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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from to

Commission File Number: 001-35669

SHUTTERSTOCK, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

80-0812659

(I.R.S. Employer
Identification No.)

Shutterstock, Inc.

350 Fifth Avenue, 21st Floor

New York, NY 10118

(Address of principal executive offices, including zip code)

(646) 766-1855

(Registrant's telephone number, including area code)

Indicate by check mark whether registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
 Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class	Outstanding at July 29, 2016
Common Stock, \$0.01 par value per share	35,016,294

Shutterstock, Inc.
FORM 10-Q
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For the Quarterly Period Ended June 30, 2016

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SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, particularly in the discussions under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. These include statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features, products or services, or management strategies) based on our management’s current beliefs and assumptions. These forward-looking statements can be identified by words such as “may”, “will”, “would”, “should”, “could”, “expect”, “anticipate”, “believe”, “estimate”, “intend”, “plan” and other similar expressions. However, not all forward-looking statements contain these words. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed under the caption “Risk Factors” in our most recently filed Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission, or the SEC, on February 24, 2016, and in our consolidated financial statements, related notes, and the other information appearing elsewhere in such report, as well as information appearing in this report on Form 10-Q and our other filings with the SEC. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may occur and it is not possible for us to predict them all. We do not intend, and, except as required by law, we undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless the context otherwise indicates, references in this Quarterly Report on Form 10-Q and our other filings with the SEC to the terms “Shutterstock”, “the Company”, “we”, “our” and “us” refer to Shutterstock, Inc. and its subsidiaries. “Shutterstock”, “Bigstock”, “Offset”, “PremiumBeat”, “Rex Features” and “WebDAM” are registered trademarks or logos appearing in this Quarterly Report on Form 10-Q and are the property of Shutterstock, Inc. or one of our subsidiaries. All other trademarks, service marks and trade names appearing in this Quarterly Report on Form 10-Q are the property of their respective owners.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.**

Shutterstock, Inc.
Consolidated Balance Sheets
(In thousands, except par value amount)
(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 210,918	\$ 241,304
Short-term investments	54,974	47,078
Credit card receivables	4,172	2,811
Accounts receivable, net	33,347	25,653
Prepaid expenses and other current assets	18,238	11,713
Deferred tax assets, net	7,166	7,116
Total current assets	328,815	335,675
Property and equipment, net	41,347	32,094
Intangible assets, net	27,618	29,781
Goodwill	51,423	50,934
Deferred tax assets, net	16,367	18,691
Other assets	2,807	1,946
Total assets	\$ 468,377	\$ 469,121
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,590	\$ 6,816
Accrued expenses	31,247	30,696
Contributor royalties payable	19,270	17,822
Income taxes payable	516	953
Deferred revenue	111,258	98,239
Other liabilities	10,936	6,258
Total current liabilities	183,817	160,784
Deferred tax liability, net	2,908	3,778
Other non-current liabilities	7,519	15,994
Total liabilities	194,244	180,556
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000 shares authorized; 36,648 and 36,146 shares issued and 34,909 and 35,686 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	366	361
Treasury stock, at cost; 1,739 and 460 shares as of June 30, 2016 and December 31, 2015, respectively	(59,728)	(15,635)
Additional paid-in capital	232,312	213,851
Accumulated comprehensive loss	(8,636)	(6,449)
Retained earnings	109,819	96,437
Total stockholders' equity	274,133	288,565
Total liabilities and stockholders' equity	\$ 468,377	\$ 469,121

See Notes to Unaudited Consolidated Financial Statements.

Shutterstock, Inc.
Consolidated Statements of Operations
(In thousands, except for per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 124,419	\$ 104,365	\$ 241,071	\$ 201,887
Operating expenses:				
Cost of revenue	52,245	42,545	100,308	82,070
Sales and marketing	31,571	27,429	58,659	52,534
Product development	11,971	10,189	23,196	20,873
General and administrative	18,155	14,536	37,609	28,508
Total operating expenses	113,942	94,699	219,772	183,985
Income from operations	10,477	9,666	21,299	17,902
Other expense, net	(212)	(57)	(224)	(2,619)
Income before income taxes	10,265	9,609	21,075	15,283
Provision for income taxes	3,016	4,272	7,693	6,703
Net income	\$ 7,249	\$ 5,337	\$ 13,382	\$ 8,580
Less: Undistributed earnings to participating stockholder	—	—	—	2
Net income available to common stockholders	\$ 7,249	\$ 5,337	\$ 13,382	\$ 8,578
Net income per share available to common stockholders:				
Basic	\$ 0.21	\$ 0.15	\$ 0.38	\$ 0.24
Diluted	\$ 0.20	\$ 0.15	\$ 0.37	\$ 0.24
Weighted average shares outstanding:				
Basic	34,957	35,864	35,166	35,750
Diluted	35,642	36,340	35,870	36,267

See Notes to Unaudited Consolidated Financial Statements.

