NOVA MEASURING INSTRUMENTS LTD
Form 6-K
August 05, 2003

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of
1934

Date of Report: August 5, 2003

NOVA MEASURING INSTRUMENTS LTD.

Building 22 Weitzmann Science Park, Rehovoth
P.O.B 266

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A.

Attached hereto as Exhibit 99.1 and incorporated by way of reference herein the Registrant s Notice of Annual General Meeting of Shareholders and Proxy Statement.

Signatures

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

Nova Measuring Instruments Ltd
(the "Registrant")

BY: /S/ Chai Toren

Chai Toren
VP Finance and Operations

Date : August 5th, 2003

EXHIBIT INDEX

Exhibit 99.1: Notice of Annual Meeting of Shareholdersand
Proxy Statement

Exhibit 99.1

Nova Measuring Instruments Ltd.
Notice of Annual General Meeting of Shareholders

Notice is hereby given that the Annual General Meeting of the Shareholders of Nova Measuring Instruments Ltd. (the Company) will be held on September 1, 2003 at 17:00 local time in Israel, at the Company offices, Weizmann Science Park, P.O.B. 266, Rehovoth 76100, Israel. The Annual General Meeting of Shareholders is for the following purposes:

1. To review and discuss the Company s audited financial statements for the year ended on December 31, 2002;

2. To elect eight directors to the Company s Board of Directors two of which are to serve as external directors;

3. To reappoint Brightman Almagor & Co. as the independent auditors of the Company for the year ending on December 31, 2003 and to authorize the Board of Directors to fix the remuneration of the auditors;

4. To approve the terms of engagement between the Company and the chairperson of the Board of Directors;

5. To approve the terms of engagement with the Company s external directors to the extent such approval is required under applicable law;

6. To approve compensation to the Company s external directors by way of issuance of options to purchase the Company s shares;

7. To approve the amendment of the terms of employment of two directors of the Company.

8. To amend the terms of Option Plan 6;

9. To approve the terms of the Company s Employee Stock Purchase Plan No 1; and

10. To transact such other business as may properly come before the Annual General Meeting of Shareholders or at any adjournment thereof.

Shareholders of record as of the close of business on July 28, 2003 (the Record Date) are entitled to notice of and to vote at the Annual General Meeting of Shareholders. Beneficial owners who hold their shares through members of the Tel Aviv Stock Exchange (TASE) may either vote their shares in person at the Meeting by presenting a certificate signed by a member of the TASE which complies with the Israeli Companies Regulations (Proof of Ownership for Voting in General Meetings) 2000, as proof of ownership of the Shares or send such certificate together with a duly executed proxy as described below. All shareholders are cordially invited to attend the meeting in person. Shareholders who are unable to attend the meeting in person are requested to complete, date and sign the enclosed form of proxy and return it promptly in the preaddressed envelope provided. Envelopes are will be postage paid in the United States. Shareholders who attend the meeting may revoke their proxies and vote their shares in person.

Exhibit 99.1

A copy of the Company s audited financial statements for the year ended on December 31, 2002 is attached hereto, and is being mailed with this notice and the enclosed Proxy Statement to shareholders of record on the Record Date.

By order of the Board of Directors,

Giora Dishon, Director, President and CEO of the Company

August 5th, 2003

Exhibit 99.1

Nova Measuring Instruments Ltd.
Weizmann Science Park
P.O.B. 266, Rehovoth 76100, Israel
Tel: 972-8-9387505
Fax: 972-8-940776

Proxy Statement
For the Annual General Meeting of Shareholders
To be held on September 1, 2003 at 17:00
At the Company s Registered Offices

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Nova Measuring Instruments Ltd. (the Company) for use at the Annual General Meeting of Shareholders (Shareholders Meeting) to be held at the Company offices, Weizmann Science Park, P.O.B. 266, Rehovoth 76100, Israel, on September 1, 2003 at 17:00 local time in Israel and at any adjournments thereof. **All proxies will be voted in accordance with the shareholders instructions, and if no choice is specified, the enclosed proxy card (or any signed and dated copy thereof) will be voted in favor of the matters set forth in the accompanying Notice of Meeting.** Any proxy may be revoked by a shareholder at any time before it is exercised by: (i) delivering written revocation or a later dated proxy to Mr. Chai Toren, Chief Financial Officer of the Company; or (ii) attending the Shareholders Meeting and voting in person.

Only shareholders of record as of the close of business on July 28, 2003, the record date fixed by the Company, will be entitled to vote at the Shareholders Meeting and at any adjournments thereof. As of July 28, 2003, there were an aggregate of approximately 14,940,000 shares of common stock, par value NIS 0.01 per share, of the Company (the Ordinary Shares) outstanding and entitled to vote. Each Ordinary Share is entitled to one vote.

The Company s Board of Directors named Dr. Giora Dishon and Chai Toren, and each of them acting individually, as proxy. All properly executed proxies returned in time to be counted at the Shareholders Meeting will be voted as stated below under Voting Procedures. Any shareholder giving proxy has a right to withhold authority to vote for any individual nominee to the Board of Directors (as described in Item 2 hereinbelow) on the proxy card for that purpose and marking the appropriate FOR ALL EXCEPT box on the proxy card, and to vote against the grant of compensation (as described in Items 6 and 7 hereinbelow) with respect to any individual director and external director, as the case may be, by marking the appropriate FOR ALL EXCEPT box on the proxy card.

The Board of Directors knows of no matter other than those set forth below and in the accompanying Notice of Annual General Meeting of Shareholders to be presented at the Shareholders Meeting. If any other matter upon which a vote may properly be taken should be presented at the Shareholders Meeting, Ordinary Shares represented by all proxies received by the Board of Directors will be voted with respect thereto in accordance with the judgment of the persons named as proxy.

Exhibit 99.1

Beneficial Ownership of Securities by Certain Persons

The following table shows the number of ordinary shares beneficially owned by persons known by us to own beneficially more than five percent of the Company s ordinary shares, as of June 16, 2003.

Name	Number of Ordinary Shares Beneficially Owned*	Percentage of Ordinary Shares Beneficially Owned
Clal Electronics Industries Ltd.	3,079,245	20.61%
Inventech Investments Co. Ltd.(1)	1,581,244	10.59%
Teuza - A Fairchild Technology Venture Ltd (2)	1,900,327	12.72%
Austin W. Marxe & David Greenhouse (3)	1,834,300	12.28%
Tamir Fishman Ventures II, L.L.C. (4)	843,300	5.64%
Shai Saul (4)	843,300	5.64%
Michael Elias (4)	850,550	5.69%
Tamir Fishman & Co. Ltd. (4)	848,400	5.68%
Eldad Tamir (4)	848,400	5.68%
Danny Fishman (4)	848,400	5.68%
Capital Group International, Inc.	774,800	5.19%
Giora Dishon (5)	785,737	5.25%
Moshe Finarov (5)	785,736	5.25%

* Unless specifically stated otherwise, the information provided hereinabove is based upon information contained in filings made by the named person with the U.S. Securities and Exchange Commission (SEC) pursuant to Regulation 13D-G.

(1) As reported by Inventech to the Tel Aviv Stock Exchange (TASE) on March 25, 2003 and April 13, 2003.

(2) The Company has been informed that Teuza-A Fairchild Technology Venture Ltd. has sold 149,000 shares of the Company held by it. However, as of the date set forth hereinabove the transaction was not fully completed and is therefore not reflected herein.

(3) As reported on the Schedule 13G (Amendment 1) filed by Messrs. Marxe and Greenhouse on February 13, 2003, the amount indicated includes 415,000 shares held by Special Situations Cayman Fund, L.P., 376,000 shares held by Special Situations Technology Fund, L.P. and 1,042,000 shares held by Special Situations Fund III, L.P.

(4) The following information is contained in a Schedule 13G filed by, among others, Tamir Fishman Ventures II, LLC (TFV), on June 3, 2003: (a) Five limited partnerships and a corporation directly beneficially own, in the aggregate, 843,300 shares; (b) TFV beneficially owns 843,300 shares as the sole general partner of the five limited partnerships and by virtue of its management rights with respect to corporation ; (b) Shai Saul, is a managing member of TFV; (c) Michael Elias is a managing member of TFV and reports having sole voting and dispositive power over an additional 7,250 shares; (c) Tamir Fishman & Co. Ltd is a managing member of TFV and reports directly owning 5,100 additional shares; (d) Eldad Tamir and Danny Fishman are each Co-President and Co-CEO of Tamir Fishman & Co. Ltd.

(5) Includes shares held in trust under Israeli tax law for the benefit of the named shareholders and includes option to purchase 31,245 ordinary shares which is exercisable within 60 days.

Exhibit 99.1

Directors and Senior Management

The Company s directors and senior management are as follows:

Name	Age	Position
Barry Cox (1) *	63	Chairman of the Board of Directors
Giora Dishon	59	President, Chief Executive Officer, Director and Co-Founder
Moshe Finarov	51	Vice President, Chief Technology Officer, Director and Co-Founder
Chai Toren *	47	Vice President, Chief Financial Officer
Gad Yaron *	52	Vice President, Chief Operational Officer
Ronen Frish *	46	Vice President, Sales and Marketing
Meir Shannie (2) *	58	Director
Adam Feit (3) *	56	Director
Avi Kerbs *	56	Director
Joseph Ciechanover *	71	Director
Alon Dumanis (4) *	60	Director
Lauri Hanover	43	External Director
Karrey Holland	47	External Director

* Each one of these persons beneficially owns less than one percent of the Company s ordinary shares.

(1) Was appointed as Chairman in May 2003.
(2) Resigned from office in June 2003.
(3) Resigned from office in August 2002.
(4) Was appointed as Director in October 2002.

Compensation of Directors and Senior Management

The aggregate direct remuneration paid or payable to all 12 persons who served in the capacity of director or senior management during 2002 was approximately $650 thousands, including approximately $200 thousands, which was set aside for pension and retirement benefits, and amounts expended by the Company for automobiles made available to the Company s officers.

The Company has approved the terms of remuneration to the external directors of the Company for 2002, according to which the external directors shall receive remuneration comprised of: an annual payment in the amount of $7,338 and an additional per meeting payment of $270. In 2002, the total amount paid to external directors was approximately $20 thousands. Israeli law determines these amounts, and adherence to these amounts exempts the Company from the need to obtain the approval of the Company s shareholders with respect to the remuneration paid to the external directors.

On November 7, 2001, the Company s shareholders approved payment of remuneration to the Company s directors, in the same amounts as mentioned above for the external directors. The total amount paid or payable to the directors, including external directors, for 2002 was approximately $73 thousands.

On October 31, 2002, the Company s shareholders approved the grant of options to purchase up to an aggregate of 140,000 Ordinary Shares pursuant to the Company s Option Plan No. 6 in accordance with the following allocation table:

Name of Director	Position	No. of Options
Giora Dishon	Director and President	60,000
Moshe Finarov	Director, Director of Technology	50,000

Meir Shannie(1)	Director	10,000
Avi Kerbs	Director	10,000
Joseph Ciechanover	Director	10,000

(1) Resigned on June 2003.

The 140,000 authorized options were granted on February 4, 2003, with an exercise price of $2.06 per share (the market value of stock on the date of grant), vesting periods of one to three years and a term of seven years from the date of grant.

On May 8, 2002, the Company s shareholders approved a grant to Meir Dayan, a former director of the company, of options, immediately exercisable, to purchase 15,000 ordinary shares at an exercise price equal to the fair market value at the date of grant ($3.69). These options were granted in lieu of 10,000 options previously granted.

On May 8, 2002 The Company s shareholders approved the acceleration of the vesting period for 20,000 options granted to Mendy Erad, the former chairman of the board of directors of the Company.

On March 16, 1999, the Company entered into an agreement with Mendy Erad that provided he would serve as chairman of the board of directors until December 31, 2001 and receive $6,000 per month in addition, the company granted Mr. Erad an option to purchase 116,272 ordinary shares at a price of $5.16 per share this option is fully vested and exercisable. Mr. Erad resigned as chairman of the board of directors effective January 1, 2002.

On May 15, 2003 the Company s Audit Committee and Board of Directors have approved the terms of engagement with Mr. Barry Cox who is to serve as the Company s chairman of the Board of Directors all as further elaborated in Item 4 herein.

The Company s Audit Committee and Board of Directors have resolved on July 1st, 2003 and July 10th, 2003, respectively, to grant each of the Company s external directors, Lauri Hanover and Karrey Holand, an option to purchase up to 10,000 ordinary shares of the Company as further elaborated in Item 6 herein.

Exhibit 99.1

Options Held by Directors and Senior Management

The following table sets forth information regarding options held by the Company s directors, external directors and senior management as of June 16, 2003:

Name	**Ordinary Share Underlying Options**	**Expiration Dates**	**Exercise Prices ($/share)**
Giora Dishon (1)	120,000	2007-2010	2.06-7.37
Moshe Finarov (1)	110,000	2007-2010	2.06-7.37
8 directors and officers as a group (1)	359,820	2004-2010	0.0023-7.37

(1) The vesting period of each option is between one and four years from the date of grant. Other than Drs. Dishon and Finarov, the directors and officers of the Company each own less than 1% of the Company s issued and outstanding ordinary shares.

Board of Directors Committees

The Company s Board of Directors has established the following committees:

The Audit Committee is comprised of three members, as required under Israeli law. The members are Lauri Hanover, Karey Holland and Joseph Chiechanover. The functions of the audit committee according to Israeli Law are to locate deficiencies in the business management of the Company in consultation with the Company s auditors and to suggest the measures to be taken regarding such deficiencies. The audit committee is also responsible for approving related party transactions.

The Compensation Committee is comprised of Karey Holland, who serves as Chairperson, Avi Kerbs and Lauri Hanover. The function of the Compensation Committee is to determine or recommend (as may be determined by the Board of Directors) the compensation of Company s directors, senior management and employees (subject to provisions regarding related party transactions).

