and continuously evolving technology. We launched our mobile applications for Joss & Main in 2012, and in 2014 we launched the Wayfair.com mobile application. In addition, all of our sites in North America and a majority of our international sites are mobile-optimized. Because we have only recently launched a majority of our mobile-optimized sites and a mobile application for Wayfair.com, and cannot be certain that they will be successful.

As new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in developing applications for alternative devices and platforms, and we may need to devote significant resources to the creation, support and maintenance of such applications. If we are unable to attract consumers to our websites through these devices or are slow to develop a version of our websites that is more compatible with alternative devices or a mobile application, we may fail to capture a significant share of consumers in the home goods market, which could adversely affect our business.

Further, we continually upgrade existing technologies and business applications, and we may be required to implement new technologies or business applications in the future. The implementation of upgrades and changes requires significant investments. Our results of operations may be affected by the timing, effectiveness and costs associated with the successful implementation of any upgrades or changes to our systems and infrastructure. In the event that it is more difficult for our customers to buy products from us on their mobile devices, or if our customers choose not to buy products from us on their mobile devices or to use mobile products that do not offer access to our websites, our customer growth could be harmed and our business, financial condition and operating results may be materially adversely affected.

Significant merchandise returns could harm our business.

We allow our customers to return products, subject to our return policy. If merchandise returns are significant, our business, prospects, financial condition and results of operations could be harmed. Further, we modify our policies relating to returns from time to time, which may result in customer dissatisfaction or an increase in the number of product returns. Many of our products are large and

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require special handling and delivery. From time to time our products are damaged in transit, which can increase return rates and harm our brand.

Uncertainties in global economic conditions and their impact on consumer spending patterns, particularly in the home goods segment, could adversely impact our operating results.

Consumers may view a substantial portion of the products we offer as discretionary items rather than necessities. As a result, our results of operations are sensitive to changes in macro-economic conditions that impact consumer spending, including discretionary spending. Some of the factors adversely affecting consumer spending include levels of unemployment, consumer debt levels, changes in net worth based on market changes and uncertainty, home foreclosures and changes in home values, fluctuating interest rates, credit availability, government actions, fluctuating fuel and other energy costs, which in recent months have been particularly volatile, fluctuating commodity prices and general uncertainty regarding the overall future economic environment. Consumer purchases of discretionary items, including our merchandise, generally decline during periods when disposable income is adversely affected or there is economic uncertainty. Adverse economic changes in any of the regions in which we sell our products could reduce consumer confidence and could negatively affect net revenue and have a material adverse effect on our operating results.

Our business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or an inability to timely deliver such communications could materially adversely affect our net revenue and business.

Our business is highly dependent upon email and other messaging services for promoting our sites and products. Daily promotions offered through emails and other messages sent by us, or on our behalf by our vendors, generate a significant portion of our revenue. We provide daily emails and "push" communications to customers and other visitors informing them of what is available for purchase on our sites that day, and we believe these messages are an important part of our customer experience and help generate a substantial portion of our net revenue. If we are unable to successfully deliver emails or other messages to our subscribers, or if subscribers decline to open our emails or other messages, our net revenue and profitability would be materially adversely affected. Changes in how webmail applications organize and prioritize email may reduce the number of subscribers opening our emails. For example, in 2013 Google Inc.'s Gmail service a feature that organizes incoming emails into categories (for example, primary, social and promotions). Such categorization or similar inbox organizational features may result in our emails being delivered in a less prominent location in a subscriber's inbox or viewed as "spam" by our subscribers and may reduce the likelihood of that subscriber opening our emails. Actions by third parties to block, impose restrictions on or charge for the delivery of emails or other messages could also adversely impact our business. From time to time, Internet service providers or other third parties may block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to third parties. Changes in the laws or regulations that limit our ability to send such communications or impose additional requirements upon us in connection with sending such communications would also materially adversely impact our business. Our use of email and other messaging services to send communications about our sites or other matters may also result in legal claims against us, which may cause us increased expenses, and if successful might result in fines and orders with costly reporting and compliance obligations or might limit or prohibit our ability to send emails or other messages. We also rely on social networking messaging services to send communications and to encourage customers to send communications. Changes to the terms of these social networking services to limit promotional communications, any restrictions that would limit our ability or our customers' ability to send communications through their services, disruptions or downtime experienced by these social networking services or decline in the use of or engagement with social networking

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services by customers and potential customers could materially adversely affect our business, financial condition and operating results.

We are subject to risks related to online payment methods.

We accept payments using a variety of methods, including credit card, debit card, PayPal and gift cards. As we offer new payment options to consumers, we may be subject to additional regulations, compliance requirements and fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We are also subject to payment card association operating rules and certification requirements, including the Payment Card Industry Data Security Standard and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. As our business changes, we may also be subject to different rules under existing standards, which may require new assessments that involve costs above what we currently pay for compliance. If we fail to comply with the rules or requirements of any provider of a payment method we accept, if the volume of fraud in our transactions limits or terminates our rights to use payment methods we currently accept, or if a data breach occurs relating to our payment systems, we may, among other things, be subject to fines or higher transaction fees and may lose, or face restrictions placed upon, our ability to accept credit card and debit card payments from consumers or facilitate other types of online payments. If any of these events were to occur, our business, financial condition and operating results could be materially adversely affected.

We occasionally receive orders placed with fraudulent credit card data. We may suffer losses as a result of orders placed with fraudulent credit card data even if the associated financial institution approved payment of the orders. Under current credit card practices, we may be liable for fraudulent credit card transactions. If we are unable to detect or control credit card fraud, our liability for these transactions could harm our business, financial condition and results of operations.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future regulations and laws could impede the growth of the Internet, e-commerce or mobile commerce. These regulations and laws may involve taxes, tariffs, privacy and data security, anti-spam, content protection, electronic contracts and communications, consumer protection, Internet neutrality and gift cards. It is not clear how existing laws governing issues such as property ownership, sales and other taxes and consumer privacy apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. It is possible that general business regulations and laws, or those specifically governing the Internet or e-commerce, may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business, decrease the use of our sites by consumers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any such laws or regulations. In addition, it is possible that governments of one or more countries may seek to censor content available on our sites or may even attempt to completely block access to our sites. Adverse legal or regulatory developments could substantially harm our

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business. In particular, in the event that we are restricted, in whole or in part, from operating in one or more countries, our ability to retain or increase our customer base may be adversely affected, and we may not be able to maintain or grow our net revenue and expand our business as anticipated.

Failure to comply with federal, state and international laws and regulations relating to privacy, data protection and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection and consumer protection, could adversely affect our business and our financial condition.

A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. Laws and regulations relating to privacy, data protection and consumer protection are evolving and subject to potentially differing interpretations. These requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. As a result, our practices may not have complied or may not comply in the future with all such laws, regulations, requirements and obligations. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any federal, state or international privacy or consumer protection- related laws, regulations, industry self-regulatory principles, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, proceedings or actions against us by governmental entities or others or other liabilities or require us to change our operations and/or cease using certain data sets. Any such claim, proceeding or action could hurt our reputation, brand and business, force us to incur significant expenses in defense of such proceedings, distract our management, increase our costs of doing business, result in a loss of customers and suppliers and may result in the imposition of monetary penalties. We may also be contractually required to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to privacy or consumer protection or any inadvertent or unauthorized use or disclosure of data that we store or handle as part of operating our business.

Federal, state and international governmental authorities continue to evaluate the privacy implications inherent in the use of third-party "cookies" and other methods of online tracking for behavioral advertising and other purposes. U.S. and foreign governments have enacted, have considered or are considering legislation or regulations that could significantly restrict the ability of companies and individuals to engage in these activities, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools or the use of data gathered with such tools. Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could if widely adopted result in the use of third-party cookies and other methods of online tracking becoming significantly less effective. The regulation of the use of these cookies and other current online tracking and advertising practices or a loss in our ability to make effective use of services that employ such technologies could increase our costs of operations and limit our ability to acquire new customers on cost-effective terms and consequently, materially adversely affect our business, financial condition and operating results.

Foreign data protection, privacy and other laws and regulations are often more restrictive than those in the United States. The European Union, for example, traditionally has imposed stricter obligations under its laws and regulations relating to privacy, data protection and consumer protection than the United States. Individual EU member countries have discretion with respect to their interpretation and implementation of these laws and the penalties for breach and have their own regulators with differing attitudes towards enforcement, which results in varying privacy standards and enforcement risk from country to country. Legislation and regulation in the European Union and some EU member states require companies to give specific types of notice and in some cases seek consent

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from consumers before using their data for certain purposes, including some marketing activities. In the majority of EU member countries, consent must be obtained prior to setting cookies or other tracking technologies. Outside of the European Union, there are many countries with data protections laws, and new countries are adopting data protection legislation with increasing frequency. Many of these laws may require consent from consumers for the use of data for various purposes, including marketing, which may reduce our ability to market our products. There is no harmonized approach to these laws and regulations globally. Consequently, we increase our risk of non-compliance with applicable foreign data protection laws and regulations as we continue our international expansion. We may need to change and limit the way we use consumer information in operating our business and may have difficulty maintaining a single operating model that is compliant. Compliance with such laws and regulations will result in additional costs and may necessitate changes to our business practices and divergent operating models, which may adversely affect our business and financial condition.