Shutterstock, Inc.
Consolidated Statements of Comprehensive Income
(In thousands)
(unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net income	\$ 7,249	\$ 5,337	\$ 13,382	\$ 8,580
Foreign currency translation (loss) gain	(4,261)	3,479	(2,405)	380
Unrealized gain on investments	154	9	218	17
Other comprehensive (loss) income	(4,107)	3,488	(2,187)	397
Comprehensive income	<u>\$ 3,142</u>	<u>\$ 8,825</u>	<u>\$ 11,195</u>	<u>\$ 8,977</u>

See Notes to Unaudited Consolidated Financial Statements.

Shutterstock, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 13,382	\$ 8,580
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,005	6,494
Deferred taxes	1,792	(1,825)
Non-cash equity-based compensation	14,605	15,088
Change in fair value of contingent consideration	2,495	900
Settlement of contingent consideration liability in excess of acquisition-date fair value	(1,640)	—
Tax effect from exercise/vesting of equity awards, net	1,363	(1,700)
Bad debt reserve	2,702	814
Chargeback and sales refund reserves	(92)	20
Changes in operating assets and liabilities:		
Credit card receivables	(1,345)	(1,356)
Accounts receivable	(10,688)	(6,202)
Prepaid expenses and other current and non-current assets	(4,317)	3,056
Accounts payable and other current and non-current liabilities	4,578	1,669
Contributor royalties payable	1,598	2,288
Income taxes payable	(4,852)	(1,203)
Deferred revenue	13,017	13,476
Net cash provided by operating activities	\$ 41,603	\$ 40,099
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(16,294)	(6,084)
Purchase of investments	(132,398)	(130,982)
Sale and maturities of investments	124,600	130,953
Acquisition of business, net of cash acquired	—	(62,379)
Acquisition of digital content	(1,462)	(1,473)
Security deposit payment	(889)	(71)
Net cash used in investing activities	\$ (26,443)	\$ (70,036)
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury shares	(44,468)	—
Proceeds from exercise of stock options	3,520	5,697
Proceeds from issuance of common stock under 2012 Employee Stock Purchase Plan	809	1,052
Settlement of contingent consideration liability	(2,360)	—
Tax effect from exercise/vesting of equity awards, net	(1,363)	1,700
Net cash (used in) provided by financing activities	\$ (43,862)	\$ 8,449
Effect of foreign exchange rate changes on cash	(1,684)	(486)
Net decrease in cash and cash equivalents	(30,386)	(21,974)
Cash and cash equivalents, beginning of period	241,304	233,453
Cash and cash equivalents, end of period	\$ 210,918	\$ 211,479
Supplemental Disclosure of Cash Information:		
Cash paid for income taxes	\$ 11,890	\$ 7,807

See Notes to Unaudited Consolidated Financial Statements.

Shutterstock, Inc.
Notes to Consolidated Financial Statements
(unaudited)

(1) Summary of Operations and Significant Accounting Policies

Summary of Operations

Shutterstock, Inc., together with its subsidiaries (collectively, the “Company” or “Shutterstock”), operates a global marketplace and is a leading provider of high-quality creative content including: (a) digital imagery, which consists of licensed photographs, vectors, illustrations and video clips that customers use in their visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and video content; and (b) commercial music, which consists of high-quality music tracks and sound effects, and is often used to complement the digital imagery. The Company licenses creative content to its customers. Contributors upload their creative content to the Company’s websites in exchange for royalty payments based on customer download activity. The Company also offers digital asset management services through its cloud-based digital asset management platform, WebDAM. This service provides tools for customers to better manage creative content and brand management assets.

In recent years, the Company has grown, in part, through acquisitions, most notably through the acquisition of WebDAM in 2014 and the acquisitions of Rex Features and PremiumBeat in 2015. The Company is headquartered in New York City with offices in Amsterdam, Berlin, Chicago, Dallas, Denver, London, Los Angeles, Montreal, Paris, San Francisco and Silicon Valley.

Basis of Presentation

The unaudited consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by U.S. GAAP for complete financial statements.