The Investment Committee is comprised of Lauri Hanover who serves as a single member of the investment committee as of the resignation of Mr. Meir Shannie on June 9, 2003. The Company intends to appoint another member of the investment committee in the forthcoming meeting of our board of directors. The function of the Investment Committee is to review and determine the investment policy for the Company s cash reserves.

Related Party Transactions, Other Than Compensation

The following is an explanation of the related party transactions of the Company, other than those entered into for compensatory purposes. Related party transactions entered into for compensatory purposes are described under the heading Compensation of Directors and Senior Management.

Some of the Company s shareholders were party to a voting agreement relating to the election of directors. The agreement, prior to its expiration on April 11, 2002, provided that for every 8% of the outstanding Ordinary Shares held by a party to the voting agreement such party had the right to nominate a person for election to the Company s Board of Directors. All of the parties to the voting agreement were required to vote all of their Ordinary Shares in favor of the nominee.

The Company was a party to a registration rights agreement with certain of the Company s shareholders and its founders, Drs. Dishon and Finarov, which terminated in September 2002. This agreement provided that each of Intel Corp., Inventech Investments Ltd., Clal Electronics Industries Ltd. and Teuza Ltd., had one demand registration right and these shareholders and Drs. Dishon and Finarov had unlimited piggyback registration rights for the Company s securities owned by them. The agreement provided that the Company would bear all expenses incurred for any registration of the Company s securities, other than underwriting fees and expenses, and that the Company would indemnify the selling shareholders for liabilities arising from any registration, including liabilities under the Securities Act of 1933.

ITEM NO. 1
PROPOSAL FOR REVIEW AND DISCUSSION OF THE COMPANY S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

A copy of the Company s audited financial statements for the year ended on December 31, 2002 is attached hereto and will be presented to the shareholders at the Shareholders Meeting for review.

ITEM NO. 2
PROPOSAL FOR ELECTION OF DIRECTORS

The Articles of Association of the Company provide that the Board of Directors shall consist of no fewer than five and no more than nine directors. Presently there are eight members of the Board of Directors. Of the eight current directors, two were elected to serve as external directors as required under the Israeli Companies Law 1999 (the Companies Law). Pursuant to the Companies Law, external directors serve for a term of three years and may be reelected to only one additional three year term. Directors of the Company who are not elected to serve as external directors under the Companies Law become directors when they are elected by the shareholders of the Company and serve as directors until the conclusion of the next Annual General Meeting of Shareholders, unless the office is earlier vacated under any relevant provision of the Company s Articles of Association. A director who is appointed by the Company s Board of Directors to fill a vacancy on the Board of Directors serves until the conclusion of the next General Meeting of Shareholders at which directors are elected.

All the persons named below as nominees are current members of the Company s Board of Directors. If elected, the nominees, other than the nominees for external director, will serve for a period of one year or until their respective successors are duly elected and shall qualify, as the case may be, unless the office is earlier vacated under any relevant provision of the Company s Articles of Association. As to nominees for the position of external directors, if elected, said nominees will serve for a period of three years or until their respective successors are duly elected and shall qualify, as the case may be, unless the office is earlier vacated under any relevant provision of the Companies Law or of the Company s Articles of Association. According to the Company s Law no shareholders meeting shall deliberate over the election of an external director unless the nominee has provided the Company with a declaration of lack of any conflict of interests between her position as external director and her other engagements. Such declaration was provided by both nominees and is available for the shareholders review and will be available for review at the Annual General Meeting.

In the absence of instructions to the contrary, the persons named in the enclosed proxy will vote the Ordinary Shares represented thereby For the election of the nominees listed below. If any of such nominees is unable to serve, the persons named in the proxy will vote the Ordinary Shares for the election of such other nominees as the Company s Board of Directors may propose. The nominees have advised that they will serve as directors and external directors (as the case may be) if re-elected.

9

Exhibit 99.1

The following table and paragraphs provide certain relevant information concerning each director and external director nominee, including the nominee s past and present principal occupation:

NOMINEE	AGE	POSITION
Barry L. Cox	63	Director
Joseph Ciechanover	70	Director
Avi Kerbs	55	Director
Dr. Alon Dumanis	60	Director
Dr. Giora Dishon	58	Director
Dr. Moshe Finarov	49	Director
Lauri Hanover	43	External Director
Dr. Karrey Holland	47	External Director

Barry L. Cox serves as chairman of the Board of Directors of the Company as of May, 15 2003. During the years 2001 and 2002 Mr. Cox have served as chairman of the board of directors of MorphICs Technology Inc. and from 1998 to 2000, he served as chairman of the board of directors of Quantum Effect Devices Inc. Mr. Cox also served as chief executive officer of Weitek Corporation from 1993 to 1995, and before that filled various roles in Intel Corporation, the last of which was president of Intel Europe. Mr. Cox hold a B.S. in engineering from the U.S. Air Force Academy and an MBA from Boston University.

Joseph Ciechanover served as a director of the Company from October 1996 until December 1998 and again from February 2000 until the present. He is the founder and president of the Challenge Fund-Etgar L.P., a venture capital firm, and he served as chairman of the board of directors of El-Al Israel Airlines from 1995 until 2001. He served as a member of the advisory committee of the Bank of Israel from 1980 to 1994 and as the president and a member of the board of directors of PEC Israel Economic Corporation, a diversified investment company. Dr. Ciechanover holds a law degree from the Hebrew University in Jerusalem, an L.L.M. from the University of California at Berkeley and a Ph.D. in philosophy from Boston University.

Mr. Avi Kerbs has served as a director of Nova since 1993. He has served and continue to serve as president and chief executive officer of Teuza Management and Development Ltd., the management company of Teuza-A Fairchild Technology Venture Ltd., a venture capital company, since 1991. He has served as a director of most of the companies comprising the investment portfolio of the Teuza Fund. Mr. Kerbs is also a director of DSSI INC. currently traded on NASDAQ SMALLCAP market and in two other Israeli companies. Mr. Kerbs holds a B.Sc. in Industrial Engineering and Management and an M.Sc. in Management, both from the Technion in Haifa-the Technology Institute of Israel. Mr. Kerbs was originally appointed to our board of directors by Teuza.

Giora Dishon is a co-founder of the Company and has served as President and Chief Executive Officer since the Company s foundation in 1993. Dr. Dishon has been a director of the Company since 2002. From 1989 to 1993 he served as thin film and flat panel display product line manager at Orbot Systems and Orbotech Ltd., a manufacturer of automated optical inspection equipment. From 1986 to 1988 he was a visiting scientist at the Microelectronics Center of North Carolina, and from 1982 to 1986 he served as managing director of AVX Israel Ltd., a manufacturer of electronic devices. Dr. Dishon holds a B.Sc. in chemistry, an M.Sc. and a Ph.D. in materials science from the Hebrew University in Jerusalem.

10

Exhibit 99.1

Moshe Finarov is a co-founder of the Company, a current member of the Board of Directors and has served as Director of Technology since the Company s formation in 1993. From 1989 to 1993 he served as senior physicist at Orbotech and from 1978 to 1988 he was employed at the ENIMS and PULSAR Institutes of Research in Moscow. Dr. Finarov holds a Ph.D. in semiconductor physics from Moscow University.

Dr. Alon Dumanis, serves as chief executive officer of Docor International Management, a Dutch venture capital subsidiary of The Van-Leer group Foundation. Dr. Dumanis serves as member of various companies boards of directors, including El Al Israel Airlines, Inventech and others. Previously, Dr. Dumanis was the Head of the material command in the Israel Air Force with the rank of Brigadier General. Dr. Dumanis currently serves as chairperson and member of several national steering committees and is the author of many papers published locally and internationally in a number of subject areas, including technology and management. Dr. Dumanis holds a Ph.D. in Aerospace Engineering from Purdue University in the United States.

Ms. Lauri Hanover has been a Director of the Company since 2000. Ms. Hanover has served as Corporate Vice President and Chief Financial Officer of NICE Systems Ltd. since December 2000. She previously served as Executive Vice President and Chief Financial Officer of Sapiens International Corporation N.V. since March 1997. From 1984 to 1997, Ms. Hanover served in a variety of financial management positions, including Corporate Controller, at Scitex Corporation Ltd. Ms. Hanover holds a bachelor s degree in finance from the Wharton School of Business and a Bachelor of Arts degree from the College of Arts and Sciences, both of the University of Pennsylvania. Ms. Hanover also holds a master s degree in business administration from New York University.

Karey Holland, was appointed in July 2000 as one of the Company s external directors in accordance with the provisions of Israeli law. Dr. Holland serves concurrently as vice president, technology at Thomas West Inc. and as senior managing partner of Techcet. Prior to her current positions, Dr. Holland was employed for over five years by IPEC and later SpeedFam-IPEC, where she held the positions of Vice President of Process Technology and later Vice President and Chief Technological Officer. She worked for International Business Machines Corporation from 1981 through 1993, where she held several positions, including Sematech advanced lithography technology development program manager, process technology development manager and manufacturing implementation manager. After leaving IBM and before taking her position at IPEC, Dr. Holland spent nine months at Motorola, Inc. in manufacturing planning for the microprocessor and memory technology group. Dr. Holland holds a Ph.D. in analytical chemistry from Pennsylvania State University.

11

Exhibit 99.1

The following resolutions electing directors is proposed for consideration by the shareholders:

RESOLVED, to elect Barry Cox, Joseph Ciechanover, Avi Kerbs, Giora Dishon, Moshe Finarov and Alon Dumanis as Directors to serve for a period of one year or until their respective successors are duly elected and shall qualify, and to elect Lauri Hanover and Karrey Holand as External Directors to serve for a period of three years or until their respective successors are duly elected and shall qualify.

The Board of Directors expresses no recommendation as to the vote on the above resolutions.

ITEM NO. 3

PROPOSAL TO APPOINT THE
INDEPENDENT PUBLIC ACCOUNTANTS OF THE COMPANY

The Board of Directors has selected the accounting firm of Brightman Almagor & Co. as the independent certified public accountants of the Company for the year ending on December 31, 2003. The Board of Directors believes that the selection of Brightman Almagor & Co as independent public accountants is appropriate and in the best interests of the Company and its shareholders. Brightman Almagor & Co has audited the Company s books and accounts and performed other accounting services for the Company since 1994. Brightman Almagor & Co. performed the Company s annual audit for the fiscal year ended December 31, 2002.

The shareholders of the Company are requested to adopt the following resolution:

RESOLVED, to appoint Brightman Almagor & Co. as the independent auditors of the Company for the year ending December 31, 2003, and to authorize the Board of Directors to fix the remuneration of such auditors in accordance with the volume and nature of their services.

The Board of Directors recommends that the shareholders vote FOR the ratification of Brightman Almagor & Co. s selection as the independent public accountants of the Company.

Exhibit 99.1

ITEM NO. 4

PROPOSAL TO APPROVE THE TERMS OF ENGAGEMENT OF THE CHAIRPERSON OF THE COMPANY S BOARD OF DIRECTORS.

Background:

According to the Companies Law, the approval of the terms of engagement between the Company and a member of its Board of Directors is subject to the approval of the following corporate organs: (i) the Company s Audit Committee; (ii) the Company s Board of Directors; and (iii) the Company s shareholders. Accordingly, the Audit Committee and the Board of Directors resolved on May, 15, 2003, to approve the terms of engagement of Mr. Barry Cox as chairperson of the Company s Board of Directors, of which the principle terms are as follows:

Term: May 15, 2003 to May 15, 2004, provided that Mr. Cox may be terminated at any time by the Company s Board of Directors in its discretion.

Base Salary: $50,000 per annum payable on a quarterly basis;

Options: A one time grant effective as of May 15, 2003, of an option to purchase 50,000 ordinary shares vested over a three year period with an exercise price of $2.68 per share, which represents the fair market value of an ordinary share at the time of grant. The option expires ten years after grant;

Termination: If Mr. Cox is terminated for any reason other than a breach of his fiduciary duties to the Company, any vested portion of the option granted to Mr. Cox under the terms of his engagement may be exercised within 90 days after his termination. If Mr. Cox is terminated as a result of a breach of fiduciary duties to the Company, the unexercised potion of the option will terminate.

Indemnification and Insurance: under the same terms as all other members of the Board of Directors.

Restrictive Covenants: During the term of Mr. Cox s engagement with the Company and for one year thereafter, Mr. Cox is prohibited from becoming associated with, whether as principal, partner, employee, consultant or shareholder (other than as a holder of not more than 1% of the outstanding voting shares of any publicly traded company), with any entity that is actively engaged in any geographic area in any business which is in substantial and direct competition with the Company. In addition, during the term of Mr. Cox s engagement with the Company and for two years thereafter, Mr. Cox is prohibited from inducing any employee of the Company to be employed or perform services elsewhere. During the term of his engagement and thereafter, Mr. Cox is also required, to hold in confidence all trade secrets, confidential information and proprietary materials of the Company, subject to certain limited exceptions.

A copy of the letter agreement between the Company and Mr. Cox setting forth the terms of his engagement is attached as an Appendix to the copy of this Proxy Statement filed with the United States Securities and Exchange Commission under cover of a Form 6-K on August 5, 2003.

The shareholders of the Company are requested to adopt the following resolution:

RESOLVED, to approve the terms of engagement of Mr. Barry Cox.

The Board of Directors recommends that the shareholders vote FOR the approval of the terms of engagement of Mr. Barry Cox as described in Item No. 4 of the Company s Proxy Statement and ancillary documents.