In addition, various federal, state and foreign legislative and regulatory bodies, or self-regulatory organizations, may expand current laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding privacy, data protection and consumer protection. For example, the European Union is considering revisions to its current privacy laws. Any such changes may force us to incur substantial costs or require us to change our business practices. This could compromise our ability to pursue our growth strategy effectively and may adversely affect our ability to acquire customers or otherwise harm our business, financial condition and operating results.

Our failure or the failure of third-party service providers to protect our sites, networks and systems against security breaches, or otherwise to protect our confidential information, could damage our reputation and brand and substantially harm our business and operating results.

We collect, maintain, transmit and store data about our customers, suppliers and others, including credit card information and personally identifiable information, as well as other confidential and proprietary information. We also employ third-party service providers that store, process and transmit proprietary, personal and confidential information on our behalf. We rely on encryption and authentication technology licensed from third parties in an effort to securely transmit confidential and sensitive information, including credit card numbers. Advances in computer capabilities, new technological discoveries or other developments may result in the whole or partial failure of this technology to protect transaction data or other confidential and sensitive information from being breached or compromised. Our security measures, and those of our third-party service providers, may not detect or prevent all attempts to hack our systems, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our sites, networks and systems or that we or our third-party service providers otherwise maintain, including payment card systems which may subject us to fines or higher transaction fees or limit or terminate our access to certain payment methods. We and our service providers may not anticipate or prevent all types of attacks until after they have already been launched, and techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by persons with whom we have commercial relationships.

Breaches of our security measures or those of our third-party service providers or cyber security incidents could result in unauthorized access to our sites, networks and systems; unauthorized access to and misappropriation of consumer information, including consumers' personally identifiable information, or other confidential or proprietary information of ourselves or third parties; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or

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malfunction of operations; costs relating to breach remediation, deployment of additional personnel and protection technologies, response to governmental investigations and media inquiries and coverage; engagement of third party experts and consultants; litigation, regulatory action and other potential liabilities. If any of these breaches of security occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such breaches and we could be exposed to a risk of loss, litigation or regulatory action and possible liability. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. In addition, any party who is able to illicitly obtain a subscriber's password could access the subscriber's transaction data or personal information. Any compromise or breach of our security measures, or those of our third-party service providers, could violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have an material adverse effect on our business, financial condition and operating results. Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. We may need to devote significant resources to protect against security breaches or to address problems caused by breaches, diverting resources from the growth and expansion of our business.

Changes in tax treatment of companies engaged in e-commerce may adversely affect the commercial use of our sites and our financial results.

Due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to impose additional or new regulation on our business or levy additional or new sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in e-commerce. New or revised international, federal, state or local tax regulations may subject us or our customers to additional sales, income and other taxes. For example, Congress is considering legislation, the "Marketplace Fairness Act," that would require companies engaged in e-commerce to collect sales tax taxes on Internet revenue. We cannot predict the effect of current attempts to impose sales, income or other taxes on e-commerce. New or revised taxes and, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of selling products over the Internet. New taxes could also create significant increases in internal costs necessary to capture data and collect and remit taxes. Any of these events could have a material adverse effect on our business, financial condition and operating results.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, commercial activity, VAT or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our operating results.

We do not collect sales and use, commercial activity, VAT or similar taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable. Sales and use, VAT and similar tax laws and rates vary greatly by jurisdiction. Several states have presented us with tax assessments, alleging that we are 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 we last received such assessments, is approximately \$11.7 million. While we do not believe that we are obligated to collect and remit such taxes and intend to vigorously defend our position, we cannot be sure of the outcome of our discussions and/or appeals with these states. In the event of an adverse outcome, we could face assessments for additional time periods since the last assessments we received, plus any additional interest and penalties. We also expect additional jurisdictions may make similar assessments in the future. As a result, we may be required to collect such taxes in additional jurisdictions in the future. Such tax assessments, penalties and interest or future requirements may materially adversely affect our business, financial condition and operating results.

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We may experience fluctuations in our tax obligations and effective tax rate, which could materially adversely affect our operating results.

We are subject to taxes in the United States and numerous international jurisdictions. We record tax expense based on current tax payments and our estimates of future tax payments, which may include reserves for estimates of probable settlements of international and domestic tax audits. At any one time, multiple tax years may be subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, we expect that throughout the year there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are re-evaluated. Further, our effective tax rate in a given financial statement period may be materially impacted by changes in tax laws, changes in the mix and level of earnings by taxing jurisdiction, changes to existing accounting rules or regulations or by changes to our ownership or capital structures. Fluctuations in our tax obligations and effective tax rate could materially adversely affect our results of business, financial condition and operating results.

We may expend substantial funds in connection with the tax liabilities that arise upon the settlement of restricted stock units.

We may expend substantial funds to satisfy minimum statutory tax withholding and remittance obligations when we settle a portion of our restricted stock units, or RSUs, that were granted prior to our initial public offering. Our RSUs vest upon the satisfaction of both a service condition, which is typically satisfied over a period of five years, and an event condition, which was satisfied upon the closing of our initial public offering on October 7, 2014. On the settlement dates for our RSUs, we currently plan to withhold shares and remit income taxes on behalf of the holders of our RSUs at the applicable minimum statutory rates based on the then current value of the underlying shares of our common stock, which we refer to as a net settlement. In connection with these net settlements, we will withhold and remit the tax liabilities on behalf of the RSU holders to the relevant tax authorities in cash. For example, from the closing of our IPO through December 31, 2014, our tax obligation was approximately \$28.0 million in the aggregate.

In order to fund the tax withholding and remittance obligations on behalf of our RSU holders, we expect to use a portion of our cash and cash equivalent balances. Alternatively, we may choose to borrow funds or use a combination of cash and borrowed funds to satisfy these obligations.

We expect to pursue acquisitions, which could have a material adverse effect on our business, as could the integration of the businesses following acquisition.

As part of our business strategy, we may acquire other companies or businesses. Since our inception, we have made two acquisitions, the remainder of the stake of our Australian joint venture in 2011 and DwellStudio in 2013. Acquisitions involve numerous risks, any of which could harm our business, including: difficulties in integrating the technologies, operations, existing contracts and personnel of an acquired company; difficulties in supporting and transitioning suppliers, if any, of an acquired company; diversion of financial and management resources from existing operations or alternative acquisition opportunities; failure to realize the anticipated benefits or synergies of a transaction; failure to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company or technology, including issues related to intellectual property, regulatory compliance practices, revenue recognition or other accounting practices or employee or customer issues; risks of entering new markets in which we have limited or no experience; potential loss of key employees, customers and suppliers from either our current business or an acquired company's business; inability to generate sufficient net revenue to offset acquisition costs; additional costs or equity dilution associated with funding the acquisition; and possible write-offs or impairment charges relating to acquired businesses.

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We may also pursue acquisitions in businesses that are complementary to our business but otherwise new to our organization. Pursuing complementary business opportunities would require significant time and resources that may divert management's attention from other business activities. In addition, any complementary businesses we acquire may expose us to additional laws, regulations and risks, including the risk that we may incur ongoing operating expenses in such businesses in excess of revenue, which could harm our results of operations and financial condition. The financial profile of any such new businesses may be different than our current financial profile, which could also materially adversely affect our financial condition.

We rely on the performance of members of management and highly skilled personnel, and if we are unable to attract, develop, motivate and retain well-qualified employees, our business could be harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of Niraj Shah, one of our co-founders, co-chairman of the board of directors and our Chief Executive Officer, Steven Conine, one our co-founders, co-chairman of the board of directors and Chief Technology Officer, and other members of our management team. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees, particularly mid-level managers, engineers and merchandising and technology personnel. The market for such positions in the Boston area and other cities in which we operate is competitive. Qualified individuals are in high demand, and we may incur significant costs to attract them. In addition, the loss of any of our senior management or key employees or our inability to recruit and develop mid-level managers could materially adversely affect our ability to execute our business plan, and we may not be able to find adequate replacements. All of our officers and other U.S. employees are at-will employees, meaning that they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business, financial condition and operating results may be materially adversely affected.