The interim consolidated balance sheet as of June 30, 2016, the consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2016 and 2015, and the consolidated statement of cash flows for the six months ended June 30, 2016 and 2015 are unaudited. The consolidated balance sheet as of December 31, 2015, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures required by U.S. GAAP. These unaudited interim financial statements have been prepared on a basis consistent with the Company’s annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary to state fairly the Company’s financial position as of June 30, 2016 and its consolidated results of operations, comprehensive income and cash flows for the three and six months ended June 30, 2016 and 2015. The financial data and the other financial information disclosed in the notes to the financial statements related to these periods are also unaudited. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2016 or for any other future annual or interim period.

There have been no material changes in the significant accounting policies from those that were disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on February 24, 2016. These financial statements should also be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2015.

The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain immaterial changes in presentation have been made to conform the prior period presentation to current period reporting.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the Company’s management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. The Company evaluates its significant estimates on an ongoing basis, including, but not limited to allowance for doubtful accounts, sales refund reserve, accruals related to self-insurance, the fair value of goodwill, intangible assets and other long-lived assets, non-cash equity-based compensation, the fair value of contingent consideration, the provision for income taxes and the amount of certain non-income tax accruals. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Shutterstock, Inc.
Notes to Consolidated Financial Statements
(unaudited)

Restricted Cash

The Company's restricted cash relates to security deposits for its office leases. As of June 30, 2016 and December 31, 2015, the Company had restricted cash of approximately \$2.6 million and \$1.8 million, respectively, in other assets that related to the lease for its headquarters in New York City, which expires in 2029. In January 2016, this lease was amended to provide additional space and extend the lease term, which required an increased security deposit. The carrying value of restricted cash approximates fair value.

Allowance for Doubtful Accounts

The Company's accounts receivable consist of customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts, if required. The Company determines its allowance for doubtful accounts based on an evaluation of the aging of its accounts receivable and on a customer-by-customer basis where appropriate. The Company's reserve analysis contemplates the Company's historical loss rate on receivables, specific customer situations and the economic environments in which the Company operates. As of June 30, 2016 and December 31, 2015, the Company's allowance for doubtful accounts was approximately \$6.2 million and \$3.8 million, respectively, which was included as a reduction of accounts receivable.

Deferred Rent

The Company records rent expense on a straight-line basis over the term of the related lease. The difference between the rent expense recognized and the actual payments made in accordance with the lease agreement is recognized as a deferred rent liability on the Company's balance sheet. As of June 30, 2016, the Company had deferred rent of \$7.7 million, of which \$0.7 million was included in other liabilities and \$7.0 million was included in other non-current liabilities. As of December 31, 2015, the Company had deferred rent of \$8.0 million, of which \$0.7 million was included in other liabilities and \$7.3 million was included in other non-current liabilities.

Chargeback and Sales Refund Allowance

The majority of the Company's customers purchase products by making an electronic payment with a credit card at the time of a transaction. The Company establishes a chargeback allowance and sales refund reserve allowance based on factors surrounding historical credit card chargeback trends, historical sales refund trends and other information. As of both June 30, 2016 and December 31, 2015, the Company's combined allowance for chargebacks and sales refunds was \$0.7 million, which was included in other liabilities.

Medical Self-insurance Costs

The Company is partially self-insured for claims relating to employee medical benefit programs. The medical self-insurance program is administered by a third party and contains stop-loss provisions on both an individual claim basis and in aggregate. The Company records claims incurred as an expense each period, including an estimate of claims incurred but not yet reported. The Company uses claims data and historical experience, as applicable, to estimate the liability for unreported claims and believes that the methodologies used to estimate insurance liabilities result in an accurate reflection of the liabilities as of the date of the balance sheet.

Contingent Consideration

The Company records a liability for contingent consideration at the date of a business combination and reassesses the fair value of the liability each period until it is settled. Upon settlement of these liabilities, the portion of the contingent consideration payment that is attributable to the initial amount recorded as part of the business combination is classified as a cash flow from financing activities and the portion of the settlement that is attributable to subsequent changes in the fair value of the contingent consideration is classified as a cash flow from operating activities in the consolidated statement of cash flows.

Income Taxes

The Company's income tax expense includes U.S. (federal and state) and foreign income taxes. Significant management judgment is required in projecting ordinary income in order to determine the Company's estimated effective tax rate.

The Company has assessed the realizability of deferred tax assets and determined that based on the available evidence, including a history of taxable income and estimates of future taxable income, it is more likely than not that the deferred tax assets will be realized. Quarterly, the Company will continue to evaluate its ability to realize deferred tax assets. Significant management judgment is required in determining the provision for income taxes and deferred tax assets and liabilities. In the

Shutterstock, Inc.
Notes to Consolidated Financial Statements
(unaudited)

event that actual results differ from these estimates, the Company will adjust these estimates in future periods, which may result in a change in the effective tax rate in a future period.