ITEM NO. 5

PROPOSAL TO APPROVE THE TERMS OF ENGAGEMENT WITH THE COMPANY S EXTERNAL DIRECTORS TO THE EXTENT REQUIRED UNDER APPLICABLE LAW

Background:

According to the Companies Regulations (rules regarding compensation and expenses for an external Director) 2000 (the Regulations), a resolution for the payment of cash remuneration to external directors which strictly adheres to the cash amounts set forth in the second and third schedules of the Regulations (as adjusted from time to time according to the Regulations) is exempt from the need to obtain the approval of the Company s shareholders with respect to the remuneration paid to the external directors.

As to compensation in stock, according to the Regulations, the Company is entitled to grant the external directors, in addition to the cash compensation described above, options to purchase Company s shares provided that such grant is made within the framework of a stock incentive plan granted to all other directors in the Company and further provided that the amount of shares purchasable under the terms of such option shall be no less than the minimum amount of shares purchasable by any other director and shall not exceed the average amount of shares purchasable by all directors. According to the Companies Law, the transactions set forth in this paragraph, are subject to the approval of the following corporate organs: (i) the Company s Audit Committee; (ii) the Company s Board of Directors; and (iii) the Company s shareholders.

Accordingly, the Company s Audit Committee (in which both external directors have notified the Company of their personal interest in the approval of said resolution) and the Company s Board of Directors (in the absence of the external directors) have resolved on July 1st, 2003, and on July 10th, 2003 respectively, that the external directors shall be entitled to receive options to purchase the Company s shares within the framework prescribed by the Regulations, provided that the amount of shares purchasable pursuant to each particular grant shall be determined by the Board of Directors and the Audit Committee,

The shareholders are requested to resolve as follows:

RESOLVED, to approve the resolution of the Company s Audit Committee and the Company s Board of Directors and approve the grant to each of the Company s external directors the right to receive options to purchase the Company s ordinary shares within the framework prescribed by the Regulations.

The Board of Directors recommends that the shareholders vote FOR the approval of the resolution of the Board of Directors and the grant to each of the external directors the right to receive options to purchase the Company s ordinary shares as described in Item No. 5 of the

Company s Proxy Statement.

ITEM NO.6

PROPOSAL TO GRANT COMPENSATION TO THE COMPANY S EXTERNAL DIRECTORS BY WAY OF ISSUNACE OF OPTIONS TO PURCHASE THE COMPANY S SHARES

Background:

As further elaborated in the proposal described in Item 5 above, according to Israeli Law, the Company s external directors are entitled to receive options to purchase the company s shares within the framework prescribed by the Regulations, provided however that such grant is approved by the following corporate organs: (i) the Company s Audit Committee; (ii) the Company s Board of Directors; and (iii) the Company s shareholders.

Accordingly, the Company s Audit Committee (in which both external directors have notified the Company of their personal interest in the approval of said resolution) and the Company s Board of Directors (in the absence of the external directors) have resolved on July 1st, 2003, and on July 10th, 2003 respectively, to grant each of Lauri Hanover and Karrey Holland which serve as the Company s external directors, an option to purchase up to 10,000 ordinary shares of the Company under the term set forth in option plan 6, which were approved by the Company s shareholders on October 31, 2002.

The shareholders are requested to resolve as follows:

RESOLVED, to approve the Resolution of the Company s Board of Directors and the grant to each of Lauri Hanover of and Karrey Holland of an option to purchase 10,000 ordinary shares of the Company as set forth in proposal described in Item No. 6.

The Board of Directors recommends that the shareholders vote FOR the approval of the resolutions of the Board of Directors and the grant of an option to each of Lauri Hanover and Karrey Holland to purchase 10,000 ordinary shares of the Company as described in the Proposal in Item No. 6 of the Company s Proxy Statement.

ITEM NO. 7

PROPOSAL TO APPROVE THE AMENDMENT OF THE TERMS OF REMUNERATION GRANTED TO TWO DIRECTORS OF THE COMPANY

Background:

According to the Israeli Companies Law, the terms of compensation of members of the Board of Directors require approval of the Audit Committee, the Board of Directors and shareholders of the Company.

Both the Company s Audit Committee and the Company s Board of Directors have resolved on May 15, 2003 that the salaries of (i) Dr. Giora Dishon who, in addition to his membership in Company s Board of Directors, serves as President of the Company and, (ii) Dr. Moshe Finarov who, in addition to his membership in the Company s Board of Directors serves as director of technology of the Company, shall be amended as follows:

A. With respect to Giora Dishon

Gross Salary :

(a) For the period commencing on February 1, 2003 and ending on July 31, 2003, Dr. Dishon shall be entitled to a monthly gross salary of 44,000 NIS.

(b) For the period commencing on August 1, 2003, and thereafter, Dr. Dishon shall be entitled to a monthly gross salary in the amount of 50,000 NIS.

B. With respect to Moshe Finarov

Gross Salary :

(a) For the period commencing on February 1, 2003 and ending on July 31, 2003, Dr. Finarov shall be entitled to a monthly gross salary of 40,000 NIS.

(b) For the period commencing on August 1, 2003 and thereafter, Dr. Finarov shall be entitled to a monthly gross salary in the amount of 44,000 NIS.

The shareholders of the Company are requested to adopt the following resolution:

RESOLVED, to approve the resolution of the Company s Board of Directors and the amendment of the terms of compensation of Dr. Giora Dishon and Dr. Moshe Finarov as set forth in the proposal described in this Item 7.

The Board of Directors recommends that the shareholders vote FOR the approval of the resolutions of the Board of Directors and the amendment of the terms of compensation of Dr. Giora Dishon and Dr. Moshe Finarov as described in Item No. 7 of the Company s Proxy Statement.

ITEM NO. 8

PROPOSAL TO AMEND THE TERMS OF OPTION PLAN 6

Background:

On October 31, 2002 the Company s shareholders approved Option Plan 6 (the Plan). According to the terms of the Plan as approved by the Company s shareholders, the aggregate amount of ordinary shares purchasable under the Plan is 940,000 ordinary shares.

As the Company desires to grant each of its external directors an option to purchase up to 10,000 ordinary shares of the Company, as further elaborated in Item 6, the Company s Board of Directors resolved on July 10th, 2003 to amend the terms of the Plan so that the aggregate amount of ordinary shares subject to the plan shall be 960,000 ordinary shares. All other terms of the Plan shall remain as approved by the Company s shareholders on October 31, 2002.

The shareholders are required to adopt the following resolution:

RESOLVED: To approve the resolution of the Company s Board of Directors and the amendment of Option Plan 6 to provide that up to 960,000 shares may be issued pursuant to the exercise of options granted pursuant to Option Plan 6.

The Board of Directors recommends that the shareholders vote FOR the approval of the resolutions of the Board of Directors and the amendment of Option Plan 6 as described in Item No. 9 of the Company s Proxy Statement.

ITEM NO. 9

PROPOSAL TO APPROVE THE TERMS OF EMPLOYEES STOCK PURCHASE PLAN NO. 1

Background:

On February 27, 2003 the Company s Board of Directors adopted an employee stock purchase plan (the Plan), which is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986. Following is a summary of the principle terms of the Plan:

Term of Plan: Until September 30, 2010, unless earlier terminated by the Company.

Offering Period: The plan is divided into four offering periods of six month each, commencing on March 20, 2003. At any time prior to 15 days before the end of an offering period, the Company may cancel the offering.

Eligibility: Any person who, at the time any offering period commences, is employed for twenty or more hours per week and for more than five months per year by the Company or a subsidiary as defined in the Plan and who does not own stock possessing five percent or more of the total combined voting power of all classes of stock of the Company or any subsidiary is eligible to participate in the Plan. However, certain employees designated by the Company as highly compensated may not be eligible to participate in the Plan.

Participation: Eligible employees may elect to participate in the Plan by filing an enrollment form with the Company in accordance with the terms of the Plan. When filing the enrollment form, the participant will elect to have a percentage of his or her base pay (as defined in the plan) deducted each payday during an offering period. Payroll deductions will be credited to an account maintained by the Company under the Plan for each participant. Subject to the limitations set forth in the plan, at the end of the offering period, accumulated payroll deductions will be used to acquire a whole number of the Company s Ordinary Shares at a price calculated in accordance with the Plan. Any payroll deductions not used to purchase shares will be returned to the employee. An employee may elect to withdraw from the Plan and receive all, but not less than all, of his or her accumulated payroll deductions at any time prior to 15 days before the end of the offering period. Generally, a participant cannot assign, transfer or otherwise dispose of his or her payroll reductions under the Plan or any rights under the Plan, except by will or the laws of descent or distribution. Generally, unless otherwise determined by the Company, interest will not be paid on any payroll deductions.

Number of Shares Subject to the Plan: 150,000 Ordinary Shares, distributable in four increments of up to 37,500 Ordinary Shares each, to be distributed pursuant to each offering period. If there is an over subscription during any offering period, shares will be allocated to the participants on a pro rata basis. The number of available shares is subject to adjustment as described below.

Purchase Price: the lower of (i) 85% of the last sale price of the Ordinary Shares on the Nasdaq National Market on the applicable Offering Commencement Date (as defined under the terms of the Plan) and (ii) 85% of the last sale price of Ordinary Shares on the Nasdaq National Market on the applicable Offering Termination Date (as defined under the terms of the Plan).

Administration: The Plan will be administered by a committee appointed by the Company s Board of Directors or, in the absence of such a committee, by the entire Board.

Use of Funds: The Company may use payroll deductions received under the Plan for any corporate purpose.

Adjustments in the Number of Shares and Price: In the event of any change in the outstanding Ordinary Shares of the Company by reason of a stock dividend, exchange, recapitalization, merger or similar event, the number of Ordinary Shares and price per share will be appropriately adjusted by the Company s Board of Directors.

Shareholder Approval: The Plan has been adopted by the Company s Board or Directors, but is conditioned upon the ratification and approval of the Plan by the stockholders of the Company.

Amendment and Termination: Generally, the Plan may be amended or terminated at any time by the Board of Directors, except that any such amendment or termination shall not, without the consent of a participant, affect the participants right to acquire Ordinary Shares already granted under the Plan.

A copy of the Plan is attached as an Appendix to the copy of this Proxy Statement filed with the United States Securities and Exchange Commission under cover of a Form 6-K on August 5, 2003.

The shareholders of the Company are requested to adopt the following resolution:

RESOLVED to approve the terms of Employee Stock Purchase Plan No. 1.

The Board of Directors recommends that the shareholders vote FOR the approval of the terms of Employee Stock Purchase Plan 1 as described in Item No. 10 of the Company s Proxy Statement and ancillary documents.

Voting Procedures

The presence, in person or by proxy, of at least one third (33.33%) of the Company s outstanding Ordinary Shares entitled to vote at the Annual General Meeting is necessary to establish a quorum for the transaction of business. Ordinary Shares represented by proxies pursuant to which votes have been withheld from any nominee for director, or which contain one or more abstentions or broker non-votes, are counted as present for purposes of determining the presence or absence of a quorum for the Shareholders Meeting. A non-vote occurs when a broker or other nominee holding shares for the beneficial owner votes on one proposal, but does not vote on another proposal because the broker does not have discretionary voting power and has not received instructions from the beneficial owner.

Approval of each proposal, other than with respect to the election of the Company s external directors, requires an affirmative vote of a majority of the Ordinary Shares present, in person or represented by proxy, and voted on that matter. Abstentions, as well as broker non-votes are not considered to have been voted for a matter and have the practical effect of reducing the number of affirmative votes required to achieve a majority for the approval of such matter by reducing the total number of Ordinary Shares from which the majority is calculated.

Approval of proposal to elect the external directors requires the affirmative vote of a majority of the Ordinary Shares present, in person or represented by proxy, and voted on that matter and in addition either that (i) at least one third (33.33%) of the holders of Ordinary Shares who are not controlling shareholders attending in person or represented by proxy have voted in favor of the proposal, or (ii) the aggregate number of Ordinary Shares voting against the proposal have not exceeded one per cent (1%) of the Company s issued and outstanding share capital.

Expenses and Solicitation

All costs of solicitation of proxies will be borne by the Company. In addition to solicitations by mail, certain of the Company s directors, officers and regular employees, without additional remuneration, may solicit proxies by telephone, telegraph and personal interviews. Brokers, custodians and fiduciaries will be requested to forward proxy soliciting material to the owners of stock held in their names, and the Company will reimburse them for their reasonable out-of-pocket costs. Solicitation by directors, officers and employees of the Company may also be made of some stockholders in person or by mail, telephone or telegraph following the original solicitation.

Annual Report on Form 20-F

The Company will provide without charge to each person solicited by this Proxy Statement, on the written request of such person, a copy of the Company s Annual Report on Form 20-F, including financial statements and schedules thereto, as filed with the United States Securities an Exchange Commission for its most recent fiscal year. Such written request should be directed to Chai Toren, Chief Financial Officer at the address of the Company set forth on the first page of this Proxy Statement.

Exhibit 99.1

Annex A

May 15, 2003

Mr. Barry Cox,

Dear Mr. Cox.

Re: Terms of Engagement in the Position of Chairman of the Board of Directors:

This letter establishes the terms of your engagement with Nova Measuring Instruments Ltd. (Nova).

1. Title/Position: You will serve as the Chairman of the Board of Directors (Board) of Nova.

2. Period: As of May 15, 2003 and until May 15, 2004 . It is agreed that your services may be terminated at any time within said period according to the sole discretion of Nova s Board of Directors

3. Compensation: Gross payment of 50,000 $ per annum payable in quarterly payments no later than the end of each fiscal quarter.

4. Initial Stock Option Award:

(a) Grant: Effective as of May 15, 2003 Nova shall grant you an option (Option) to purchase 50,000 shares of Nova s Ordinary Shares of 0.01 par value each (the Option and the Common Stock respectively). To remove any doubt, the option is granted to you on a one time basis and Nova shall be under no obligation to grant you any additional options;

(b) Per Share Exercise Price: Fair market value of a single Ordinary Share.