We may not be able to adequately protect our intellectual property rights.

We regard our subscriber list, trademarks, domain names, copyrights, patent, trade dress, trade secrets, proprietary technology and similar intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection, agreements and other methods with our employees and others to protect our proprietary rights. We might not be able to obtain broad protection in the United States or internationally for all of our intellectual property, and we might not be able to obtain effective intellectual property protection in every country in which we sell products. The protection of our intellectual property rights may require the expenditure of significant financial, managerial and operational resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights, and we may not be able to broadly enforce all of our trademarks. Any of our patents, marks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Our patent and trademark applications may never be granted. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Even if issued, there can be no assurance that these patents will adequately protect our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or intellectual property rights.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may not be able to discover or determine the extent of any infringement,

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misappropriation or other violation of our intellectual property rights and other proprietary rights. We may initiate claims or litigation against others for infringement, misappropriation or violation of our intellectual property rights or proprietary rights or to establish the validity of such rights. Despite our efforts, we may be unable to prevent third parties from infringing upon, misappropriating or otherwise violating our intellectual property rights and other proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may materially adversely affect our business, financial condition and operating results.

We have been, and may again be, accused of infringing intellectual property rights of third parties.

The e-commerce industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in protracted and expensive litigation for many companies. We are subject to claims and litigation by third parties that we infringe their intellectual property rights, and we expect additional claims and litigation with respect to infringement to occur in the future. The costs of supporting such litigation and disputes are considerable, and there can be no assurances that favorable outcomes will be obtained. As our business expands and the number of competitors in our market increases and overlaps occur, we expect that infringement claims may increase in number and significance. Any claims or proceedings against us, whether meritorious or not, could be time-consuming, result in considerable litigation costs, require significant amounts of management time or result in the diversion of significant operational resources, any of which could materially adversely affect our business, financial condition and operating results.

Legal claims regarding intellectual property rights are subject to inherent uncertainties due to the oftentimes complex issues involved, and we cannot be certain that we will be successful in defending ourselves against such claims. In addition, some of our larger competitors have extensive portfolios of issued patents. Many potential litigants, including patent holding companies, have the ability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. Furthermore, a successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from conducting our business as we have historically done or may desire to do in the future. We might also be required to seek a license and pay royalties for the use of such intellectual property, which may not be available on commercially acceptable terms, or at all. Alternatively, we may be required to develop non-infringing technology or intellectual property, which could require significant effort and expense and may ultimately not be successful.

We have received in the past, and we may receive in the future, communications alleging that certain items posted on or sold through our sites violate third-party copyrights, designs, marks and trade names or other intellectual property rights or other proprietary rights. Brand and content owners and other proprietary rights owners have actively asserted their purported rights against online companies, including Wayfair. In addition to litigation from rights owners, we may be subject to regulatory, civil or criminal proceedings and penalties if governmental authorities believe we have aided and abetted in the sale of counterfeit or infringing products.

Such claims, whether or not meritorious, may result in the expenditure of significant financial, managerial and operational resources, injunctions against us or the payment of damages by us. We may need to obtain licenses from third parties who allege that we have violated their rights, but such licenses may not be available on terms acceptable to us, or at all. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

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The inability to acquire, use or maintain our marks and domain names for our sites could substantially harm our business and operating results.

We currently are the registrant of marks for our brands in numerous jurisdictions and are the registrant of the Internet domain name for the websites of Wayfair.com and our other sites, as well as various related domain names. However, we have not registered our marks or domain names in all major international jurisdictions. Domain names generally are regulated by Internet regulatory bodies. If we do not have or cannot obtain on reasonable terms the ability to use our marks in a particular country, or to use or register our domain name, we could be forced either to incur significant additional expenses to market our products within that country, including the development of a new brand and the creation of new promotional materials and packaging, or to elect not to sell products in that country. Either result could materially adversely affect our business, financial condition and operating results.

Furthermore, the regulations governing domain names and laws protecting marks and similar proprietary rights could change in ways that block or interfere with our ability to use relevant domains or our current brand. Also, we might not be able to prevent third parties from registering, using or retaining domain names that interfere with our consumer communications or infringe or otherwise decrease the value of our marks, domain names and other proprietary rights. Regulatory bodies also may establish additional generic or country-code top-level domains or may allow modifications of the requirements for registering, holding or using domain names. As a result, we might not be able to register, use or maintain the domain names that utilize the name Wayfair or our other brands in all of the countries in which we currently or intend to conduct business.

Our use of open source software may pose particular risks to our proprietary software and systems.

We use open source software in our software and systems and will use open source software in the future. The licenses applicable to open source software may require that the source code subject to the license be made available to the public and that any modifications or derivative works to certain open source software continue to be licensed under open source licenses. From time to time, we may face claims from third parties claiming infringement of their intellectual property rights, or demanding the release or license of the open source software or derivative works that we developed using such software (which could include our proprietary source code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license, publicly release the affected portions of our source code, be limited in or cease using the implicated software unless and until we can re-engineer such software to avoid infringement or change the use of the implicated open source software. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties, indemnities or other contractual protections with respect to the software (for example, non-infringement or functionality). Our use of open source software may also present additional security risks because the source code for open source software is publicly available, which may make it easier for hackers and other third parties to determine how to breach our sites and systems that rely on open source software. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have a material adverse effect on our business, financial condition and operating results.

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Risks Related to Ownership of our Class A Common Stock

Although we do not intend to rely on "controlled company" exemptions from certain corporate governance requirements under the New York Stock Exchange, or NYSE, rules, if we use these exemptions in the future, you will not have the same protections afforded to stockholders of companies that are subject to such requirements.

Our co-founders control a majority of the voting power of our outstanding common stock. As a result, we qualify as a "controlled company" within the meaning of the corporate governance standards of the NYSE. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements, including:

the requirement that a majority of the board of directors consist of independent directors as defined under the listing rules of the NYSE;

the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;

the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

To the extent we still qualify, we may choose to take advantage of any of these exemptions in the future. As a result, in the future, we may not have a majority of independent directors and we may not have independent director oversight of decisions regarding executive compensation and director nominations.

The dual class structure of our common stock has the effect of concentrating voting control with our co-founders, which will limit your ability to influence corporate matters.

Our Class B common stock has ten votes per share, and our Class A common stock, which is the stock that is publicly traded, has one vote per share. Following the IPO, our Class B common stock was held primarily by our co-founders, other executive officers, directors and their affiliates. Due to optional conversions of Class B common stock into Class A common stock following the IPO, our Class B common stock is held primarily by our co-founders and their affiliates. As of December 31, 2014, our co-founders and their affiliates own shares representing approximately 49.2% of the economic interest and 82.1% of the voting power of our outstanding capital stock. This concentrated control limits your ability to influence corporate matters for the foreseeable future. For example, these stockholders will be able to control elections of directors, amendments of our certificate of incorporation or bylaws, increases to the number of shares available for issuance under our equity incentive plans or adoption of new equity incentive plans and approval of any merger or sale of assets for the foreseeable future. This control may materially adversely affect the market price of our Class A common stock. Additionally, holders of our Class B common stock may cause us to make strategic decisions or pursue acquisitions that could involve risks to you or may not be aligned with your interests. The holders of our Class B common stock are also entitled to a separate vote in the event we seek to amend our certificate of incorporation to increase or decrease the par value of a class of our common stock or in a manner that alters or changes the powers, preferences or special rights of the Class B common stock in a manner that affects its holders adversely.

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Future transfers by holders of Class B common stock will generally result in those shares converting on a 1:1 basis to Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long-term, which may include our executive officers.

Our stock price may be volatile or may decline regardless of our operating performance.

The market price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

actual or anticipated fluctuations in our results of operations;

the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates or ratings by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;

announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, operating results or capital commitments;

changes in operating performance and stock market valuations of other technology or retail companies generally, or those in our industry in particular;

price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;

changes in our board of directors or management;

sales of large blocks of our Class A common stock, including sales by our executive officers, directors and significant stockholders;

lawsuits threatened or filed against us;

changes in laws or regulations applicable to our business;

the expiration of contractual lock-up agreements;

changes in our capital structure, such as future issuances of debt or equity securities;

short sales, hedging and other derivative transactions involving our capital stock;

general economic conditions in the United States and abroad;

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other events or factors, including those resulting from war, incidents of terrorism or responses to these events; and

the other factors described in the sections titled "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies, including e-commerce companies. Stock prices of many technology companies, including e-commerce companies, have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and materially adversely affect our business, financial condition and operating results.

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Substantial sales of shares of our Class A common stock could cause the market price of our Class A common stock to decline.

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that such sales may have on the prevailing market price of our Class A common stock.