Recently Issued Accounting Standard Updates

In March 2016, the Financial Accounting Standards Board (“FASB”) issued new guidance related to stock-based compensation. The new standard changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as the classification of certain related items in the statement of cash flows. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective approach; amendments related to the recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively; and amendments related to the presentation of excess tax benefits on the statement of cash flows may be applied prospectively or retrospectively. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In February 2016, the FASB issued new guidance related to leases. The new standard requires that the rights and obligations created by leases with a duration greater than 12 months be recorded as assets and liabilities on the balance sheet of the lessee. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and can be applied using a modified retrospective approach for all leases entered into before the effective date. Early adoption is permitted. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In November 2015, the FASB issued new guidance related to income taxes. The new standard requires that all deferred tax assets and liabilities, and any related valuation allowance, be classified as non-current on the balance sheet. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, although early adoption is permitted and can be applied either prospectively or retrospectively to all periods presented. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and will eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB approved the deferral of the effective date of this guidance by one year. As a result, this new guidance will be effective for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company may choose to adopt the standard as of the original effective date for annual reporting periods beginning after December 15, 2016; if it does so, the Company is required to apply the standard beginning in the first interim period within the year of adoption. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

(2) Fair Value Measurements

The following tables present the Company’s fair value hierarchy for its assets and liabilities (in thousands):

	As of June 30, 2016			
	Aggregate Fair Value	Level 1	Level 2	Level 3
Assets:				
Money market accounts	\$ 81,436	\$ 81,436	\$ —	\$ —
Commercial paper	54,974	—	54,974	—
Total assets measured at fair value	<u>\$ 136,410</u>	<u>\$ 81,436</u>	<u>\$ 54,974</u>	<u>\$ —</u>
Liabilities:				
Acquisition-related contingent consideration	\$ 9,570	\$ —	\$ —	\$ 9,570
Total liabilities measured at fair value	<u>\$ 9,570</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,570</u>

Shutterstock, Inc.
Notes to Consolidated Financial Statements
(unaudited)

	As of December 31, 2015			
	Aggregate Fair Value	Level 1	Level 2	Level 3
Assets:				
Money market accounts	\$ 89,153	\$ 89,153	\$ —	\$ —
Commercial paper	47,078	—	47,078	—
Total assets measured at fair value	<u>\$ 136,231</u>	<u>\$ 89,153</u>	<u>\$ 47,078</u>	<u>\$ —</u>
Liabilities:				
Acquisition-related contingent consideration	\$ 11,075	\$ —	\$ —	\$ 11,075
Total liabilities measured at fair value	<u>\$ 11,075</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,075</u>

Money Market Accounts

Cash equivalents include money market accounts and are classified as a level 1 measurement based on quoted prices in active markets for identical assets that the reporting entity can access at the measurement date.

Commercial Paper

The Company's short-term investments consist of commercial paper with original maturity dates of 90 days or less, which are available to support current operations and are classified as available-for-sale securities. Commercial paper is classified as a level 2 measurement based on quoted market prices for identical assets, which are subject to infrequent transactions.

Short-term investments are summarized as follows (in thousands):

	As of June 30, 2016	As of December 31, 2015
Commercial Paper:		
Amortized cost	\$ 54,981	\$ 47,084
Unrealized gains	—	—
Unrealized losses	(7)	(6)
Total short-term investments measured at fair value	<u>\$ 54,974</u>	<u>\$ 47,078</u>

Acquisition-Related Contingent Consideration

The Company reassesses the fair value of contingent consideration to be settled in cash related to certain of the Company's acquisitions using the Black-Scholes model until the settlement amount of the cash flow is determinable. These contingencies are considered level 3 measurements. Significant assumptions used in measuring the fair value include probabilities of achieving certain revenue milestones based on the Company's expectations and a discount rate which is based on an unobservable input that is supported by little or no market activity.

As of December 31, 2015, the settlement amount of the contingent consideration related to the Company's acquisition of WebDAM was determined to be \$4.0 million and was included in other liabilities. No changes in fair value were recorded during the six months ended June 30, 2016. The contingent consideration of \$4.0 million was paid in April 2016, and there was no remaining liability as of June 30, 2016.

During the first quarter of fiscal 2016, the settlement amount of the contingent consideration related to the PremiumBeat acquisition was determined to be \$10.0 million, which will be paid during 2017. As of June 30, 2016, the present value of the amount to be paid was \$9.6 million and was included in other liabilities. As of December 31, 2015, the fair value of the contingent consideration was \$7.1 million, and was included in other non-current liabilities.