(c) Vesting Period: The aggregate amount of Common Stock purchasable under the Option shall vest over a three year period commencing as of the date hereof so that by the end of each anniversary to your engagement according to this letter you shall be entitled to purchase one third of the aggregate amount of Common Stock Purchasable under the Option. The Option has a fixed term of 10 years from the date of grant.

(d) Termination of Services: To the extent hat your services are terminated for any reason whatsoever other than due to breach of your fiduciary duties to Nova you shall be entitled to exercise that part your Option vested immediately prior to the date of termination by notice to Nova no later than 90 days of said termination. In the event that your services are terminated due to breach of fiduciary duties any part of the Option, which is unexercised upon the date to termination shall expire.

21

Exhibit 99.1

5. No Employer Employee Relations: You shall not be deemed to be an Employee of Nova and you shall agree to waive any claim to the contrary, and to indemnify Nova against any damage borne by it in the event that any court of law, quasi-judicial authority or any other administrative authority determines to the contrary.

6. Restrictive Covenants: You agree that during the term in which your services are provided to Nova and for one year thereafter you will not become associated, whether as principal, partner, employee, consultant or shareholder (other than as a holder of not more than 1% of the outstanding voting shares of any publicly traded company), with any entity that is actively engaged in any geographic area in any business which is in substantial and direct competition with Nova. You further agree that during the term of your employment by Nova and for two years thereafter you will not induce any employee of Nova to be employed or perform services elsewhere. Finally, you agree that during the term in which you provide services to Nova and thereafter (subject to the requirements of legal process) you will hold in confidence all trade secrets, confidential information and proprietary materials of Nova. For the avoidance of doubt proprietary materials of Nova shall include any work product prepared by you during or in relation to your services under this letter however, information and materials shall not be considered to be

trade secrets, confidential or proprietary if they (a) have previously been disclosed to the public, or are in the public domain, other than as a result of the your breach of this paragraph 6, or (b) are known or generally available within any trade or industry of Nova.

7. Approvals: Please be advised that under applicable law the terms of your engagement as elaborated in this letter are subject to the approval of Nova s Audit Committee, Board of Directors and the Shareholders general meeting. Nova shall not be liable for failing to obtain such approvals.

8. If the foregoing terms are acceptable to you, please indicate your acceptance and agreement by signing the enclosed copy of this letter and returning it to Nova attn: Dr. Giora Dishon.

Very truly yours,

Nova Measuring Instruments Ltd.

BY: /S/ Barry Cox

Barry Cox

Accepted and Agreed: May 15, 2003

22

Exhibit 99.1

Annex B

NOVA Measuring Instruments Ltd.

EMPLOYEE STOCK PURCHASE PLAN 1 (ESPP1)

1. PURPOSES.

The Employee Stock Purchase Plan 1 of NOVA Measuring Instruments Ltd. (the Plan) is intended to provide a method whereby employees of NOVA Measuring Instruments Ltd. and its subsidiaries and predecessor corporations, if any (hereinafter collectively referred to, unless the context otherwise requires, as the Company), will have an opportunity to acquire a proprietary interest in the Company through the purchase of shares of Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an employee stock purchase plan under Section 423(b) of the United States Internal Revenue Code of 1986, as amended (the Code). The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of Section 423(b) of the Code.

2. DEFINITIONS.

(a) Annualized Base Pay means: (i) for any Employee who was employed by the Company for an entire twelve-month period ending on the day prior to an Offering Commencement Date, the Employee s total Base Pay for such twelve-month period; or (ii) for any Employee not employed for the entire twelve-month period ending on the day prior to an Offering Commencement Date, the sum of the Base Pay earned in each of the full calendar months prior to the Offering Commencement Date during which the Employee was employed by the Company, divided by the number of full calendar months for which the Employee was employed, multiplied by twelve.

(b) Base Pay means regular straight-time earnings (as the same may be adjusted from time to time), but excluding payments for overtime, shift differentials, incentive compensation, sales commissions, bonuses and other special payments.

(c) "Board" means the Board of Directors of NOVA Measuring Instruments Ltd.

(d) "Committee" means the committee of one or more members of the Board appointed by the Board in accordance with Section 13 of the Plan or, in the absence of such a committee, the entire Board.

(e) Common Stock means the ordinary shares of NOVA Measuring Instruments Ltd., par value 0.01NIS, or such other class or kind of shares or other securities converted or resulting from the application of Paragraph 17 or 20.

(f) Employee means any person who is customarily employed for 20 or more hours per week and more than five months in a calendar year by the Company or by a Subsidiary Corporation who owns stock possessing less than 5% of the total combined voting power or value of all classes of stock of the Company or any Subsidiary Corporation.

23

Exhibit 99.1

(g) Offering Commencement Date means the applicable date on which an Offering under the Plan commences pursuant to Paragraph 4(a).

(h) Offering Termination Date means the applicable date on which an Offering under the Plan terminates pursuant to Paragraph 4(a).

(i) Subsidiary Corporation means any present or future corporation which (i) is a subsidiary corporation as that term is defined in Section 424(f) of the Code and (ii) is designated as a participant in the Plan by the Committee.

(j) "Treasurer" means any person or persons appointed by the Company to handle the issues of payroll deductions and maintenance of proceeds for the execution of the Plan.

3. ELIGIBILITY.

(a) Any Employee employed by the Company on the applicable Offering Commencement Date shall be eligible to participate in the Plan provided such Employee has executed an enrollment form (an Enrollment Form) in the form determined by the Committee and submitted such form to the Company in accordance with such procedures as may be established by the Committee on or prior to the relevant Offering Commencement Date.

(b) Any provision of the Plan to the contrary notwithstanding, no Employee shall be granted an option to participate in the Plan if, immediately after the grant, such Employee would own stock, and/or hold outstanding options to purchase stock, possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary Corporation (for purposes of this Paragraph the rules of Section 424(d) of the Code shall apply in determining stock ownership of any employee).

(c) The Committee may also determine that a designated group of highly compensated Employees are ineligible to participate in the Plan so long as the excluded category fits within the definition of highly compensated employee in Section 414(q) of the Code.

(d) All Employees who participate in the Plan shall have the same rights and privileges under the Plan, except for differences that may be mandated by local law and that are consistent with Code Section 423(b)(5) provided, however, that Employees participating in a sub-plan adopted pursuant to paragraph 26 which is not designed to qualify under Code Section 423 need not have the same rights and privileges as Employees participating in the Code Section 423 Plan. The Board may impose restrictions on eligibility and participation of Employees who are officers and directors to facilitate compliance with United States federal or state securities laws, laws of Israel, or foreign laws.

4. OFFERING DATES.

24

Exhibit 99.1

(a) The Plan will be implemented by semiannual offerings (referred to herein collectively as Offerings and individually as an Offering) of a maximum aggregate of 150,000 shares (subject to adjustment as provided in Paragraphs 12(a) and 17) of Common Stock, subject to subsection (c) of this Paragraph 4 and Paragraphs 12, 17 and 20 below, as follows:

(i) Offering I shall commence on March 20, 2003 and terminate on September 19, 2003.

(ii) Offering II shall commence on September 20, 2003 and terminate on March 19 2004.

(iii) Offering III shall commence on March 20, 2004 and terminate on September 19, 2004.

(iv) Offering IV shall commence on September 20, 2004 and terminate on March 19, 2005.

Participation in any one Offering under the Plan shall neither limit, nor require, participation in any other Offering.

(b) The first Offering shall commence on the Offering Commencement Date next following the effective date of a Registration Statement on Form S-8 filed under the Securities Act of 1933, as amended, registering for sale the Common Stock which may be offered under the Plan.

(c) The Company may, at its sole discretion determine no later than 15 days prior to the commencement of each Offering to retract from the offering with respect to said period for any reason whatsoever and cancel the offering of shares of Common Stock which were to be offered for purchase during the relevant Offering, without such retraction and cancellation giving rise to any claim by any Employee against the Company.

5. PARTICIPATION.

All eligible Employees that have executed and filed with the Company an Enrollment Form in accordance with Paragraph 3(a) electing to participate in an Offering will become participants in such Offering on the applicable Offering Commencement Date. Payroll deductions, if any, for a participant shall commence on the applicable Offering Commencement Date of the Offering and shall end on the Offering Termination Date of such Offering, unless sooner terminated pursuant to Paragraph 10.

6. PAYROLL DEDUCTIONS AND ENROLLMENT CHANGES.

(a) At the time a participant files his or her Enrollment Form, the participant shall elect to have deductions made from his or her Base Pay on each payday during the time he or she is a participant in an Offering at the rate of any whole percentage not to exceed 10% (i.e. 0, 1, 2, 3, 4, 5, 6, 7, 8, 9 or 10%) of his or her Annualized Base Pay. If a participant has not filed an Enrollment Form applicable to an Offering at least seven (7) days prior to the applicable Offering Commencement Date or such shorter period as determined by the Committee, he or she shall be deemed to have filed an Enrollment Form electing to withhold 0% of his or her Base Pay.

(b) All payroll deductions made for the participant shall be credited to his or her account maintained by the Company under the Plan. A participant may not make any separate cash payment into such account.

(c) Except as provided in Paragraph 8(b) or 10, a participant may make changes to the rate of deduction from his or her Base Pay only once during an Offering, by completing a new Enrollment Form and filing it with the Treasurer as provided herein or by complying with such other procedures as the Committee may determine. Such new rate of deduction shall be effective upon the commencement of the first pay period subsequent to its filing. A participant may change his or her rate of deduction only once during any Offering.

(d) A Participant may increase or decrease his or her payroll deduction rate by completing and filing with the Treasurer a new Enrollment Form at any time during the month immediately preceding each new Offering, provided such new Enrollment Form is received no later than one week prior to the Offering Commencement Date of such Offering. Such new Enrollment Form shall become effective as of the first day of such Offering. If a participant does not file a new Enrollment Form, the terms of the Enrollment Form in effect with respect to the immediately preceding Offering shall remain in effect for the new Offering.

7. GRANTING OF OPTION.

(a) For each of the Offerings, a participating Employee shall be deemed to have been granted an option (the Option), on the applicable Offering Commencement Date, to purchase a maximum number of shares of Common Stock equal to an amount determined as follows: 85% of the market value of a share of the Company s Common Stock on the applicable Offering Commencement Date shall be divided into an amount equal to the amount to be deducted from the participating Employee s Base Pay pursuant to such Employee s Enrollment Form filed with the Company for the applicable Offering; provided, however, no Employee shall be granted an Option that results in the accrual by a participating Employee of the right to acquire Common Stock having a fair market value in excess of $25,000 (determined on the first day of the applicable Offering) during any calendar year. For all purposes of the Plan, the market value of the Company s Common Stock shall be determined as provided in subparagraph (b) below.

(b) The purchase price of a share of Common Stock purchased with payroll deductions made during each Offering (the Option Exercise Price) shall be the lower of:

(i) 85% of the last sale price of the Common Stock on the Nasdaq National Market (or on such other national securities exchange on which the Common Stock is then traded) as reported in The Wall Street Journal on the applicable Offering Commencement Date (or on the next regular business date on which shares of Common Stock shall be traded if no shares of Common Stock shall have been traded on such Offering Commencement Date); or

---

(ii) 85% of the last sale price of Common Stock on the Nasdaq National Market (or on such other national securities exchange on which the Common Stock is then traded) as reported in The Wall Street Journal on the applicable Offering Termination Date (or on the next regular business date on which shares of Common Stock shall be traded if no shares of Common Stock shall have been traded on such Offering Termination Date).

(c) Anything herein to the contrary notwithstanding, no participant may be granted a right to purchase Common Stock under the Plan to the extent that, taking into account such grant, such participant would have rights to purchase equity securities under the Plan and under all other plans, if any, of the Company and Subsidiary Corporations that are intended to meet the requirements of section 423 of the Code, that accrue at a rate which exceeds $25,000 of fair market value (determined at the time the rights are granted) for each calendar year in which such rights to purchase Common Stock are outstanding at any time. For purposes of this Paragraph 7, the right to purchase Common Stock accrues when the right (or any portion thereof) first becomes exercisable during the calendar year.

8. <u>EXERCISE OF OPTIONS.</u>

With respect to each Offering during the term of the Plan:

(a) Unless a participant gives written notice of withdrawal to the Company as provided in Paragraphs 8(b) and 10, his or her Option will be deemed to have been exercised automatically on the Offering Termination Date applicable to such Offering, for the purchase of the number of full shares of Common Stock which the accumulated payroll deductions (without interest) in his or her account maintained by the Company under the Plan at that time will purchase at the applicable Option Exercise Price (but not in excess of the number of shares for which Options have been granted to the Participant pursuant to Paragraph 7), and any excess in his or her account at that time will be returned to him or her, with no interest, unless otherwise determined by the Committee prior to each Offering Commencement Date, in which case interest will be payable based on the assumption that such excess comprises funds most recently deducted from the participant s pay; provided that any excess returned on account of fractional shares will not be credited with any interest.

(b) By written notice to the Treasurer at any time prior to the Offering Termination Date applicable to any Offering, but no later than 15 days prior to each relevant Offering Termination Date, a participant may elect to withdraw all, but not less than all, of the accumulated payroll deductions in his or her account at such time, with no interest unless otherwise determined by the Committee prior to each Offering Commencement Date.

(c) Fractional shares will not be issued under the Plan and any accumulated payroll deductions which would have been used to purchase fractional shares shall be returned to the participant without interest promptly following the termination of an Offering.

---

9. <u>DELIVERY.</u>

As promptly as practicable after the Offering Termination Date of each Offering, the Company will deliver to each participant, as appropriate, the certificate or certificates representing the shares of Common Stock purchased upon the exercise of such participant s Option.