All of our executive officers, directors, holders of substantially all of our outstanding capital stock and substantially all of our stock options and restricted stock units are subject to lock-up agreements that restrict their ability to transfer shares of our capital stock until March 31, 2015, which is 180 days from the date of our initial public offering. Subject to certain exceptions, the lock-up agreements limit the number of shares of capital stock that may be sold during that 180-day lock-up period. Subject to certain limitations, approximately 70.9 million shares of common stock will become eligible for sale upon expiration of the 180-day lock-up period.

In addition, as of December 31, 2014, there were 449,046 shares of common stock subject to outstanding options. We have registered all of the shares of Class A common stock issuable upon conversion of the shares of Class B common stock issuable upon exercise of outstanding options, and upon exercise of settlement of any options or other equity incentives we may grant in the future, for public resale under the Securities Act of 1933, as amended, or the Securities Act. Accordingly, these shares are able to be freely sold in the public market upon issuance as permitted by any applicable vesting requirements, subject to the lock-up agreements described above. The shares of Class A common stock issuable upon conversion of these shares will become eligible for sale in the public market to the extent such options are exercised, subject to the lock-up agreements described above and compliance with applicable securities laws.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our management has broad discretion over our existing cash resources and might not use such funds in ways that increase the value of your investment.

Our management generally has broad discretion over the use of our cash resources, and you will be relying on the judgment of our management regarding the application of these resources. Our management might not apply these resources in ways that increase the value of your investment.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain additional executive management and qualified board members.

As a newly public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the NYSE and other applicable securities rules and regulations. Compliance with these rules and regulations will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, particularly since, after December 31, 2014, we are no longer an "emerging growth company." The

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Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could materially adversely affect our business and results of operations. We will need to hire additional employees or engage outside consultants to comply with these requirements, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us, and our business may be materially adversely affected.

As a result of disclosure of information required of a public company, our business and financial condition will become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be materially adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and materially adversely affect our business, financial condition and operating results.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws include provisions that:

permit the board of directors to establish the number of directors and fill any vacancies and newly created directorships;

when the outstanding shares of our Class B common stock represent less than 10% of the then outstanding shares of Class A common stock and Class B common stock, provide that our board of directors will be classified into three classes with staggered, three year terms and that directors may only be removed for cause;

require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;

authorize the issuance of "blank check" preferred stock that our board of directors could use to implement a stockholder rights plan;

eliminate the ability of our stockholders to call special meetings of stockholders;

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when the outstanding shares of our Class B common stock represent less than 10% of the then outstanding shares of Class A common stock and Class B common stock, prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

provide that the board of directors is expressly authorized to make, alter or repeal our bylaws;

restrict the forum for certain litigation against us to Delaware;

reflect the dual class structure of our common stock, as discussed above; and

establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any holder of at least 15% of our capital stock for a period of three years following the date on which the stockholder became a 15% stockholder.

Our certificate of incorporation also provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our certificate of incorporation or our bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially adversely affect our business and financial condition.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are in Boston, MA, where we currently occupy approximately 275,000 square feet of office space pursuant to a lease that expires in June 2024. We also occupy additional office space in two locations near our headquarters. We also lease approximately 795,000 square feet of fulfillment center space in Hebron, KY and Ogden, UT. This fulfillment center space is expected to expand by at least an additional 180,000 square feet in 2015. We lease additional office space in Ogden, UT, Orem, UT and New York, NY, a photography studio in Framingham, MA and retail space in New York, NY for DwellStudio. Our European headquarters are located in Galway, Ireland, where we currently lease approximately 6,200 square feet of office space. We also lease additional office space in Sydney, Australia, London, England and Berlin, Germany for our international operations.

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Item 3. Legal Proceedings.

From time to time we may be involved in claims that arise during the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we do not currently have any pending litigation to which we are a party or to which our property is subject that we believe to be material. 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 our overall operations. In addition, we may also find ourselves at greater risk to outside party claims as we increase our operations in jurisdictions where the laws with respect to the potential liability of online retailers are uncertain, unfavorable, or unclear.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Certain Information Regarding the Trading of Our Common Stock

Our Class A common stock began trading on the New York Stock Exchange under the symbol "W" on October 2, 2014. Prior to that time, there was no public market for our Class A common stock. As a result, we have not set forth quarterly information for the two most recent fiscal years. From October 2, 2014, until December 31, 2014 shares of our Class A common stock have traded as high as \$39.43 and as low as \$16.74.

There is no public market for our Class B common stock.

Holder of Our Common Stock

As of February 28, 2015, there were 29 holders of record of shares of our Class A common stock and 684 holders of record of shares of our Class B common stock. The actual number of stockholders is greater than this numbers of record holders, and includes stockholders who are beneficial owners, whose shares are held of record by banks, brokers, and other financial institutions.

Dividends

We do not expect to pay any dividends on our Class A common stock or Class B common stock in the foreseeable future. Any future determination to pay dividends will be at the sole discretion of our board of directors, subject to applicable laws. Our board of directors may take into account general and economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, our capital requirements, contractual, legal, tax and regulatory restrictions, and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us and such other factors as our board of directors may deem relevant.

Prior to our initial public offering and related internal restructuring, we operated as a limited liability company and made tax distributions to our then-current stockholders to the extent we have had taxable net income attributable to them. In March 2014 and October 2014, we distributed cash dividends to our Series A preferred stockholders in the aggregate amount of \$39.5 million as further described in note 10, "Stockholders' Equity (Deficit)" to the consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Securities Authorized For Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans and securities authorized for issuance thereunder is set forth under Part III, Item 12 below.

Recent Sales of Unregistered Securities

During the period from January 1, 2014 to December 31, 2014, we issued 1,384,468 shares, net of shares withheld to satisfy statutory minimum tax withholding obligations, of Class B common stock upon the vesting of outstanding restricted stock units. 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.

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Use of Proceeds from Public Offering of Common Stock

In October 2014, we completed our IPO, pursuant to which we issued and sold 10,500,000 shares of Class A common stock and the selling stockholders sold 2,150,000 shares of Class A common stock, including 1,650,000 shares of Class A common stock pursuant to the exercise in full of the underwriters' option to purchase additional shares. The shares sold in the IPO were registered under the Securities Act of 1933, as amended, pursuant to a Registration Statement on Form S-1 (File No. 333-198171), which was declared effective on October 1, 2014. The offering commenced on October 2, 2014.

The shares of Class A common stock were sold at an initial offering price to the public of \$29.00 per share for an aggregate offering price of \$366.9 million. We did not receive any proceeds from the shares sold by the selling stockholders. We received net proceeds of \$282.9 million after deducting approximately \$21.6 million in underwriting discount and expenses. We distributed \$24.5 million of the net proceeds to our stockholders that held Series A preferred stock immediately prior to the completion of the IPO. Our co-founders and certain of our directors, executive officers and holders of more than 5% of our voting securities held 85% of our outstanding shares of Series A preferred stock and, as a result of their ownership, received 85% of the dividend payment, or approximately \$20.8 million. We also used approximately \$22.6 million of the net proceeds to satisfy statutory minimum tax withholding and remittance obligations primarily related to the vesting of restricted stock units that settled upon the completion of the IPO.

Issuer Purchases of Equity Securities

None

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Item 6. Selected Consolidated Financial Data

You should read the following selected consolidated financial data below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, related notes and other financial information included in this Annual Report on Form 10-K. The following consolidated statements of operations data for the fiscal years ended December 31 2014, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014 and 2013 are derived from our audited consolidated financial statements included in this Annual Report on Form 10-K. The following consolidated balance sheet data as of December 31, 2012 is derived from the audited consolidated financial statements of Wayfair LLC not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in the future. The selected consolidated financial and other data should be read in conjunction with the

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sections entitled Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data."