Other Fair Value Measurements

Cash, accounts receivable, restricted cash, accounts payable, accrued expenses and deferred revenue carrying amounts approximate fair value because of the short-term nature of these instruments. The Company's non-financial assets, which include property and equipment, intangible assets and goodwill, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Company is required to evaluate the non-financial asset for impairment, a resulting asset impairment would require that non-financial assets be recorded at fair value.

Shutterstock, Inc.
Notes to Consolidated Financial Statements
(unaudited)

(3) Property and Equipment

Property and equipment is summarized as follows (in thousands):

	As of June 30, 2016	As of December 31, 2015
Computer equipment and software	\$ 46,867	\$ 37,502
Furniture and fixtures	2,837	2,933
Leasehold improvements	15,748	14,471
Property and equipment	65,452	54,906
Less accumulated depreciation	(24,105)	(22,812)
Property and equipment, net	\$ 41,347	\$ 32,094

Depreciation expense related to property and equipment was \$3.5 million and \$2.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$6.5 million and \$4.3 million for the six months ended June 30, 2016 and 2015, respectively. Depreciation expense is included in cost of revenue and general and administrative expense based on the nature of the asset being depreciated.

Capitalized Internal-Use Software

The Company capitalized costs related to the development of internal-use software of \$3.4 million and \$0.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$6.2 million and \$0.3 million for the six months ended June 30, 2016 and 2015, respectively. Capitalized amounts are included as a component of property and equipment under computer equipment and software.

The portion of total depreciation expense related to capitalized internal-use software was \$0.7 million and \$0.1 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.2 million and \$0.2 million for the six months ended June 30, 2016 and 2015, respectively. Depreciation expense related to capitalized internal-use software is included in cost of revenue and general and administrative expense.

As of June 30, 2016 and December 31, 2015, the Company had capitalized internal-use software of \$9.0 million and \$3.9 million, respectively, net of accumulated depreciation, which was included in property and equipment, net.

(4) Goodwill, Intangible Assets and Acquisition Activity
Goodwill

The Company's goodwill balance is attributable to its Bigstock, Editorial, Music and WebDAM reporting units and is tested for impairment at least annually on October 1 or upon a triggering event. Bigstock, Music and Editorial are included in the Company's "Content Business" reporting segment while WebDAM is included in the non-reportable "Other Category". The following table summarizes the changes in the Company's goodwill balance by reportable and non-reportable segments through June 30, 2016 (in thousands):

	Consolidated	Content Business	Other Category
Balance as of December 31, 2015	\$ 50,934	\$ 42,171	\$ 8,763
Foreign currency translation adjustment	489	489	—
Balance as of June 30, 2016	\$ 51,423	\$ 42,660	\$ 8,763

No triggering events were identified during the six months ended June 30, 2016.

Shutterstock, Inc.
Notes to Consolidated Financial Statements
(unaudited)

Other Intangible Assets

Intangible assets consisted of the following as of June 30, 2016 and December 31, 2015 (in thousands):

	As of June 30, 2016		Weighted Average Life (Years)	As of December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets:					
Customer relationships	\$ 18,287	\$ (3,692)	9	\$ 19,523	\$ (3,089)
Trade name	6,837	(1,636)	7	7,111	(1,188)
Developed technology	3,457	(1,566)	4	3,734	(1,129)
Contributor content	6,340	(693)	9	5,138	(567)
Patents	209	(46)	18	193	(40)
Domain name	160	(39)	11	120	(25)
Total	\$ 35,290	\$ (7,672)		\$ 35,819	\$ (6,038)

Amortization expense was \$1.3 million for both of the three months ended June 30, 2016 and 2015 and \$2.5 million and \$2.2 million for the six months ended June 30, 2016 and 2015, respectively. The Company determined that there was no indication of impairment of the intangible assets for any period presented. Estimated amortization expense for the next five years is: \$2.5 million for the remaining six months of 2016, \$5.0 million in 2017, \$4.1 million in 2018, \$3.9 million in 2019, \$3.3 million in 2020, \$2.8 million in 2021 and \$5.9 million thereafter.

Acquisition Activity

Rex Features

On January 19, 2015, the Company acquired all of the shares of Rex Features (Holdings) Limited, or Rex Features, pursuant to a stock purchase agreement. The total purchase price consisted of a cash payment of \$32.7 million subject to certain working capital adjustments. The transaction was accounted for using the acquisition method and, accordingly, the results of the acquired business have been included in the Company's results of operations from the acquisition date.