10. WITHDRAWAL.

(a) As indicated in Paragraph 8(b), a participant may withdraw payroll deductions credited to his or her account with the Company under any Offering at any time prior to 15 days before the applicable Offering Termination Date by giving written notice of withdrawal to the Treasurer. All of the participant s payroll deductions credited to his or her account will be paid to the participant promptly after receipt of such notice of withdrawal and no further payroll deductions will be made from his or her pay during such Offering. The Company may, at its option, treat any attempt by an Employee to borrow on the security of accumulated payroll deductions as an election, under Paragraph 8(b), to withdraw such deductions.

(b) A participant s withdrawal from any Offering will not have any effect upon his or her eligibility to participate in any succeeding Offering or in any similar plan which may hereafter be adopted by the Company.

(c) Upon termination of the participant s employment with the Company for any reason, including retirement, but excluding death or disability, the payroll deductions credited to his or her account will be returned to the participant, with no interest unless otherwise determined by the Committee prior to each Offering Commencement Date.

(d) Upon termination of the participant s employment with the Company because of disability or death, the participant or his or her beneficiary (as defined in Paragraph 14) shall have the right to elect, by written notice given to the Company s Treasurer prior to the expiration of the period of 30 days commencing with the date of the disability or death of the participant, either:

(i) to withdraw all of the payroll deductions credited to the participant's account under the Plan; or

(ii) to exercise the participant s Option on the Offering Termination Date next following the date of the participant s disability or death for the purchase of the number of full shares of Common Stock which the accumulated payroll deductions in the participant s account at the date of the participant s disability or death will purchase at the applicable Option Exercise Price, and any excess in such account will be returned to the participant or said beneficiary.

If no such written notice of election is received by the Treasurer, the participant or beneficiary shall automatically be deemed to have elected to withdraw the payroll deductions credited to the participant s account at the date of the participant s disability or death and the same will be paid promptly to the participant or said beneficiary with no interest unless otherwise determined by the Committee prior to each Offering Commencement Date.

11. INTEREST.

No interest will be paid or allowed on any money paid into the Plan or credited to the account of any participant employee except as otherwise determined by the Committee in connection with withdrawal of payroll deductions as provided under Paragraphs 8 and 10 or upon the return of payroll deductions as provided under Paragraphs 8, 10 or 12. In the event of the return of excess payroll deductions under Paragraphs 8(a) or 12(a), interest thereon, if any, shall be computed assuming that such excess comprises funds most recently deducted from the participant s pay.

12. STOCK.

(a) The maximum number of shares of Common Stock which shall be made available for sale under the Plan shall be 150,000 shares of Common Stock, subject to adjustment upon changes in capitalization of the Company as provided in Paragraph 17. If the total number of shares for which Options are exercised in accordance with Paragraph 8 exceeds the number of shares then available under the Plan, the Committee shall make a pro rata allocation of the shares available for delivery and distribution in as nearly a uniform manner as shall be practicable and as it shall determine to be equitable, and the balance of payroll deductions credited to the account of each participant under the Plan shall be returned to the participant as promptly as possible, with no interest on such balance unless otherwise determined by the Committee prior to each Offering Commencement Date, based on the assumption that such excess comprises funds most recently deducted from the participant s pay.

(b) The participant will have no interest in Common Stock covered by his or her Option until such Option has been exercised.

(c) Common Stock to be delivered to a participant under the Plan will be issued in the name of the participant, or, if the participant so directs, by written notice to the Company prior to the Offering Termination Date applicable thereto, in the names of the participant and one such other person as may be designated by the participant, as joint tenants with rights of survivorship, to the extent permitted by applicable law.

13. ADMINISTRATION.

(a) The Plan shall be administered by a committee consisting of one or more Board members appointed by the Board or, in the absence of such a committee, the entire Board (the committee so designated by the Board or, in the absence of such a committee, the entire Board, shall hereinafter be referred to as the Committee). The officer of the Company charged with day-to-day administration of the Plan shall, for matters involving the Plan, be an ex-officio member of the Committee. Subject to the express provisions of the Plan, the Committee shall have full discretionary authority to interpret the Plan, to issue rules for administering the Plan, to change, alter, amend or rescind such rules, and to make all other determinations necessary or appropriate for the administration of the Plan, provided however that the Board may at any time amend or reverse any determination of the Committee. Such rules may include, without limitation, restrictions on the frequency of changes in withholding rates. All determinations, interpretations and constructions made by the Committee and approved by the Board with respect to any matter or provision contained in the Plan shall be final, conclusive and binding upon the Company and upon all participants, their heirs or legal representatives. Any rule or regulation adopted by the Committee shall remain in full force and effect unless and until altered, amended or repealed by the Committee or the Board. No member of the Board or the Committee shall be liable for any action, determination or omission taken or made in good faith with respect to the Plan or any right granted hereunder.

(b) If a Committee consisting of less than the entire Board is established, to the extent possible, such Committee shall consist of members of the Board who are not eligible to participate in the Plan; provided, however, that if a person who is eligible to participate in the Plan is designated to serve on the Committee, such Committee members shall not vote on any matter specifically affecting his or her own participation in the Plan. All Committee members shall serve, and may be removed, at the pleasure of the Board. For purposes of administration of the Plan, a majority of the members of the Committee shall constitute a quorum, and any action taken by a majority of such members of the Committee present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee, shall be the acts of the Committee.

(c) The Committee may, but shall not be obligated to engage an agent to purchase shares on each purchase date and to perform custodial and record keeping functions for the Plan, such as holding record title to shares acquired by participants under the Plan, maintaining an individual account for each such Participant and providing periodic account status reports to such participants.

(d) The Committee shall have full discretionary authority to delegate ministerial functions to management of the Company.

14. DESIGNATION OF BENEFICIARY.

A participant may file a written designation of a beneficiary who is to receive any shares of Common Stock and/or cash in the event of the death of the participant prior to the delivery of such shares or cash to the participant. Such designation of beneficiary may be changed by the participant at any time by written notice to the Treasurer. Within 30 days after the participant s death, the beneficiary may, as provided in Paragraph 10(d), elect to exercise the participant s Option when it becomes exercisable on the Offering Termination Date of the then current Offering. Upon the death of a participant and upon receipt by the Company of proof of identity and existence at the participant s death of a beneficiary validly designated by the participant under the Plan and upon notice of election of the validly designated beneficiary to exercise the participant s Option, the Company shall deliver such stock and/or cash to such beneficiary. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant s death, the Company shall deliver such stock and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such stock and/or cash to the spouse or to any one or more dependents of the participant as the Company may determine. No beneficiary shall prior to the death of the participant by whom he or she has been designated acquire any interest in the stock or cash credited to the participant s account maintained by the Company under the Plan.

15. TRANSFERABILITY.

Neither payroll deductions credited to a participant s account nor any rights with regard to the exercise of an Option or to receive stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way by the participant otherwise than by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Paragraph 8(b).

16. USE OF FUNDS.

All payroll deductions received or held by the Company under this Plan may be used by the Company for any corporate purpose and the Company shall not be obligated to segregate such payroll deductions.

17. EFFECTS OF CHANGES OF COMMON STOCK.

In the event of any changes of outstanding shares of the Common Stock by reason of stock dividends, subdivisions, combinations and exchanges of shares, recapitalizations, mergers in which the Company is the surviving corporation, consolidations, and the like, the aggregate number of and class of shares available under the Plan and Option Exercise Price per share shall be appropriately adjusted by the Board, whose determination shall be conclusive. Any such adjustments may provide for the elimination of any fractional shares which would otherwise become subject to any Options.

18. AMENDMENT OR TERMINATION.

(a) The Board may at any time, and from time to time, modify, terminate or amend the Plan in any respect, except that if at any time the approval of the stockholders of the Company is required as to such modification or amendment under (i) Section 423 of the Code, or (ii) under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, or any successor provisions (Rule 16b-3), or (iii) under any applicable listing requirements, the Board may not effect such modification or amendment without such approval.

(b) The termination or any modification or amendment of the Plan shall not, without the consent of a participant, affect his or her rights under an Option previously granted to him or her. With the consent of the participant affected, the Board of Directors may amend outstanding Options in a manner not inconsistent with the Plan. The Board of Directors shall have the right to amend or modify the terms and provisions of the Plan and of any Options previously granted under the Plan to the extent necessary to ensure the continued qualification of the Plan under Section 423 of the Code and Rule 16b-3.

19. NOTICES.

All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received by the Company s Treasurer.

20. MERGER OR CONSOLIDATION.

If the Company shall at any time merge into or consolidate with another corporation and the Company is the surviving entity, the holder of each Option then outstanding will thereafter be entitled to receive at the next Offering Termination Date upon the automatic exercise of such Option under Paragraph 8(a) (unless previously withdrawn pursuant to Paragraph 10) for each share as to which such Option shall be exercised, the securities or property which a holder of one share of the Common Stock was entitled to upon and at the time of such merger or consolidation, and the Board shall take such steps in connection with such merger or consolidation as the Board shall deem necessary to assure that the provisions of Paragraph 17 shall thereafter be applicable, as nearly as reasonably practicable, to such securities or property. In the event of a merger or consolidation in which the Company is not the surviving entity, or of a sale of all or substantially all of the assets of the Company, the Plan shall terminate, and all payroll deductions credited to participants accounts shall be returned to them, with no interest unless otherwise determined by the Committee prior to each Offering Commencement Date; provided, however, that the Board of Directors may, in the event of such merger, consolidation or sale, accelerate the Offering Termination Date of the Offering then in effect and permit participants to purchase shares under the Plan at such accelerated Offering Termination Date.

21. APPROVAL OF STOCKHOLDERS.

The Plan has been adopted by the Board, but all grants of options shall be conditioned upon the ratification and approval of the Plan by the stockholders of the Company within twelve months after the adoption of the Plan by the Board.

22. REGISTRATION AND QUALIFICATION OF THE PLAN UNDER APPLICABLE SECURITIES LAWS AND GOVERNMENT REGULATIONS.

(a) Notwithstanding anything to the contrary herein (including Paragraphs 4 and 8 hereof), no Option shall be exercised (and no Offering shall terminate) until such time as the Company has qualified or registered the Common Stock which is subject to the Options under all applicable state and federal securities laws to the extent required by such laws. In the event the Common Stock shall not have been so qualified and registered prior the date an offering is scheduled to terminate, the Offering Termination Date shall be the date upon which the registration of the Common Stock and such other qualification shall have become effective; provided, however, that for purposes of Paragraph 6 of the Plan, payroll deductions shall cease on the date the Offering was originally scheduled to terminate. Nothing in this Section 22 shall be deemed as an undertaking, expressed or implied on behalf of the Company to take any action regarding the registration of the Common Stock. The Company may at any time, prior to actual registration, decide according to its sole discretion that the Common Stock shall not be registered or qualified and having decided so shall notify the participants and return any amount accrued due to deductions made under the Plan.

(b) Anything contained in this Plan to the contrary notwithstanding, the Company shall not be obligated to sell or deliver any Common Stock or certificates for Common Stock under this Plan unless and until the Company is satisfied that such sale or delivery complies with (i) all applicable requirements of the governing body of the principal market in which such Common Stock is traded, (ii) all applicable provisions of the Securities Act of 1933, as amended, and the rules and regulations thereunder and (iii) all other laws or regulations by which the Company is bound or to which the Company is subject.

(c) The Company may make such provisions as it may deem appropriate for the withholding of any taxes or payment of any taxes which it determines it may be required to withhold or pay in connection with any Common Stock. The obligation of the Company to deliver certificates under this Plan is conditioned upon the satisfaction of the provisions set forth in the preceding sentence.

23. NO RIGHT TO CONTINUED EMPLOYMENT.

Neither the Plan nor any right granted under the Plan shall confer upon any participant any right to continuance of employment with the Company or any Subsidiary Corporation, or interfere in any way with the right of the Company or Subsidiary Corporation to terminate the employment of such participant.

24. TERM OF THE PLAN.

The Plan shall be effective as of March 20, 2003 and shall continue in effect until terminated as provided for in this Section 24. The Plan and all rights of Employees under any offering hereunder shall terminate on the earliest of:

(a) any time at the discretion of the Board of Directors;

(b) September 30, 2010.

Upon termination of this Plan, (i) all amounts accrued for the participants accounts shall be carried forward into the participant s account under a successor plan, if any, or promptly refunded, and (ii) all certificates for the shares credited to a participant (if any) shall be forwarded to him or her.

Notwithstanding anything herein to the contrary, the adoption of the Plan is subject to the approval of the Plan by the Company s shareholders in a manner consistent with the requirements of applicable law within one year following its date of adoption. If the Plan is not so approved by the shareholders, the Plan shall be immediately terminated, all amounts which have been retained by the Company pursuant to the terms of the plan shall be returned, without interest, to each participant.

Exhibit 99.1

25. REPURCHASE OF SHARES.

The Company shall not be required to repurchase from any participant any shares which such participant acquires under the Plan.

26. COMMITTEE RULES FOR NON-U.S JURISDICTIONS.

The Committee may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Committee is specifically authorized to adopt rules and procedures regarding handling of payroll deductions (including by way of limiting permissible amount of deduction), payment of interest, conversion of local currency, payroll tax, withholding procedures and handling of stock certificates which vary with local requirements, including by way of determination the shares of Common Stock so purchased shall be held for the benefit of the employee by a trustee for the time period prescribed by local law.

The Committee may also adopt sub-plans applicable to particular Subsidiaries or locations, which sub-plans may be designed to be outside the scope of Code Section 423. The rules of such sub-plans may take precedence over other provisions of this Plan, but unless otherwise superseded by the terms of such sub-plan, the provisions of this Plan shall govern the operation of such sub-plan.