	Years ended December 31,		
	2014	2013	2012
(in thousands, except share and per share data)			
Consolidated Statements of Operations:			
Net revenue	\$ 1,318,951	\$ 915,843	\$ 601,028
Cost of goods sold(1)	1,007,853	691,602	455,879
Gross profit	311,098	224,241	145,149
Operating expenses:			
Customer service and merchant fees(1)	55,804	35,500	25,730
Advertising	191,284	108,469	65,504
Merchandising, marketing and sales(1)	80,113	33,506	22,136
Operations, technology, general and administrative(1)	130,701	62,246	52,961
Amortization of acquired intangible assets	980	539	212
Total operating expenses	458,882	240,260	166,543
Loss from operations	(147,784)	(16,019)	(21,394)
Interest income, net	350	245	234
Other (expense) income, net	(489)	294	155
Loss before income taxes	(147,923)	(15,480)	(21,005)
Provision for income taxes	(175)	(46)	(50)
Net loss	(148,098)	(15,526)	(21,055)
Accretion of convertible redeemable preferred units	\$ (2,071)	\$ (25,388)	\$ (12,154)
Net loss attributable to common unit holders	(150,169)	(40,914)	(33,209)
Net loss attributable to common unit holders per unit basic and diluted	\$ (2.97)	\$ (0.99)	\$ (0.80)
Weighted average number of common units outstanding used in computing per unit amounts basic and diluted	50,641,601	41,331,546	41,271,992

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

	Year Ended December 31,		
	2014	2013	2012
(in thousands)			
Cost of goods sold	\$ 369	\$	\$
Customer service and merchant fees	2,265		

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Merchandising, marketing and sales	28,514		
Operations, technology, general and administrative	32,096		
	\$ 63,244	\$	\$

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	2014	December 31, 2013	2012
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents and short-term investments	\$ 415,859	\$ 115,308	\$ 100,878
Working capital	254,276	18,118	42,031
Total assets	555,523	196,300	163,577
Deferred revenue	26,784	13,397	12,282
Convertible redeemable preferred units		241,186	215,798
Total stockholders' equity (deficit)	\$ 305,539	\$ (191,178)	\$ (151,130)

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under the sections in this Annual Report on Form 10-K titled "Special Note Regarding Forward-Looking Statements" and "Risk Factors," our actual results may differ materially from those anticipated in these forward-looking statements.

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.com, Joss & Main, AllModern, DwellStudio and Birch Lane. We have built one of the largest online selections of furniture, home furnishings, décor and goods.

We founded our company in May 2002 and have since delivered over 15 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, home furnishings, décor and 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, Australia, Germany, France, Austria, Ireland and New Zealand. In 2014 we launched Joss & Main in the United Kingdom, France and Germany. In the year ended December 31, 2014, we generated net revenue outside of North America of \$56.9 million, or 4.3% of our total net revenue, respectively.

In the year ended December 31, 2014, we generated net revenue of \$1.3 billion, up 44.0% over the year ended December 31, 2013. Our net revenue in the year ended December 31, 2014 included \$1.1 billion from Direct Retail, which we define as sales generated primarily through the sites of our five brands and \$0.2 billion 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 third-party advertisers. In the year ended December 31, 2014, we generated a net loss of \$148.1 million and Adjusted EBITDA of \$(62.5) million, increases of \$132.6 million and \$59.6 million, respectively, over the year ended December 31, 2013. Our net loss and Adjusted EBITDA results were driven primarily by our increased investment in advertising in the year ended December 31, 2014. See "Key Financial

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and Operating Metrics" below for further discussion of 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.

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 our 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.

The consolidated financial statements and other disclosures contained in this Annual Report on Form 10-K are those of Wayfair Inc., which is the registrant. Prior to the effectiveness of the Corporation's registration statement on Form S-1 related to its initial public offering in October 2014, Wayfair LLC was the principal operating entity. In connection with the initial public offering of Wayfair Inc., Wayfair LLC completed an internal restructuring pursuant to which Wayfair LLC became a wholly-owned subsidiary of the Corporation, and the holders of equity interests in Wayfair LLC became stockholders of the Corporation. We accounted for this restructuring in accordance with the guidance provided for entities under common ownership because the holders of the equity interests in Wayfair LLC held the same ownership interests in Wayfair Inc. as they did in Wayfair LLC immediately prior to the internal restructuring. SK Retail, Inc. was the only holder of equity interest in Wayfair LLC with operations. Accordingly the historical financial statements of SK Retail, Inc. have been combined with the historical financial statements of Wayfair LLC. In addition, all of our outstanding common units and incentive units of Wayfair LLC were exchanged for shares of common stock or incentive units for common stock, and then were converted into shares of Class B common stock or incentive units for Class B common stock. In addition, all of outstanding preferred units were exchanged for shares of Series A and Series B convertible preferred stock. Immediately prior to the completion of this offering, all of our outstanding shares of Series A and Series B convertible preferred stock converted into shares of Class B common stock. Each share of Class B common stock may be converted into one share of Class A common stock at the option of its holder and will be automatically converted into one share of Class A common stock upon transfer thereof, subject to certain exceptions.

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.

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We use the following metrics to assess the near-term and longer-term performance of our overall business.

	Year Ended December 31,		
	2014	2013	2012
	(in thousands, except Average Order Value and LTM Net Revenue Per Active Customer)		
Consolidated Financial Metrics			
Net Revenue	\$ 1,318,951	\$ 915,843	\$ 601,028
Adjusted EBITDA	\$ (62,537)	\$ (2,928)	\$ (12,059)
Free Cash Flow	\$ (41,860)	\$ 18,634	\$ (11,035)
Direct Retail Financial and Operating Metrics			
Direct Retail Net Revenue	\$ 1,101,686	\$ 673,446	\$ 389,290
Active Customers	3,217	2,092	1,299
LTM Net Revenue Per Active Customer	\$ 342	\$ 322	\$ 300
Orders Delivered	5,237	3,314	1,789
Average Order Value	\$ 210	\$ 204	\$ 218
Non-GAAP Financial Measures			

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed here and elsewhere in this Annual Report on Form 10-K Adjusted EBITDA, a non-GAAP financial measure that we calculate as earnings (loss) before depreciation and amortization, equity-based compensation and related taxes, interest and other income and expense and taxes. 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 Annual Report on Form 10-K, 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 the compensation charge associated with a tender offer we completed in April 2014 and the equity based compensation and related taxes recorded in the fourth quarter of 2014 as described in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources,"

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; and

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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) income and our other GAAP results.

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

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Reconciliation of Adjusted EBITDA			
Net loss	\$ (148,098)	\$ (15,526)	\$ (21,055)
Depreciation and amortization	22,003	13,091	9,335
Equity based compensation and related taxes	63,244		
Interest income, net	(350)	(245)	(234)
Other (expenses) income, net	489	(294)	(155)
Taxes	175	46	50
Adjusted EBITDA	\$ (62,537)	\$ (2,928)	\$ (12,059)

Free Cash Flow

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

We have included free cash flow in this Annual Report on Form 10-K, 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 (used in) provided by 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:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Net cash provided by operating activities, net of acquisition	\$ 4,125	\$ 34,413	\$ 3,945
Purchase of property, equipment, and leasehold improvements	(31,855)	(6,739)	(8,031)
Site and software development costs	(14,130)	(9,040)	(6,949)
Free cash flow	\$ (41,860)	\$ 18,634	\$ (11,035)

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 below and in the section titled "Risk Factors".

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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 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, especially for Joss & Main. We launched our mobile applications for Joss & Main in 2012 and Wayfair.com in 2014. 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. In 2013, we signed a lease to increase our office space, in 2014 we further increased the office space to accommodate the anticipated growth of our headcount in our corporate headquarters and in 2014 we also signed a lease to expand 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.

Components of Our Results of Operations

Certain prior period operating expense captions in the consolidated statements of operations have been expanded to provide greater detail and to conform to current period presentation.

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, rewards 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.

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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 is recognized in the period in which the click, action or impression occurs. This revenue has not been material to date.

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

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 quarterly 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. Increase 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.

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, 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,

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which includes human resources, finance and accounting personnel. Also included are administrative and professional service fees including audit and legal fees, insurance and other corporate expenses, including depreciation and rent. We anticipate that we will incur additional personnel expenses, professional service fees, including audit and legal, investor relations, costs of compliance with securities laws and regulations, and higher director and officer insurance costs related to operating as a public company. We expect operations, technology, general and administrative expenses will continue to increase as we grow our net revenue and operations.

Amortization of Acquired Intangible Assets

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

Interest (Expense) Income, Net

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

Other (Expense) Income, Net

Other (expense) income, net consist primarily foreign currency gains (losses).