Goodwill related to the acquisition of Rex Features is attributable to its ability to serve as the foundation of the Company's editorial offering, serving as a base for accelerating the growth of the offering by leveraging Rex Features' editorial expertise and the Company's technical capabilities and position in the marketplace, and is not deductible for tax purposes.

PremiumBeat

On January 22, 2015, the Company acquired substantially all of the assets and certain liabilities of Arbour Interactive, Inc., or PremiumBeat, pursuant to an asset purchase agreement. The total purchase price of \$35.4 million consisted of a cash payment of \$31.7 million and \$3.7 million in contingent consideration based on certain performance criteria. As of June 30, 2016, the fair value of the contingent consideration related to the PremiumBeat acquisition was \$9.6 million, which represents the present value of the amount that will be paid, and is included in other liabilities. During the six months ended June 30, 2016, the Company recorded a change in the fair value of the contingent consideration in the amount of \$2.5 million, of which \$0.8 million was recorded as a component of other (expense) income, net related to the passage of time and \$1.7 million was recorded as a component of general and administrative expense related to a modification of the terms of the contingent consideration agreement. The transaction was accounted for using the acquisition method and, accordingly, the results of the acquired business have been included in the Company's results of operations from the acquisition date.

Goodwill related to the acquisition of PremiumBeat is attributable to expected synergies from future growth and the ability to accelerate the growth of the Company's music offering by leveraging PremiumBeat's experience in the music market, and is deductible for tax purposes.

2015 Acquisition Activity

The fair value of consideration transferred in the acquisitions of Rex Features and PremiumBeat was allocated to the intangible and tangible assets acquired and liabilities assumed at the acquisition date, with the remaining unallocated amount recorded as goodwill. The fair values of intangible assets were determined primarily using the income approach.

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The aggregate purchase price was allocated to the assets acquired and liabilities assumed as follows (in thousands):

	Acquisition Activity
Assets acquired:	
Cash	\$ 1,525
Accounts receivable	2,908
Other assets	1,319
Fixed assets	297
Intangible assets ⁽¹⁾	27,433
Goodwill	44,767
Deferred tax asset	229
Total assets acquired	\$ 78,478
Liabilities assumed:	
Accounts payable	\$ (253)
Contributor payable	(3,145)
Accrued expenses	(2,431)
Deferred revenue	(23)
Deferred tax liability	(4,454)
Total liabilities assumed	\$ (10,306)
Total	\$ 68,172

(1) Identifiable intangible assets include customer relationships, trade names, developed technology and content libraries and are being amortized on a straight-line basis over a weighted average life of approximately eight years.

As a result of the acquisitions of Rex Features and PremiumBeat, the Company recorded \$0.4 million of professional fees in the six months ended June 30, 2015. There were no professional fees related to these acquisitions in the three and six months ended June 30, 2016 or the three months ended June 30, 2015. The professional fees are included in general and administrative expense.

Pro forma results of operations have not been presented because the effect of these business combinations was not material to the Company's pro forma consolidated results of operations for any of the periods presented.

(5) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	As of June 30, 2016	As of December 31, 2015
Compensation	\$ 8,405	\$ 8,995
Non-income taxes	7,185	7,095
Royalty tax withholdings	6,590	6,439
Payroll tax withholdings	825	426
Professional fees	1,451	902
Marketing expenses	748	237
Other expenses	6,043	6,602
Total accrued expenses	\$ 31,247	\$ 30,696

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(6) Commitments and Contingencies

The Company leases facilities under agreements accounted for as operating leases. Rental expense for operating leases was \$1.4 million and \$1.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$3.0 million and \$2.3 million for the six months ended June 30, 2016 and 2015, respectively. Some leases have defined escalating rent provisions, which are expensed over the term of the related lease on a straight-line basis commencing with the date of possession. Any rent allowance or abatement is netted in this calculation. All leases require payment of real estate taxes and operating expense increases.

In 2016, the Company's lease for its office facility in New York City was amended to, among other things, provide for the lease of approximately 25,000 square feet of additional office space and extend the term of the lease. In connection with the underlying lease agreement, the Company entered into a letter of credit as a security deposit for the leased facilities, which was increased to \$2.6 million in connection with the January 2016 amendment. The letter of credit was collateralized by \$2.6 million of cash as of June 30, 2016, which is recorded as restricted cash and is included in other assets in the consolidated balance sheet. As amended, the lease is scheduled to expire in 2029 and aggregate future minimum payments under the amended lease are approximately \$84.7 million.

Capital Expenditures

As of June 30, 2016, the Company had outstanding commitments to purchase approximately \$0.5 million of data servers and other equipment related to the expansion of its existing business and infrastructure.