;">

Foreign currency translation adjustments

(302
)

(192
)

(635
)

(48
)
Net unrealized gain (loss) on available-for-sale investments

131

(48
)

628

(2
)
Comprehensive loss

$
(48,445
)

$
(19,574
)

$
(89,486
)

$
(46,520
)

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

5

Table of Contents

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

	Six months ended June 30, 2016	2015
Cash flows from operating activities		
Net loss	$(89,479)	$(46,470)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	23,065	14,144
Equity based compensation	20,462	14,234
Other non-cash adjustments	408	749
Changes in operating assets and liabilities:		
Accounts receivable	(4,218)	(1,199)
Inventories	2,508	(1,548)
Prepaid expenses and other current assets	(11,650)	(19,533)
Accounts payable and accrued expenses	9,748	2,438
Deferred revenue and other liabilities	22,862	30,583
Other assets	(7)	(147)
Net cash used in operating activities	(26,301)	(6,749)
Cash flows from investing activities		
Purchase of short-term and long-term investments	(69,055)	(108,311)
Sale and maturities of short-term investments	67,895	37,000
Purchase of property and equipment	(61,436)	(25,204)
Site and software development costs	(12,263)	(8,426)
Other investing activities, net	—	302
Net cash used in investing activities	(74,859)	(104,639)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(12,374)	(7,837)
Net proceeds from exercise of stock options	130	272
Net cash used in financing activities	(12,244)	(7,565)
Effect of exchange rate changes on cash and cash equivalents	(473)	(332)
Net decrease in cash and cash equivalents	(113,877)	(119,285)
Cash and cash equivalents		
Beginning of period	334,176	355,859
End of period	$220,299	$236,574
Supplemental disclosure of non-cash investing activities		
Purchase of property and equipment included in accounts payable and accrued expenses and in other liabilities	$8,295	$6,312
Construction costs capitalized under finance lease obligations	$8,102	$165

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

6

Table of Contents

Notes to Consolidated and Condensed Financial Statements
(Unaudited)

1. Basis of Presentation

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

The consolidated and condensed financial statements and other disclosures contained in this Quarterly Report on Form 10-Q are those of the Company. The consolidated and condensed balance sheet data as of December 31, 2015 was derived from audited financial statements. The accompanying consolidated and condensed balance sheet as of June 30, 2016, the consolidated statements of operations, consolidated statements of comprehensive loss, and consolidated statements of cash flows for the periods ended June 30, 2016 and 2015 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the audited consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of June 30, 2016 and statements of operations, comprehensive loss, and cash flows for the periods ended June 30, 2016 and 2015. The financial data and the other information disclosed in these notes to the consolidated and condensed financial statements related to these periods are unaudited. The consolidated and condensed statements of operations, comprehensive loss, and cash flows for the period ended June 30, 2016 are not necessarily indicative of the results of operations and cash flows that may be expected for the year ending December 31, 2016, or for any other period.

2. Summary of Significant Accounting Policies

The Company has identified the significant accounting policies that are critical to understanding its business and results of operations. The Company believes that there have been no significant changes during the six months ended June 30, 2016 to the items disclosed in Note 2, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements included in Part II, Item 8, Financial Statements and Supplementary Data, of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 other than those noted below.

Property and Equipment

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

Class	Range of Life (In Years)
Furniture and computer equipment	3 to 7
Site and software development costs	2
Leasehold improvements	Lesser of useful life or lease term
Building	30

3. Marketable Securities and Fair Value Measurements

Marketable Securities

As of June 30, 2016 and December 31, 2015, all of the Company's marketable securities were classified as available-for-sale and their estimated fair values were $98.2 million and $96.8 million, respectively. We periodically review our available-for-sale securities for other-than-temporary impairment. We consider factors such as the duration, severity and the reason for the decline in value, the potential recovery period, and our intent to sell. As of June 30, 2016, the Company's available-for-sale securities primarily consisted of corporate bonds and other government obligations that are priced at fair value. During the three and six months ended June 30, 2016 and 2015, we did not recognize any other-than-temporary impairment loss. The maturities of the Company's long-term marketable securities generally range from one to three years.

7

Table of Contents

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

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term:				
Investment securities	$44,780	$ 51	$ (3)	$ 44,828
Commercial paper	2,883	1	—	2,884
Long-term:				
Investment securities	50,250	284	(7)	50,527
Total	$97,913	$ 336	$ (10)	$ 98,239

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

Fair Value Measurements

The Company's financial assets and liabilities are measured at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The three levels of inputs used to measure fair value are as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable or can be corroborated by observable market data for substantially the full-term of the asset or liability

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

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

Table of Contents

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

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$130,644	$—	$ —	$130,644
Commercial paper	—	2,884	—	2,884
Short-term investments:				
Certificates of deposit	35,000	—	—	35,000
Investment securities	—	44,828	—	44,828
Restricted cash:				
Certificate of deposit	5,000	—	—	5,000
Long-term:				
Investment securities	—	50,527	—	50,527
Total	$170,644	$98,239	$ —	$268,883

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

4. Intangible Assets and Goodwill

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

		June 30, 2016		
	Weighted - Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trademarks	5	$1,900	$ (1,109)	$ 791
Customer relationships	5	1,300	(758)	542
Non-compete agreements	3 - 5	100	(97)	3
Other intangibles	3	373	(326)	47
Domain names	5	2,687	(2,685)	2
Total		$6,360	$ (4,975)	$ 1,385

9

Table of Contents

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

Amortization expense related to intangible assets was $0.2 million for the three months ended June 30, 2016 and 2015 and $0.4 million and $0.5 million for the six months ended June 30, 2016 and 2015, respectively.
Goodwill as of June 30, 2016 was $1.9 million, unchanged from December 31, 2015.

5. Property and Equipment, net

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

	June 30, 2016	December 31, 2015
Furniture and computer equipment	$107,449	$68,416
Site and software development costs	60,968	50,907
Leasehold improvements	49,733	29,315
Construction in progress	14,492	27,563
Building	29,856	—
	262,498	176,201
Less accumulated depreciation and amortization	(83,356)	(63,876)
Property and equipment, net	$179,142	$112,325

Property and equipment depreciation and amortization expense was $12.4 million and $7.2 million for the three months ended June 30, 2016 and 2015, respectively, and $22.7 million and $13.7 million for the six months ended June 30, 2016 and 2015, respectively.

6. Commitments and Contingencies

Leases

The Company leases office and warehouse spaces under non-cancelable leases. These leases expire at various dates through 2027 and include discounted rental periods and fixed escalation clauses, which are amortized straight-line over the terms of the lease. Rent expense under operating leases was $7.9 million and $4.6 million in the three months ended June 30, 2016 and 2015, respectively, and $14.8 million and $8.7 million in the six months ended June 30, 2016 and 2015, respectively. The Company has issued letters of credit for approximately $10.4 million and $5.9 million as security for these lease agreements as of June 30, 2016 and December 31, 2015, respectively. The Company has entered into additional leases throughout the United States ("U.S.") and Europe subsequent to December 31, 2015, where the future minimum rental commitments under non-cancelable leases with initial or remaining terms in excess of one year are $359.1 million in the aggregate.
The Company establishes assets and liabilities for the estimated construction costs incurred under lease arrangements where the Company is considered the owner for accounting purposes only, or build-to-suit leases, to the extent the Company is involved in the construction of structural improvements or takes construction risk prior to commencement of a lease. Upon occupancy of facilities under build-to-suit leases, the Company assesses whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If the Company continues to be the deemed owner, the facilities are accounted for as financing leases.

10

Table of Contents

The construction of one warehouse lease arrangement was completed during the three months ended June 30, 2016, and because the Company concluded it had a letter of credit of $1.2 million, the Company did not meet the sale-leaseback criteria for derecognition of the building asset and liability. Therefore, the lease is accounted for as a financing obligation and is recorded in "Lease financing obligation" in the Company’s unaudited consolidated and condensed balance sheets. The monthly rent payments made to the lessor under the lease agreement are recorded in the Company’s financial statements as land lease expense and principal and interest on the financing obligation. Interest expense on the lease financing obligation reflects the portion of the Company's monthly lease payments that is allocated to interest expense. For the three and six months ended June 30, 2016, land lease expense and interest expense on lease financing obligation was not material. As of June 30, 2016, future minimum commitments related to the financing obligation were $2.7 million and $11.2 million for principal and interest, respectively, through June 30, 2021.

Collection of Sales or Other Similar Taxes

Based on the location of the Company’s current operations, it collects and remits sales tax in Kentucky, Massachusetts, New York, Utah, California, Illinois, Texas, New Jersey, and North Carolina. The Company does not currently collect sales or other similar taxes for the sale of goods in states where no obligation to collect these taxes is required under applicable law. Several states have presented the Company with assessments, alleging that it is required to collect and remit sales or other similar taxes. The aggregate amount of claims from these states, not including taxes allegedly owed for periods subsequent to such assessments or interest and penalties after the date the Company last received such assessments, is approximately $28.1 million. The Company does not believe that it was obligated to collect and remit such taxes, and intends to vigorously defend its position. At this time, the Company believes a loss is not probable and therefore has not recorded a liability; however, no assurance can be given as to the outcome of these assessments.

Legal Matters

On September 2, 2015, a putative class action complaint was filed against the Company in the U.S. District Court for the Southern District of New York (Dingee v. Wayfair Inc., et al., Case No. 1:15-cv-06941) by an individual on behalf of himself and on behalf of all other similarly situated individuals, under sections 10(b) and 20(a) of the Exchange Act related to a drop in stock price that had followed a report issued by Citron Research. The Company moved to dismiss all counts in February 2016. On May 24, 2016, the court granted the Company's motion to dismiss the Dingee complaint in its entirety, with prejudice.

On February 2, 2016, a putative class action complaint was filed against the Company in the U.S. District Court for the Central District of California (Carson, et al., v. Wayfair Inc., Case No. 2:16-cv-00716) by two individuals on behalf of themselves and on behalf of all other similarly situated individuals (collectively, the "Carson Plaintiffs"). The complaint alleged that Wayfair engaged in a deceptive marketing campaign in which the Company advertised certain “original” or “regular” retail prices, which the Carson Plaintiffs alleged were false. In May 2016, the Carson Plaintiffs voluntarily withdrew this action without prejudice.

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

7. Equity-Based Compensation

In 2010, the Company established an equity incentive plan and, in 2011, the plan was amended and restated as the Wayfair LLC Amended and Restated 2010 Common Unit Plan (the “2010 Plan”). The 2010 Plan was administered by the board of directors of Wayfair LLC and provided for the issuance of common option units, restricted common units (all common units), and deferred units, which currently represent Class A or Class B common stock of the Company. In connection with the IPO, the board of directors of the Company adopted the 2014 Incentive Award Plan ("2014 Plan") to grant cash and equity incentive awards to eligible service providers in order to attract, motivate and retain the talent for which the Company competes. The 2014 Plan is administered by the board of directors of the Company with respect to awards to non-employee directors and by the compensation committee with respect to other participants and provides for the issuance of stock options, SARs, restricted stock, RSUs, performance shares, stock payments, cash payments, dividend awards and other incentives. The 2014 Plan authorizes up to 8,603,066 shares of

Class A common stock to be issued, of which RSUs for 5,208,379 shares had been issued as of June 30, 2016. Shares or RSUs forfeited, withheld for minimum statutory tax obligations, and unexercised stock option lapses from the 2010 and 2014 Plans are available for grants of awards under the 2014 Plan. In addition, on the first day of each calendar year beginning January 1, 2016 and ending on and including January 1, 2024, the shares available for future grant are increased in accordance with the 2014 Plan.

Table of Contents

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at December 31, 2015	279,591	$ 2.98	5.5
Options exercised	(43,694)	$ 2.97	
Options forfeited/canceled	(176)	$ 3.42	
Outstanding at June 30, 2016	235,721	$ 2.98	5.0
Exercisable at June 30, 2016	235,706	$ 2.98	5.0
Expected to vest at June 30, 2016	15	$ 3.42	5.0

Intrinsic value of stock options exercised was $1.6 million for the six months ended June 30, 2016. Aggregate intrinsic value of stock options outstanding and currently exercisable is $8.5 million. Unrecognized equity based compensation expense related to stock options expected to vest over time is less than $0.1 million with a weighted average remaining vesting term of less than 0.1 years at June 30, 2016.

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

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2015	1,993	$ 4.75
Restricted stock vested	(1,993)	$ 4.75
Unvested at June 30, 2016	—	$ —
Expected to vest at June 30, 2016	—	$ —

The intrinsic value of restricted common stock vested was less than $0.1 million for the six months ended June 30, 2016. All restricted common stock shares were fully vested at June 30, 2016.

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

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2015	5,607,867	$ 28.30
RSUs granted	2,110,220	$ 39.56
RSUs vested	(854,800)	$ 21.98
RSUs forfeited/canceled	(250,938)	$ 31.19
Outstanding at June 30, 2016	6,612,349	$ 32.59
Expected to vest at June 30, 2016	4,897,025	$ 33.04

The intrinsic value of RSUs vested was $35.2 million for the six months ended June 30, 2016. Aggregate intrinsic value of RSUs outstanding is $257.9 million as of June 30, 2016. Unrecognized equity based compensation expense related to RSUs expected to vest over time is $131.8 million with a weighted average remaining vesting term of 1.7 years at June 30, 2016.

8. Segment and Geographic Information

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

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

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net revenue				
Direct Retail	$755,657	$440,297	$1,467,503	$809,694
Other	31,271	51,455	66,773	106,429
Net revenue	$786,928	$491,752	$1,534,276	$916,123

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Geographic net revenue:				
United States	$732,673	$464,667	$1,438,594	$865,244
International (1)	54,255	27,085	95,682	50,879
Total	$786,928	$491,752	$1,534,276	$916,123

(1) In the three and six months ended June 30, 2015, international net revenue included $2.3 million and $4.7 million, respectively, from our Australian business, which we sold in July 2015.