Table of Contents**Results of Consolidated Operations**

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Consolidated Statements of Operations:			
Net revenue	\$ 1,318,951	\$ 915,843	\$ 601,028
Cost of goods sold(1)	1,007,853	691,602	455,879
Gross profit	311,098	224,241	145,149
Operating expenses:			
Customer service and merchant fees(1)	55,804	35,500	25,730
Advertising	191,284	108,469	65,504
Merchandising, marketing and sales(1)	80,113	33,506	22,136
Operations, technology, general and administrative(1)	130,701	62,246	52,961
Amortization of acquired intangible assets	980	539	212
Total operating expenses	458,882	240,260	166,543
Loss from operations	(147,784)	(16,019)	(21,394)
Interest income, net	350	245	234
Other (expense) income, net	(489)	294	155
Loss before income taxes	(147,923)	(15,480)	(21,005)
Provision for income taxes	(175)	(46)	(50)
Net loss	\$ (148,098)	\$ (15,526)	\$ (21,055)

(1)

Includes equity based compensation and related taxes as follows:

Cost of goods sold	\$ 369	\$	\$
Customer service and merchant fees	2,265		
Merchandising, marketing and sales	28,514		
Operations, technology, general and administrative	32,096		
	\$ 63,244	\$	\$

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	Year Ended December 31,		
	2014	2013	2012
Consolidated Statements of Operations:			
Net revenue	100.0%	100.0%	100.0%
Cost of goods sold(1)	76.4	75.5	75.8
Gross profit	23.6	24.5	24.2
Operating expenses:			
Customer service and merchant fees(1)	4.2	3.9	4.3
Advertising	14.5	11.8	10.9
Merchandising, marketing and sales(1)	6.1	3.7	3.7
Operations, technology, general and administrative(1)	9.9	6.8	8.8
Amortization of acquired intangible assets	0.1		
Total operating expenses	34.8	26.2	27.7
Loss from operations	(11.2)	(1.7)	(3.5)
Interest income, net			
Other (expense) income, net			
Loss before income taxes	(11.2)	(1.7)	(3.5)
Provision for income taxes			
Net loss	(11.2)%	(1.7)%	(3.5)%

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

Cost of goods sold	76.4%	75.5%	75.8%
Customer service and merchant fees	4.1	3.9	4.3
Merchandising, marketing and sales	3.9	3.7	3.7
Operations, technology, general and administrative	7.5	6.8	8.8

Comparison of the year ended December 31, 2014 and 2013**Net revenue**

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

In 2014, net revenue increased by \$403.1 million, or 44.0% compared to 2013, primarily as a result of an increase in Direct Retail net revenue offset by the 10.4% decrease in Other revenue. In 2014, Direct Retail net revenue increased by \$428.2 million, or 63.6% compared to 2013. The increase in Direct Retail net revenue was primarily due to sales to a larger customer base, as the number of active customers increased

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53.8% in 2014 compared to the number of active customers in 2013. Additionally, LTM net revenue per active customer increased 6.2% in 2014 compared with 2013. The decrease in Other revenue was primarily due to decreased sales through our retail partners, as we continue to focus our investments on growing the Direct Retail business.

Table of Contents**Cost of Goods Sold**

	Year Ended December 31,		% Change
	2014	2013	2014 to 2013
	(in thousands)		
Cost of goods sold	\$ 1,007,853	\$ 691,602	45.7%
<i>As a percentage of net revenue</i>	76.4%	75.5%	

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

Operating Expenses

	Year Ended December 31,		% Change
	2014	2013	2014 to 2013
	(in thousands)		
Customer service and merchant fees(1)	\$ 55,804	\$ 35,500	57.2%
Advertising	191,284	108,469	76.3
Merchandising, marketing and sales(1)	80,113	33,506	139.1
Operations, technology, general and administrative(1)	130,701	62,246	110.0
Amortization of acquired intangible assets	980	539	81.8
	\$ 458,882	\$ 240,260	91.0%
<i>As a percentage of net revenue</i>			
<i>Customer service and merchant fees</i>	4.2%	3.9%	
<i>Advertising</i>	14.5	11.8	
<i>Merchandising, marketing and sales</i>	6.1	3.7	
<i>Operations, technology, general and administrative</i>	9.9	6.8	
<i>Amortization of acquired intangible assets</i>	0.1	0.1	
	34.8%	26.2%	

(1)

Excluding equity based compensation and related taxes as follows:

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

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

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

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

Interest Income, net

Interest income, net, increased by \$0.1 million in 2014 from \$0.2 million in 2013 primarily due to higher average cash and investments.

Other (Expense), Income, net

In the year ended December 31, 2014, other (expense), net, increased by \$0.8 million from income of \$0.3 million in the year ended December 31, 2013 to expense of \$0.5 million in the year ended December 31, 2014 primarily attributed to changes in foreign currency.

Comparison of years ended December 31, 2013 and 2012**Net revenue**

	Years ended December 31,		% Change
	2013	2012	2013 to 2012
	(in thousands)		
Direct Retail	\$ 673,446	\$ 389,290	73.0%
Other	242,397	211,738	14.5
Net revenue	\$ 915,843	\$ 601,028	52.4%

In 2013, net revenue increased by \$314.8 million, or 52.4% compared to 2012 primarily as a result of increase in Direct Retail net revenue. In 2013, Direct Retail net revenue increased by \$284.2 million, or 73.0% compared to 2012. The increase in Direct Retail net revenue was primarily due to sales to a larger customer base, as the number of active customers increased 61.0% in 2013 compared to the number of active customers in 2012. Additionally, LTM net revenue per active customer increased 7.3% in 2013 compared with 2012. The increase in Other revenue was primarily due to increased sales through our existing and new retail partners.

Cost of Goods Sold

	Years ended		% Change
	December 31,		2013 to 2012
	2013	2012	
	(in thousands)		
Cost of goods sold	\$ 691,602	\$ 455,879	51.7%
As a percentage of net revenue	75.5%	75.8%	

In 2013, costs of goods sold increased by \$235.7 million, or 51.7%, compared to 2012. Of the increase in cost of goods sold, \$190.3 million was due to the increase in products sold to a larger customer base. In addition, shipping and fulfillment costs increased \$45.4 million as a result of the increase in products sold during the period.

Table of Contents**Operating expenses**

	Year Ended December 31,		% Change
	2013	2012	2013 to 2012
	(in thousands)		
Customer service and merchant fees	\$ 35,500	\$ 25,730	38.0%
Advertising	108,469	65,504	65.6
Merchandising, marketing and sales	33,506	22,136	51.4
Operations, technology, general and administrative	62,246	52,961	17.5
Amortization of acquired intangible assets	539	212	154.2
	\$ 240,260	\$ 166,543	44.3%

In 2013, customer service costs and merchant processing fees increased by \$9.8 million from \$25.7 million in 2012 to \$35.5 million. Our advertising expenses increased by \$43.0 million from \$65.5 million in 2012 to \$108.5 million in 2013, primarily due to an increase in television and online advertising. Merchandising, marketing and sales expenses increased by \$11.4 million from \$22.1 million in 2012 to \$33.5 million in 2013. The increase in Merchandising, marketing and sales expenses was due to an increase in headcount primarily to grow and retain our customer base through merchandising and marketing initiatives.

In 2013, operations, technology, general and administrative expense increased by \$9.3 million from \$53.0 million in 2012 to \$62.3 million in 2013. This increase was primarily attributable to personnel costs, rent, information technology and amortization and depreciation expenses.

In 2013, amortization of purchased intangible assets increased by \$0.3 million, or 154.2%, compared to 2012. The increase in amortization expense for 2013 was primarily the result of our acquisition of DwellStudio.

Interest Income, net

In 2013 and 2012, interest income, net, was \$0.2 million.

Other (Expense), Income, net

In 2013, other (expense), income, net, increased by \$0.1 million compared to 2012 primarily attributed to changes in foreign currency.

Quarterly Results of Operations and Other Financial and Operations Data

The following tables set forth selected unaudited quarterly results of operations and other financial and operations data for the eight quarters ended December 31, 2014, as well as the percentage that each line item represents of net revenue. The information for each of these quarters has been prepared on the same basis as the audited consolidated financial statements included elsewhere in this prospectus and in the opinion of management, reflects all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of our consolidated results of operations for these periods. This data should be read in conjunction with our consolidated financial statements and

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related notes included elsewhere in the Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in the future.