Other Obligations

As of June 30, 2016, the Company had other obligations in the amount of approximately \$29.0 million, which consisted primarily of minimum royalty guarantees and unconditional purchase obligations related to contracts for infrastructure and other business services. As of June 30, 2016, the Company's other obligations for the remainder of 2016 and for the years ending December 31, 2017, 2018, 2019 and 2020 were approximately \$4.8 million, \$9.0 million, \$7.4 million, \$4.0 million and \$3.8 million, respectively.

Legal Matters

From time to time, the Company may become party to litigation in the ordinary course of business, including direct claims brought by or against the Company with respect to intellectual property, contracts, employment and other matters, as well as claims brought against the Company's customers for whom the Company has a contractual indemnification obligation. The Company assesses the likelihood of any adverse judgments or outcomes with respect to these matters and determines loss contingency assessments on a gross basis after assessing the probability of incurrence of a loss and whether a loss is reasonably estimable. In addition, the Company considers other relevant factors that could impact its ability to reasonably estimate a loss. A determination of the amount of reserves required, if any, for these contingencies is made after analyzing each matter. The Company reviews reserves, if any, at least quarterly and may change the amount of any such reserve in the future due to new developments or changes in strategy in handling these matters. Although the results of litigation and threats of litigation, investigations and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these matters will not have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors. The Company currently has no material active litigation matters and, as such, no material reserves related to litigation.

Indemnification

In the ordinary course of business, the Company enters into contractual agreements under which it agrees to provide indemnification of varying scope and terms to customers with respect to certain matters, including, but not limited to, losses arising out of the breach of the Company's intellectual property warranties for damages to the customer directly attributable to the Company's breach. The Company is not responsible for any damages, costs, or losses to the extent such damages, costs or losses arise as a result of any modifications made by the customer, or the context in which an image is used. The Company's license agreements generally cap indemnification obligations at amounts ranging from \$10,000 to \$250,000, with certain exceptions for which the Company's indemnification obligations are uncapped. As of June 30, 2016, the Company had recorded no material liabilities related to indemnification obligations in accordance with the authoritative guidance for loss contingencies. Additionally, the Company believes that it has the appropriate insurance coverage in place to adequately cover such indemnification obligations, if necessary.

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Employment Agreements and Indemnification Agreements

The Company has entered into employment arrangements and indemnification agreements with its executive officers, directors and certain employees. These agreements specify various employment-related matters, including annual compensation, performance incentive bonuses, and severance benefits in the event of termination with or without cause.

(7) Stockholders' Equity and Equity-Based Compensation

Stockholders' Equity

Common Stock

During the six months ended June 30, 2016, the Company issued approximately 502,000 shares of common stock, related primarily to the exercise of stock options and the vesting of restricted stock units ("RSUs").

Treasury Stock

In October 2015, the Company's Board of Directors approved a share repurchase program, pursuant to which the Company is authorized to purchase up to \$100 million of its common stock. The Company expects to fund repurchases through a combination of cash on hand, cash generated by operations and future financing transactions, if needed. Accordingly, the Company's share repurchase program is subject to the Company having available cash to fund repurchases. Under the program, the Company is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors.

During the six months ended June 30, 2016, the Company repurchased approximately 1,280,000 shares of its common stock under the share repurchase program at an average per-share cost of approximately \$34.44, of which \$0.4 million has not been paid as of June 30, 2016 and is included in accrued expenses. As of June 30, 2016, the Company had \$40.3 million remaining for purchases under the share repurchase program.

Equity-Based Compensation

The Company recognizes stock-based compensation expense for all share-based payment awards including employee stock options and RSUs granted under the 2012 Omnibus Equity Incentive Plan and sales of shares of common stock under the 2012 Employee Stock Purchase Plan (the "2012 ESPP") based on each award's fair value on the grant date.

The following table summarizes non-cash equity-based compensation expense, net of forfeitures, by financial statement line item included in the accompanying consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of revenue	\$ 521	\$ 466	\$ 1,054	\$ 948
Sales and marketing	1,357	1,428	2,548	2,746
Product development	2,003	1,751	4,152	4,120
General and administrative	3,371	3,935	6,851	7,274
Total	\$ 7,252	\$ 7,580	\$ 14,605	\$ 15,088

The following table summarizes non-cash equity-based compensation expense, net of forfeitures, by award type included in the accompanying consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Stock options	\$ 1,892	\$ 1,777	\$ 3,628	\$ 3,823
RSUs	5,207	5,484	10,609	10,520
ESPP shares	153	221	325	420
RSUs related to the acquisition of WebDAM	—	98	43	325
Total	\$ 7,252	\$ 7,580	\$ 14,605	\$ 15,088

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Stock Option Awards

During the six months ended June 30, 2016, the Company granted options to purchase approximately 438,000 shares of its common stock with a weighted average exercise price of \$35.51. As of June 30, 2016, there were approximately 403,000 options vested and exercisable with a weighted average exercise price of \$30.64. As of June 30, 2016, the total unrecognized compensation charge related to non-vested options was approximately \$25.5 million, which is expected to be recognized through the fiscal year 2021.