	June 30, 2016	December 31, 2015
Geographic long-lived assets:		
United States	$174,070	$110,042
International	5,072	2,283
Total	$179,142	$112,325

9. Income Taxes

Income tax expense was $0.3 million and less than $0.1 million for the three months ended June 30, 2016 and 2015, respectively, and $0.6 million and $0.1 million for the six months ended June 30, 2016 and 2015, respectively. The income tax expense recorded in the three and six months ended June 30, 2016 and 2015 is primarily related to various foreign income tax assessments, state income taxes and to a lesser extent the amortization of goodwill for tax purposes for which there is no corresponding book deduction.

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

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

Table of Contents

10. Stockholders’ Equity
Preferred Stock
The Company authorized 10,000,000 shares of undesignated preferred stock, $0.001 par value per share, for future issuance. As of June 30, 2016, the Company had no shares of undesignated preferred stock issued or outstanding.
Common Stock
The Company authorized 500,000,000 shares of Class A common stock, $0.001 par value per share, and 164,000,000 shares of Class B common stock, $0.001 par value per share, of which 48,105,571 and 45,814,237 shares of Class A common stock and 36,800,012 and 38,496,562 shares of Class B common stock were outstanding as of June 30, 2016 and December 31, 2015, respectively. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion rights. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. The Class B common stock also has approval rights over certain corporate actions. Each share of Class B common stock may be converted into one share of Class A common stock at the option of its holder and will be automatically converted into one share of Class A common stock upon transfer thereof, subject to certain exceptions. In addition, upon the date on which the outstanding shares of Class B common stock represent less than 10% of the aggregate number of shares of the then outstanding Class A common stock and Class B common stock, or in the event of the affirmative vote or written consent of holders of at least 66 2/3% of the outstanding shares of Class B common stock, all outstanding shares of Class B common stock shall convert automatically into Class A common stock. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock are entitled to receive dividends out of funds legally available if the Board, in its discretion, determines to issue dividends and then only at the times and in the amounts that the Board may determine. Since the IPO through June 30, 2016, 33,853,994 shares of Class B common stock were converted to Class A common stock.
11. Credit Agreement
The Company has a credit agreement with Bank of America, which was renewed on July 31, 2016. The credit agreement provides the Company with a $20.0 million revolving line of credit to support direct borrowings and letters of credit, provided that a maximum of $5.0 million may be applied to direct borrowings under the revolving line of credit, plus an additional $45.0 million credit card program, for a maximum aggregate commitment of $65.0 million. The credit agreement is renewable on an annual basis and, if not renewed, will expire on July 31, 2017. The renewed credit agreement is on substantially the same terms and conditions as the prior credit agreement. Subject to the terms and conditions of the credit agreement, advances under the line of credit, if any, will bear interest at the LIBOR rate, plus 1.75%. Under the credit agreement, the Company is also required to maintain certain covenants, including debt service coverage, tangible net worth and unencumbered liquid assets, with which the Company was compliant at June 30, 2016 and December 31, 2015. The Company did not borrow any amounts under the credit agreement during the three and six months ended June 30, 2016 and the year ended December 31, 2015.
12. Net Loss per Share
Basic and diluted net loss per share is presented using the two class method required for participating securities. Class A and Class B common stock are the only outstanding equity in the Company since our IPO in October 2014. For additional information on the rights of the holders of Class A and Class B common stock, see Note 10, Stockholders' Equity, in the Notes to the Unaudited Consolidated and Condensed Financial Statements included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q. Basic net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed using the weighted-average number of shares of common stock and, if dilutive, common stock equivalents outstanding during the period. The Company's common stock equivalents consist of shares issuable upon the release of restricted stock units, and to a lesser extent, the incremental shares of common stock issuable upon the exercise of stock options and unvested restricted stock. The dilutive effect of these common stock equivalents is reflected in diluted earnings per share by application of the treasury stock method. The Company's basic and diluted net loss per share are the same because the Company has generated net loss and common stock equivalents are excluded from diluted net loss per share because they have an antidilutive impact.

The Company allocates undistributed earnings between the classes on a one-to-one basis when computing net loss per share. As a result, basic and diluted net loss per Class A and Class B shares are equivalent.

14

Table of Contents

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net loss	$(48,274)	$(19,334)	$(89,479)	$(46,470)
Weighted average common shares used for basic and diluted net loss per share computation	84,786	83,603	84,615	83,407
Net loss per share:				
Basic and Diluted	$(0.57)	$(0.23)	$(1.06)	$(0.56)

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

	Three and six months ended June 30,	
	2016	2015
Stock options	235,721	337,148
Restricted stock	—	12,563
Restricted stock units	6,612,349	4,841,186
Total	6,848,070	5,190,897

13. Recent Accounting Pronouncements

Stock Compensation

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

Leases

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

Table of Contents

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU was originally effective for annual reporting periods beginning after December 15, 2016 and early adoption was not permitted.

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

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers - Principal versus Agent Considerations" ("ASU 2016-08"). This ASU clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. This ASU is effective at the same period as ASU 2015-14 and ASU 2014-09.

Management is currently evaluating when to adopt the revenue recognition accounting pronouncements, which transition approach to use, and the impact of the adoption of this ASU on the Company’s consolidated financial statements.

Table of Contents

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

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

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

Overview

Through our e-commerce business model, we offer visually inspiring browsing, compelling merchandising, easy product discovery and attractive prices for over seven million products from over 7,000 suppliers across five distinct brands—Wayfair.com, Joss & Main, AllModern, DwellStudio and Birch Lane. We have built one of the largest online selections of furniture, décor, decorative accents, housewares, seasonal décor and other home goods.

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

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

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

In the three and six months ended June 30, 2016, we generated net revenue of $786.9 million and $1,534.3 million, increases of 60.0% and 67.5%, respectively, over the same periods in 2015. Our net revenue in the three and six months ended June 30, 2016 included $755.7 million and $1,467.5 million, respectively, from Direct Retail, which we define as sales generated primarily through the sites of our five brands. Our net revenue in the three and six months ended June 30, 2016 included $31.3 million and $66.8 million, respectively, from Other, which we define as net revenue generated primarily online through third parties, which we refer to as our retail partners, net revenue from media advertisers, and net revenue from our logistics program.

In the three months ended June 30, 2016, we generated a net loss of $48.3 million and Adjusted EBITDA of $(24.9) million, increases of $28.9 million and $19.9 million, respectively, over the same periods in 2015. Our net loss and Adjusted EBITDA results were driven primarily by our increased investment in advertising, including in Europe and Canada, and investment in headcount across our global business. For additional information about Adjusted EBITDA, our use of this measure, the limitations of this measure as an analytical tool, and the reconciliation of Adjusted EBITDA to net loss, the most directly comparable generally accepted accounting principle ("GAAP") financial measure, refer to Key Financial and Operating Metrics below.

17

Table of Contents

Key Financial and Operating Metrics

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

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

	Three months ended June 30,		
	2016	2015	% Change
Consolidated Financial Metrics			
Net Revenue	$786,928	$491,752	60.0 %
Adjusted EBITDA	$(24,857)	$(4,972)	
Free cash flow	$(19,418)	$10,989	
Direct Retail Financial and Operating Metrics			
Direct Retail Net Revenue	$755,657	$440,297	71.6 %
Active Customers	6,672	4,044	65.0 %
LTM Net Revenue per Active Customer	$404	$357	13.2 %
Orders Delivered	2,930	1,959	49.6 %
Average Order Value	$258	$225	14.7 %

	Six months ended June 30,		
	2016	2015	% Change
Consolidated Financial Metrics			
Net Revenue	$1,534,276	$916,123	67.5 %
Adjusted EBITDA	$(45,817)	$(17,312)	
Free cash flow	$(100,000)	$(40,379)	
Direct Retail Financial and Operating Metrics			
Direct Retail Net Revenue	$1,467,503	$809,694	81.2 %
Active Customers	6,672	4,044	65.0 %
LTM Net Revenue per Active Customer	$404	$357	13.2 %
Orders Delivered	5,926	3,756	57.8 %
Average Order Value	$248	$216	14.8 %

Non-GAAP Financial Measures

Adjusted EBITDA

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

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

18

Table of Contents

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

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Reconciliation of Adjusted EBITDA				
Net loss	$(48,274)	$(19,334)	$(89,479)	$(46,470)
Depreciation and amortization	12,578	7,400	23,065	14,144
Equity based compensation and related taxes	11,295	7,101	21,957	15,263
Interest (income), net	(531)	(308)	(1,083)	(572)
Other (income) expense, net	(246)	96	(915)	204
Provision for income taxes	321	73	638	119
Adjusted EBITDA	$(24,857)	$(4,972)	$(45,817)	$(17,312)

Free Cash Flow

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

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

Free cash flow has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. There are limitations to using non-GAAP financial measures, including that other companies, including companies in our industry, may calculate free cash flow differently.

Because of these limitations, you should consider free cash flow alongside other financial performance measures, including net cash provided by (used in) operating activities, capital expenditures and our other GAAP results.

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net cash provided by (used in) operating activities	$24,903	$28,453	$(26,301)	$(6,749)
Purchase of property and equipment	(37,509)	(13,153)	(61,436)	(25,204)
Site and software development costs	(6,812)	(4,311)	(12,263)	(8,426)
Free cash flow	$(19,418)	$10,989	$(100,000)	$(40,379)

20

Table of Contents

Key Operating Metrics (Direct Retail)

Active Customers

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

LTM Net Revenue Per Active Customer

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

Orders Delivered

We define orders delivered as the total Direct Retail orders delivered in any period, inclusive of orders that may eventually be returned. As we ship a large volume of packages through multiple carriers, actual delivery dates may not always be available, and as such we estimate delivery dates based on historical data. We recognize net revenue when an order is delivered and therefore orders delivered, together with average order value, is an indicator of the net revenue we expect to recognize in a given period. We view orders delivered as a key indicator of our growth.

Average Order Value

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

Factors Affecting our Performance

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

Growth in Brand Awareness and Visitors to our Sites

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

Growth in Customer Acquisition and Customer Retention

Our goal is to convert visitors into active customers and then encourage repeat purchases because it increases our operating leverage since it costs more to acquire a customer than to retain one. Our continued investments in infrastructure, including enhancing our merchandising, data, analytics, and technology platform, allow us to deliver increasingly tailored and personalized shopping experiences for customers across our sites. We believe our focus on a personalized shopping experience drives sales from new customers as well as repeat customers.

Revenue Growth Through Mobile Platform

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

Table of Contents

Investment in Growth

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

Net Revenue

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

Cost of Goods Sold

Cost of goods sold consists of the cost of product sold to customers, shipping and handling costs and shipping supplies and fulfillment costs. Fulfillment costs include costs incurred in operating and staffing the fulfillment centers, such as costs attributed to receiving, inspecting, picking, packaging and preparing customer orders for shipment. Cost of goods sold also includes direct and indirect labor costs including equity-based compensation for fulfillment center oversight, including payroll and related benefit costs. The increase in cost of goods sold is primarily driven by growth in orders delivered, the mix of the product available for sale on our sites and transportation costs related to delivering orders to our customers. We earn rebates on our incentive programs with our suppliers. These rebates are earned upon shipment of goods. Amounts due from suppliers as a result of these rebate programs are included as a receivable and are reflected as a reduction of cost of goods sold on the consolidated statements of operations. We expect cost of goods sold expenses to remain relatively stable as a percentage of net revenue but some fluctuations are expected due to the wide variety of products we sell.

Customer Service and Merchant Fees

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

Advertising

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

Merchandising, Marketing and Sales

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

Table of Contents

Operations, Technology and General and Administrative

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

Interest Income, Net

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

Other Income (Expense), Net

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

Results of Consolidated Operations (in thousands)

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

Net revenue

	Three months ended June 30,		
	2016	2015	% Change
Net revenue			
Direct Retail	$755,657	$440,297	71.6 %
Other	31,271	51,455	(39.2)%
Net revenue	$786,928	$491,752	60.0 %

In the three months ended June 30, 2016, net revenue increased by $295.2 million, or 60.0% compared to the same period in 2015, primarily as a result of an increase in Direct Retail net revenue. In the three months ended June 30, 2016, Direct Retail net revenue increased by $315.4 million, or 71.6% compared to the same period in 2015, primarily due to sales to a larger customer base, as the number of active customers increased 65.0% in the three months ended June 30, 2016 compared to the same period in 2015. Additionally, LTM net revenue per active customer increased 13.2% in the three months ended June 30, 2016 compared with the same period in 2015. The $20.2 million or 39.2% decrease in other revenue in the three months ended June 30, 2016 as compared to the same period in 2015 was primarily due to decreased sales through our retail partners, as we continue to focus more on our Direct Retail business over time.

Cost of goods sold

	Three months ended June 30,		
	2016	2015	% Change
Cost of goods sold			
Cost of goods sold	$598,414	$370,951	61.3 %
As a percentage of net revenue	76.0 %	75.4 %	

In the three months ended June 30, 2016, cost of goods sold increased by $227.5 million, or 61.3%, compared to the same period in 2015. Of the increase in cost of goods sold, $186.3 million was due to the increase in products sold to our larger customer base. In addition, shipping and fulfillment costs increased $41.2 million as a result of the increase in products sold during the period. Cost of goods sold as a percentage of net revenue increased in the three months ended June 30, 2016 compared to the same period in 2015 as a result of changes in the mix of the products sold.