	Three months ended							
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
(in thousands except share and per share data)								
Consolidated Statements of Operations:								
Net revenue	\$ 179,831	\$ 203,377	\$ 237,302	\$ 295,333	\$ 278,707	\$ 295,437	\$ 336,188	\$ 408,619
Cost of goods sold(1)	135,798	152,539	178,656	224,609	213,500	226,983	257,161	310,209
Gross profit	44,033	50,838	58,646	70,724	65,207	68,454	79,027	98,410
Operating expenses:								
Customer service and merchant fees(1)	7,200	7,782	9,695	10,823	10,969	12,113	14,239	18,483
Advertising	20,039	23,138	28,384	36,908	44,204	42,511	49,763	54,806
Merchandising, marketing and sales(1)	6,840	7,715	8,523	10,428	15,171	13,260	13,437	38,245
Operations, technology, general and administrative(1)	15,327	14,687	15,530	16,702	22,769	23,586	25,203	59,143
Amortization of acquired intangible assets	53	53	184	249	249	250	249	232
Total operating expenses	49,459	53,375	62,316	75,110	93,362	91,720	102,891	170,909
Loss from operations	(5,426)	(2,537)	(3,670)	(4,386)	(28,155)	(23,266)	(23,864)	(72,499)
Interest income, net	67	57	61	60	56	77	89	128
Other (expense) income, net	(384)	(120)	579	219	88	(184)	(309)	(84)
Loss before income taxes	(5,743)	(2,600)	(3,030)	(4,107)	(28,011)	(23,373)	(24,084)	(72,455)
Provision for income taxes		5	(1)	(50)	(15)	(2)	(59)	(99)
Net loss	\$ (5,743)	\$ (2,595)	\$ (3,031)	\$ (4,157)	\$ (28,026)	\$ (23,375)	\$ (24,143)	\$ (72,554)
Accretion of convertible redeemable preferred units	(11,416)	(4,532)	(4,673)	(4,767)	(7,150)	(4,605)	(4,748)	14,432
Net loss attributable to common unit holders	(17,159)	(7,127)	(7,704)	(8,924)	(35,176)	(27,980)	(28,891)	(58,122)
Net loss attributable to common unit holders per unit basic and diluted	\$ (0.42)	\$ (0.17)	\$ (0.19)	\$ (0.22)	\$ (0.85)	\$ (0.69)	\$ (0.71)	\$ (0.73)
Weighted average number of common units outstanding used in computing per unit amounts basic and diluted	41,271,992	41,271,992	41,367,115	41,413,142	41,144,326	40,514,718	40,512,544	80,078,304

(1)

Includes equity based compensation and related taxes as follows:

Cost of goods sold	\$	\$	\$	\$	\$	\$	\$	\$	369	
Customer service and merchant fees					69	184			2,012	
Merchandising, marketing and sales					3,858	196			24,460	
Operations, technology, general and administrative					627	594			30,875	
	\$	\$	\$	\$	\$	4,554	\$	974	\$	57,716

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	Three months ended							
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Consolidated Statements of Operations:								
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold(1)	75.5	75.0	75.3	76.1	76.6	76.8	76.5	75.9
Gross profit	24.5	25.0	24.7	23.9	23.4	23.2	23.5	24.1
Operating expenses:								
Customer service and merchant fees(1)	4.0	3.8	4.1	3.7	3.9	4.1	4.2	4.5
Advertising	11.1	11.4	12.0	12.5	15.9	14.4	14.8	13.4
Merchandising, marketing and sales(1)	3.8	3.8	3.6	3.5	5.4	4.5	4.0	9.4
Operations, technology, general and administrative(1)	8.5	7.2	6.5	5.7	8.2	8.0	7.5	14.5
Amortization of acquired intangible assets			0.1	0.1	0.1	0.1	0.1	0.1
Total operating expenses	27.5	26.2	26.3	25.4	33.5	31.0	30.6	41.8
Loss from operations	(3.0)	(1.2)	(1.5)	(1.5)	(10.1)	(7.9)	(7.1)	(17.7)
Interest income, net								
Other (expense) income, net	(0.2)	(0.1)	0.2	0.1		(0.1)	(0.1)	
Loss before income taxes	(3.2)	(1.3)	(1.3)	(1.4)	(10.1)	(7.9)	(7.2)	(17.7)
Provision for income taxes								
Net loss	(3.2)%	(1.3)%	(1.3)%	(1.4)%	(10.1)%	(7.9)%	(7.2)%	(17.8)%

(1)

Excluding equity based compensation and related taxes as follows:

Cost of goods sold	75.5%	75.0%	75.3%	76.1%	76.6%	76.8%	76.5%	75.8%
Customer service and merchant fees	4.0	3.8	4.1	3.7	3.9	4.0	4.2	4.0
Merchandising, marketing and sales	3.8	3.8	3.6	3.5	4.1	4.4	4.0	3.4
Operations, technology, general and administrative	8.5	7.2	6.5	5.7	7.9	7.8	7.5	6.9

	Three months ended							
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
(in thousands, except Average Order Value and LTM Net Revenue Per Active Customer)								
Consolidated Financial Metrics								
Net Revenue	\$ 179,831	\$ 203,377	\$ 237,302	\$ 295,333	\$ 278,707	\$ 295,437	\$ 336,188	\$ 408,619
Adjusted EBITDA	\$ (2,542)	\$ 442	\$ (181)	\$ (647)	\$ (19,403)	\$ (17,599)	\$ (18,317)	\$ (7,218)
Free Cash Flow	\$ (24,683)	\$ 11,409	\$ (3,982)	\$ 35,890	\$ (38,506)	\$ (31,744)	\$ (22,398)	\$ 50,788

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Direct Retail Financial and

Operating Metrics

Direct Retail Net Revenue	\$	120,617	\$	147,748	\$	181,693	\$	223,388	\$	226,000	\$	243,534	\$	285,502	\$	346,650
Active Customers		1,366		1,506		1,775		2,092		2,409		2,635		2,858		3,217
LTM Net Revenue Per																
Active Customer	\$	305	\$	313	\$	315	\$	322	\$	323	\$	332	\$	342	\$	342
Orders Delivered		555		703		884		1,172		1,138		1,084		1,314		1,701
Average Order Value	\$	217	\$	210	\$	206	\$	191	\$	199	\$	225	\$	217	\$	204

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

	Three months ended							
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
(in thousands)								
Reconciliation of Adjusted EBITDA								
Net loss	\$ (5,743)	\$ (2,595)	\$ (3,031)	\$ (4,157)	\$ (28,026)	\$ (23,375)	\$ (24,143)	\$ (72,554)
Depreciation and amortization	2,884	2,979	3,489	3,739	4,198	4,693	5,547	7,565
Equity based compensation					4,554	974		57,716
Interest income, net	(67)	(57)	(61)	(60)	(56)	(77)	(89)	(128)
Other (expense) income, net	384	120	(579)	(219)	(88)	184	309	84
Taxes		(5)	1	50	15	2	59	99
Adjusted EBITDA	\$ (2,542)	\$ 442	\$ (181)	\$ (647)	\$ (19,403)	\$ (17,599)	\$ (18,317)	\$ (7,218)

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

	Three months ended							
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
(in thousands)								
Net cash provided by operating activities, net of acquisition	\$ (20,451)	\$ 14,545	\$ (517)	\$ 40,836	\$ (24,432)	\$ (15,339)	\$ (11,066)	\$ 54,962
Purchase of property, equipment, and leasehold improvements	(2,236)	(1,065)	(1,120)	(2,318)	(11,357)	(12,974)	(6,837)	(687)
Site and software development costs	(1,996)	(2,071)	(2,345)	(2,628)	(2,717)	(3,431)	(4,495)	(3,487)
Free cash flow	\$ (24,683)	\$ 11,409	\$ (3,982)	\$ 35,890	\$ (38,506)	\$ (31,744)	\$ (22,398)	\$ 50,788

Liquidity and Capital Resources

Sources of Liquidity

	December 31,	
	2014	2013
(in thousands)		
Cash and cash equivalents	\$ 355,859	\$ 65,289
Short-term investments	60,000	50,019
Accounts receivable, net	5,949	7,689
Working capital	\$ 254,276	\$ 17,865

Historical Cash Flows

	Year Ended December 31,		
	2014	2013	2012
Net loss	\$ (148,098)	\$ (15,526)	\$ (21,055)
Net cash provided by operating activities	4,125	34,413	3,945
Net cash used in investing activities	(55,435)	(46,991)	(23,080)

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Net cash provided by financing activities	341,150	44,944
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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 initial public offering. Since inception through December 31, 2014, 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 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 estimated 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 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, proceeds from the IPO 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. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described in the section titled "Risk Factors". We may not be able to secure additional financing to meet our operating requirements on acceptable terms, or at all.

Operating Activities

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

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

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

Cash provided by operating activities in 2012 was \$3.9 million and was driven by a net loss of \$21.1 million, adjusted for certain non-cash items including depreciation and amortization expense of \$9.3 million and other non-cash items of \$0.1 million offset by cash provided by operating assets and liabilities of \$15.6 million.

Investing Activities

Our primary investing activities consisted of purchases of property and equipment, particularly purchases of servers and networking equipment, investment in our sites and software development,

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straight-line over the terms of the lease. We recognize rent expense on a straight-line basis over the lease periods.

Critical Accounting Policies

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

Revenue Recognition

We recognize revenue only when the following four criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured.

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

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

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

Site and Software Development Costs

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

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software costs are included in property and equipment within our consolidated balance sheets and are amortized over a two-year period.

Stock-Based Compensation

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

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

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

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retrospective reassessment of the fair market value of our common stock for our grants made in September 2014 to be equal to our October 2, 2014 IPO price of \$29.00.

Goodwill

We test goodwill for impairment on the last day of each fiscal year and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. The assessment is performed at the reporting unit level. We first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the two-step impairment test is not required. If the qualitative assessment requires the Company to perform the two-step goodwill impairment test to identify potential goodwill impairment then the first step is to compare the fair value of the reporting unit to the book value including goodwill. If the fair value of the reporting unit exceeds the book value, goodwill is not impaired. If the book value exceeds the fair value, the second step of the process is performed to measure the amount of impairment. Based on the testing performed at the end of 2014 we recorded an impairment to reduce a portion of the carrying amount of our goodwill.

The fair value of the reporting unit is determined by using the income and the market approaches. The income approach uses a discounted cash flow analysis, which involves applying appropriate discount rates to estimated cash flows, including the terminal value based on forecasts of revenue, costs and capital requirements. We estimate future revenue growth based on a number of key assumptions, including customer and order growth by acquisition channel, average order value, advertising spend, e-commerce growth rates and our experience in growth of our more mature markets and categories. Our cost structure assumptions are based on historic trends in product cost and freight, advertising costs, growth in headcount, and merchant processing fees. We deem the discount rate used in our analysis to be commensurate with the underlying uncertainties associated with achieving the estimated cash flows we projected. The terminal value is calculated using the two-stage growth model. The market approach includes the guideline public company method and guideline transaction method. The guideline public company method uses the fair value of comparable publicly-traded companies in the industry group. The companies used for comparison under the guideline public company method are selected based on a number of factors, including, but not limited to, the similarity of their industry, growth rate and stage of development, business model, and financial risk. The guideline transaction method involves determining a fair value using recent mergers and acquisitions transactions in the industry group in the recent years.

Inventory

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

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued a new accounting standard update that requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the consolidated balance sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. We adopted this new standard on a prospective basis in the first quarter of fiscal 2014, and the adoption of this accounting standard update did not have a material impact on our consolidated financial statements.

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In May 2014, the FASB issued new accounting guidance regarding revenue recognition under GAAP. This new guidance will supersede nearly all existing revenue recognition guidance, and is effective for public entities for annual and interim periods beginning after December 31, 2016. Early adoption is not permitted. We are currently evaluating the impact of this new guidance on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, "Presentation of Financial Statements - Going Concern", which requires us to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 is not expected to have a material effect on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

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

Interest Rate Sensitivity

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

Foreign Currency Risk

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

Inflation

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

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Wayfair Inc.

We have audited the accompanying consolidated balance sheets of Wayfair Inc. (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wayfair Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for the three years then ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 19, 2015

Table of Contents**Wayfair Inc.****Consolidated Balance Sheets**

	December 31,	
	2014	2013
	(in thousands, except share and per share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 355,859	\$ 65,289
Short-term investments	60,000	50,019
Accounts receivable, net of allowance	5,949	7,689
Inventories	19,798	14,963
Prepaid expenses and other current assets	45,262	25,172
Total current assets	486,868	163,132
Property and equipment, net	60,639	22,088
Goodwill and intangible assets, net	6,478	9,084
Other noncurrent assets	1,538	2,001
Total assets	\$ 555,523	\$ 196,305
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 147,873	\$ 102,153
Accrued expenses	42,335	21,375
Deferred revenue	26,784	13,397
Other current liabilities	15,600	8,342
Total current liabilities	232,592	145,267
Other liabilities	17,392	1,030
Total liabilities	249,984	146,297
Commitments and contingencies (Note 7)		
Series A convertible redeemable preferred units, no par value per unit: no units authorized and issued at December 31, 2014 and 21,551,801 units authorized and issued at December 31, 2013, respectively.		241,186
Series B convertible redeemable preferred units, no par value per unit: no units authorized and issued at December 31, 2014 and 2013;		
Stockholders' equity:		
Common units, no par value per unit: no units and 74,328,124 units authorized at December 31, 2014 and December 31, 2013, respectively; no units and 44,904,110 units issued and outstanding at December 31, 2014 and December 31, 2013, respectively.		
Class A common stock, \$0.001 par value; 500,000,000 shares and no shares authorized at December 31, 2014 and 2013, respectively; 37,002,874 shares and no shares issued and outstanding at December 31, 2014 and 2013, respectively		37
Class B common stock, \$0.001 par value; 164,000,000 shares and no shares authorized at December 31, 2014 and 2013, respectively; 46,179,192 shares and no shares issued and outstanding at December 31, 2014 and 2013, respectively		46
Additional paid-in capital	363,944	
Accumulated deficit	(58,122)	(190,850)
Accumulated other comprehensive loss	(366)	(328)

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Total stockholders' equity	305,539	(191,178)
Total liabilities and stockholders' equity	\$ 555,523	\$ 196,305

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Wayfair Inc.

Consolidated Statements of Operations

	Year Ended December 31,		
	2014	2013	2012
Consolidated Statements of Operations:			
Net revenue	\$ 1,318,951	\$ 915,843	\$ 601,028
Cost of goods sold	1,007,853	691,602	455,879
Gross profit	311,098	224,241	145,149
Operating expenses:			
Customer service and merchant fees	55,804	35,500	25,730
Advertising	191,284	108,469	65,504
Merchandising, marketing and sales	80,113	33,506	22,136
Operations, technology, general and administrative	130,701	62,246	52,961
Amortization of acquired intangible assets	980	539	212
Total operating expenses	458,882	240,260	166,543
Loss from operations	(147,784)	(16,019)	(21,394)
Interest income, net	350	245	234
Other (expense) income, net	(489)	294	155
Loss before income taxes	(147,923)	(15,480)	(21,005)
Provision for income taxes	(175)	(46)	(50)
Net loss	(148,098)	(15,526)	(21,055)
Accretion of convertible redeemable preferred units	(2,071)	(25,388)	(12,154)
Net loss attributable to common stockholders	\$ (150,169)	\$ (40,914)	\$ (33,209)
Net loss attributable to common stockholders per share basic and diluted	\$ (2.97)	\$ (0.99)	\$ (0.80)
Weighted average number of common stock outstanding used in computing per share amounts basic and diluted	50,641,601	41,331,546	41,271,992

Table of Contents**Wayfair Inc.****Consolidated Statements of Comprehensive Loss**

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Net loss	\$ (148,098)	\$ (15,526)	\$ (21,055)
Other comprehensive loss:			
Foreign currency translation adjustments	(38)	(390)	(392)
Comprehensive loss	\$ (148,136)	\$ (15,916)	\$ (21,447)

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Wayfair Inc.

Consolidated Statements of Stockholders' Equity

(in thousands, except share data)	Series A	Series A	Series B	Series B	Common	Class A and Class B Common Stock		Additional	Accumulated	Accumulated	Other	Total
	Convertible Redeemable Preferred Units	Convertible Redeemable Members' Equity	Convertible Redeemable Preferred Units	Convertible Redeemable Members' Equity		Shares	Amount					
Balance at												
December 31, 2011	17,666,664	\$ 167,480		\$	45,002,043				\$ (118,529)	\$ 454		\$ (118,075)
Net loss									(21,055)			(21,055)
Cumulative translation adjustment											(392)	(392)
Due to common unit holders									(154)			(154)
Paid-in capital									700			700
Forfeiture of unvested units					(183,109)							
Accretion of Series A convertible redeemable preferred units		12,154							(12,154)			(12,154)
Issuance of Series A convertible redeemable preferred units	3,885,137	36,164										
Balance at												
December 31, 2012	21,551,801	215,798			44,818,934				(151,192)	62		(151,130)
Net loss									(15,526)			(15,526)
Cumulative translation adjustment											(390)	(390)
Accretion of Series A convertible redeemable preferred units		25,388							(25,388)			(25,388)
Forfeiture of unvested units					(55,974)							
Equity issued as part of acquisition, net					141,150				1,194			1,194
Equity compensation expense									62			62
Balance at												
December 31, 2013	21,551,801	241,186			44,904,110				(190,850)	(328)		(191,178)
Net loss									(148,098)			(148,098)
Cumulative translation adjustment											(38)	(38)
Issuance of Series B convertible redeemable preferred units, net of issuance costs			5,995,133	154,774								
Accretion of convertible redeemable preferred units		14,417		2,455					(16,872)			(16,872)
Reduction of carrying value of convertible redeemable preferred stock		(14,801)							14,801			14,801
Conversion of convertible redeemable preferred stock to common stock	(21,551,801)	(201,286)	(5,995,133)	(157,229)		27,546,934	28	358,487				358,515
					(44,904,110)	44,904,110	44	(306,229)	306,185			

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Conversion from LLC to Corporation				
Issuance of Class A common stock net of issuance costs	10,500,000	10	282,883	282,893