23

Table of Contents

Operating expenses

	Three months ended June 30,		
	2016	2015	% Change
Customer service and merchant fees (1)	$30,064	$18,330	64.0 %
Advertising	94,426	61,539	53.4 %
Merchandising, marketing and sales (1)	43,273	23,814	81.7 %
Operations, technology, general and administrative (1)	69,481	36,591	89.9 %
	$237,244	$140,274	69.1 %
As a percentage of net revenue:			
Customer service and merchant fees (1)	3.8 %	3.7 %	
Advertising	12.0 %	12.5 %	
Merchandising, marketing and sales (1)	5.5 %	4.7 %	
Operations, technology, general and administrative (1)	8.8 %	7.6 %	
	30.1 %	28.5 %	

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

	Three months ended June 30,	
	2016	2015
Customer service and merchant fees	$528	$288
Merchandising, marketing and sales	5,221	3,204
Operations, technology, general and administrative	5,459	3,530

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

	Three months ended June 30,	
	2016	2015
Customer service and merchant fees	3.8%	3.7%
Merchandising, marketing and sales	4.8%	4.2%
Operations, technology, general and administrative	8.1%	6.7%

Excluding the impact of equity based compensation and related taxes, customer service costs and merchant processing fees increased by $11.5 million in the three months ended June 30, 2016 compared to the same period in 2015, primarily due to the increase in net revenue during the three months ended June 30, 2016.

Our advertising expenses increased by $32.9 million in the three months ended June 30, 2016 compared to the same period in 2015, primarily as a result of an increase in online and television advertising. Advertising decreased as a percentage of net revenue in the three months ended June 30, 2016 compared to the same period in 2015, primarily due to increased leverage from our growing base of repeat customers, and television advertising expense not increasing at the same rate as revenue growth in the United States, partially offset by advertising investments in Europe and Canada.

Excluding the impact of equity based compensation and related taxes, merchandising, marketing and sales expenses increased by $17.5 million in the three months ended June 30, 2016 compared to the same period in 2015, primarily due to the increase in headcount to grow and retain our customer base.

Excluding the impact of equity based compensation and related taxes, operations, technology, general and administrative expense increased by $30.9 million in the three months ended June 30, 2016 compared to the same period in 2015. As our revenue continues to grow, we have invested in headcount in both operations and technology to continue to deliver a great experience for our customers. The increase in operations, technology, general and administrative expense was primarily attributable to personnel costs, rent, information technology, and depreciation and amortization.

Table of Contents

Comparison of the six months ended June 30, 2016 and 2015

Net revenue

	Six months ended June 30,		
	2016	2015	% Change
Net revenue			
Direct Retail	$1,467,503	$809,694	81.2 %
Other	66,773	106,429	(37.3)%
Net revenue	$1,534,276	$916,123	67.5 %

In the six months ended June 30, 2016, net revenue increased by $618.2 million, or 67.5% compared to the same period in 2015, primarily as a result of an increase in Direct Retail net revenue. In the six months ended June 30, 2016, Direct Retail net revenue increased by $657.8 million, or 81.2% compared to the same period in 2015, primarily due to sales to a larger customer base, as the number of active customers increased 65.0% in the six months ended June 30, 2016 compared to the same period in 2015. Additionally, LTM net revenue per active customer increased 13.2% in the six months ended June 30, 2016 compared with the same period in 2015. The $39.7 million or 37.3% decrease in other revenue in the six months ended June 30, 2016 as compared to the same period in 2015 was primarily due to decreased sales through our retail partners, as we continue to focus more on our Direct Retail business over time.

Cost of goods sold

	Six months ended June 30,		
	2016	2015	% Change
Cost of goods sold			
Cost of goods sold	$1,166,706	$692,487	68.5 %
As a percentage of net revenue	76.0 %	75.6 %	

In the six months ended June 30, 2016, cost of goods sold increased by $474.2 million, or 68.5%, compared to the same period in 2015. Of the increase in cost of goods sold, $387.4 million was due to the increase in products sold to our larger customer base. In addition, shipping and fulfillment costs decreased $86.8 million as a result of the increase in products sold during the period. Cost of goods sold as a percentage of net revenue increased in the six months ended June 30, 2016 compared to the same period in 2015 as a result of changes in the mix of the products sold.

Table of Contents

Operating expenses

	Six months ended June 30,		
	2016	2015	% Change
Customer service and merchant fees (1)	$57,414	$34,308	67.3 %
Advertising	192,103	119,538	60.7 %
Merchandising, marketing and sales (1)	81,129	47,048	72.4 %
Operations, technology, general and administrative (1)	127,763	69,461	83.9 %
	$458,409	$270,355	69.6 %
As a percentage of net revenue			
Customer service and merchant fees (1)	3.7 %	3.7 %	
Advertising	12.5 %	13.1 %	
Merchandising, marketing and sales (1)	5.3 %	5.1 %	
Operations, technology, general and administrative (1)	8.3 %	7.6 %	
	29.8 %	29.5 %	

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

	Six months ended June 30,	
	2016	2015
Customer service and merchant fees	$861	$507
Merchandising, marketing and sales	10,322	7,070
Operations, technology, general and administrative	10,629	7,536

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

	Six months ended June 30,	
	2016	2015
Customer service and merchant fees	3.7%	3.7%
Merchandising, marketing and sales	4.6%	4.4%
Operations, technology, general and administrative	7.6%	6.7%

Excluding the impact of equity based compensation and related taxes, customer service costs and merchant processing fees increased by $22.8 million in the six months ended June 30, 2016 compared to the same period in 2015, primarily due to the increase in net revenue during the six months ended June 30, 2016.

Our advertising expenses increased by $72.6 million in the six months ended June 30, 2016 compared to the same period in 2015, primarily as a result of an increase in online and television advertising. Advertising decreased as a percentage of net revenue in the six months ended June 30, 2016 compared to the same period in 2015 primarily due to increased leverage from our growing base of repeat customers, and television advertising expense not increasing at the same rate as revenue growth in the United States, partially offset by advertising investments in Europe and Canada.

Excluding the impact of equity based compensation and related taxes, merchandising, marketing and sales expenses increased by $30.8 million in the six months ended June 30, 2016 compared to the same period in 2015, primarily due to an increase in headcount to grow and retain our customer base.

Excluding the impact of equity based compensation and related taxes operations, technology, general and administrative expense increased by $55.2 million in the six months ended June 30, 2016 compared to the same period in 2015. As our revenue continues to grow, we have invested in headcount in both operations and technology to continue to deliver a great experience for our customers. The increase in operations, technology, general and administrative expense was primarily attributable to personnel costs, rent, information technology, and depreciation and amortization.

26

Table of Contents

Liquidity and Capital Resources

Sources of Liquidity

	June 30, 2016	December 31, 2015
	(in thousands)	
Cash and cash equivalents	$220,299	$ 334,176
Short-term investments	$82,712	$ 51,895
Accounts receivable, net	$14,163	$ 9,906
Long-term investments	$50,527	$ 79,883
Working capital	$(2,454)	$ 95,297

Historical Cash Flows

	Six months ended June 30, 2016	2015
	(in thousands)	
Net loss	$(89,479)	$(46,470)
Net cash used in operating activities	$(26,301)	$(6,749)
Net cash used in investing activities	$(74,859)	$(104,639)
Net cash used in financing activities	$(12,244)	$(7,565)

Since our inception, we have financed our operations, capital expenditures and acquisitions primarily through cash flows generated by operations and, since 2011, also through private sales of convertible redeemable preferred stock and sales of common stock in connection with our IPO. Since inception through June 30, 2016, we have raised a total of approximately $646.0 million from the sale of preferred stock and common stock, net of costs and expenses associated with such financings, or approximately $453.8 million, net of repurchases of our securities and dividends paid to Series A redeemable convertible preferred stockholders.

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

We believe that our existing cash and cash equivalents and investments, together with cash generated from operations, will be sufficient to meet our anticipated cash needs for at least the foreseeable future. However, our liquidity assumptions may prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. In addition, we may elect to raise additional funds at any time through equity, equity linked or debt financing arrangements. Capital expenditures were 2.8% of net revenue for the year ended December 31, 2015, and related primarily to additional capacity to support our supply chain infrastructure, including warehouses and our distribution network, investments in our technology and operational platform, including our mobile platform, and additional resources required to establish and expand our international operations. Capital expenditures were 5.6% of net revenue for the three months ended June 30, 2016, and related primarily to putting a new data center online, our ongoing investments in our technology infrastructure, and equipment purchases and improvements for leased warehouses within our expanding supply chain network. We expect capital expenditures to be approximately 4.0% of net revenue for the full year 2016, as we continue our investment in our technology infrastructure and roll out our supply chain network. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described herein and in our other filings with the SEC, including those set forth under in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2015. We may not be able to secure additional financing to meet our operating requirements on acceptable terms, or at all.

Table of Contents

Operating Activities

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

Cash used in operating activities in the six months ended June 30, 2016 was $26.3 million and was driven primarily by net loss of $89.5 million, partially offset by certain non-cash items including depreciation and amortization expense of $23.1 million and equity based compensation of $20.5 million, cash provided by operating assets and liabilities of $19.2 million, and other non-cash items of $0.4 million. Operating cash flows can be volatile and are sensitive to many factors, including changes in working capital and our net loss.

Cash used in operating activities in the six months ended June 30, 2015 was $6.7 million and was driven primarily by net loss of $46.5 million, partially offset by cash provided by operating assets and liabilities of $10.7 million, certain non-cash items including depreciation and amortization expense of $14.1 million, equity based compensation of $14.2 million, and other non-cash items of $0.8 million. Operating cash flows can be volatile and are sensitive to many factors, including changes in working capital and our net loss.

Investing Activities

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

Cash used in investing activities in the six months ended June 30, 2016 was $74.9 million and was primarily driven by purchases of short-term and long-term investments of $69.1 million, purchases of property and equipment of $61.4 million, and site and software development costs of $12.3 million, partially offset by net increase in the maturity of short-term investments of $67.9 million.

Cash used in investing activities in the six months ended June 30, 2015 was $104.6 million and was primarily driven by purchases of short-term and long-term investments of $108.3 million, purchases of property and equipment of $25.2 million, and site and software development costs of $8.4 million, partially offset by net increase in the maturity of short-term investments of $37.0 million and other net investing activities of $0.3 million.

Financing Activities

Cash used in financing activities in the six months ended June 30, 2016 was $12.2 million and was primarily due to $12.3 million statutory minimum taxes paid related to net share settlements of equity awards, partially offset by $0.1 million net proceeds from exercise of stock options.

Cash used in financing activities in the six months ended June 30, 2015 was $7.6 million and was primarily due to $7.8 million statutory minimum taxes paid related to net share settlements of equity awards, partially offset by $0.2 million net proceeds from exercise of stock options.

Credit Agreement

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

There have been no material changes to our contractual obligations and estimates as compared to the contractual obligations described in Contractual Obligations included in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, except as disclosed in Note 6, Commitments and Contingencies, in the Notes to the Unaudited Consolidated and Condensed Financial Statements included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q.

Table of Contents

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, net revenue, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting policies. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions.

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

Recent Accounting Pronouncements

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

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Sensitivity

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

Foreign Currency Risk

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

Inflation

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

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

Table of Contents

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

On September 2, 2015, a putative class action complaint was filed against us in the U.S. District Court for the Southern District of New York (Dingee v. Wayfair Inc., et al., Case No. 1:15-cv-06941) by an individual on behalf of himself and on behalf of all other similarly situated individuals, under sections 10(b) and 20(a) of the Exchange Act related to a drop in stock price that had followed a report issued by Citron Research. We moved to dismiss all counts in February 2016. On May 24, 2016, the court granted our motion to dismiss the Dingee complaint in its entirety, with prejudice.

On February 2, 2016, a putative class action complaint was filed against us in the U.S. District Court for the Central District of California (Carson, et al., v. Wayfair Inc., Case No. 2:16-cv-00716) by two individuals on behalf of themselves and on behalf of all other similarly situated individuals (collectively, the "Carson Plaintiffs"). The complaint alleged that Wayfair engaged in a deceptive marketing campaign in which we advertised certain “original” or “regular” retail prices, which the Carson Plaintiffs alleged were false. In May 2016, the Carson Plaintiffs voluntarily withdrew this action without prejudice.

From time to time we are 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 believe that the outcome of any of these other legal matters will have a material adverse effect on our results of operation or financial condition. Regardless of the outcome, litigation can be costly and time consuming, as it can divert management’s attention from important business matters and initiatives, negatively impacting 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.

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

Item 1A. Risk Factors

RISK FACTORS

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

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

Sales of Unregistered Securities

During the three months ended June 30, 2016, we issued 248,431 shares of Class B common stock upon the vesting of outstanding restricted stock units, net of shares withheld to satisfy statutory minimum tax withholding obligations. The issuance of these securities were pursuant to written compensatory plans or arrangements with our employees, consultants, advisors and directors in reliance on the exemption provided by Rule 701 promulgated under the Securities Act, relative to transactions by an issuer not involving any public offering, to the extent an exemption from registration was required.

Use of Proceeds from Public Offering of Common Stock

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

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

Table of Contents

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/Period End Date
10.1	Amendment No. 4 to Loan Agreement, dated as of July 31, 2016, by and between Bank of America, N.A. and Wayfair LLC.	8-K	8/4/2016
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
101.INS*	XBRL Instance Document		
101.SCH*	XBRL Taxonomy Extension Schema Document		
101.CAL*	XBRL Taxonomy Calculation Linkbase Document		
101.DEF*	XBRL Taxonomy Definition Linkbase Document		
101.LAB*	XBRL Taxonomy Labels Linkbase Document		
101.PRE*	XBRL Taxonomy Presentation Linkbase Document		

* Exhibits filed herewith.

** Exhibits furnished herewith.

33

Table of Contents

SIGNATURES

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

WAYFAIR INC.

Date: August 9, 2016 By: /s/ NIRAJ SHAH
Niraj Shah
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2016 By: /s/ MICHAEL FLEISHER
Michael Fleisher
Chief Financial Officer
(Principal Financial Officer)

34