Restricted Stock Units

During the six months ended June 30, 2016, the Company granted approximately 686,000 RSUs. As of June 30, 2016 there are approximately 1,304,000 non-vested RSUs outstanding. As of June 30, 2016, the total unrecognized non-cash equity-based compensation charge related to the non-vested RSUs was approximately \$48.8 million, which is expected to be recognized through fiscal year 2021.

Included in the total number of RSUs granted during the six months ended June 30, 2016 was approximately 31,000 RSUs granted and issued in satisfaction of the Company's liability to certain WebDAM executives to provide a fixed-dollar amount of RSUs in connection with the acquisition. As of June 30, 2016, the Company had no additional stock-based compensation awards which require liability accounting.

ESPP Shares

During the six months ended June 30, 2016, approximately 26,000 shares of the Company's common stock were issued under the 2012 ESPP.

(8) Employee Benefit Plans

The Company has a 401(k) defined contribution plan and provides for annual discretionary employer matching contributions not to exceed 3% of employees' base compensation per year. Matching contributions are fully vested and non-forfeitable at all times. The Company recorded employer matching contributions of \$0.5 million and \$0.4 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.0 million and \$0.7 million for the six months ended June 30, 2016 and 2015, respectively.

(9) Other Expense, Net

The following table presents a summary of the Company's other income and expense activity included in the accompanying consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Foreign currency gain (loss)	\$ (123)	\$ 313	\$ 547	\$ (1,761)
Change in fair value of contingent consideration	(130)	(385)	(844)	(900)
Interest income	41	15	73	42
Total expense	\$ (212)	\$ (57)	\$ (224)	\$ (2,619)

(10) Income Taxes

The Company's effective tax rates were 29.4% and 44.5% for the three months ended June 30, 2016 and 2015, respectively, and 36.5% and 43.9% for the six months ended June 30, 2016 and 2015, respectively. The Company incurred discrete tax items, the net effect of which decreased the effective tax rate by 9.1% and increased the effective tax rate by 1.0% for the three months ended June 30, 2016 and 2015, respectively, and decreased the effective rate by 3.3% and increased the effective rate by 1.7% for the six months ended June 30, 2016 and 2015, respectively. The Company has computed the provision for income taxes based on the estimated annual effective tax rate and the application of discrete items, if any, in the applicable period. The effective tax rate differs from the statutory tax rate due primarily to non-deductible expenses related to non-cash equity-based compensation.

During the three and six months ended June 30, 2016 and 2015, unrecognized tax benefits recorded by the Company for uncertain tax positions taken in prior years were not material. During the three and six months ended June 30, 2016, the Company recognized a tax benefit of approximately \$1.2 million related to the release of reserve for uncertain tax positions due to a lapse in the statute of limitations. To the extent the remaining unrecognized tax benefits are ultimately recognized, the Company's effective tax rate may be impacted in future periods.

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The Company recognizes interest expense and tax penalties related to unrecognized tax benefits in income tax expense in the consolidated statements of operations. The Company's accrual for interest and penalties related to unrecognized tax benefits was not material for the three and six months ended June 30, 2016 and 2015.

As of June 30, 2016, the Company had approximately \$8.7 million of undistributed earnings attributable to its foreign subsidiaries. It is the Company's practice and intention to indefinitely reinvest the earnings of its foreign subsidiaries in those operations. The Company has not provided deferred U.S. income taxes or foreign withholding taxes on temporary differences resulting from the earnings indefinitely reinvested outside the United States. It is currently not practicable for the Company to calculate the associated unrecognized deferred tax liability.

(11) Net Income Per Share

Basic net income per share is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Any potential issuance of common shares, including those that are contingent and do not participate in dividends, is excluded from weighted average number of common shares outstanding. Income available to common stockholders is computed by deducting income allocated to participating securities, if any, including unvested shares for the restricted award holder since these unvested shares have participating rights.

Diluted net income per share is computed by dividing the net income attributable to common stockholders by the weighted average common shares outstanding and all potential common shares, if they are dilutive.

A reconciliation of assumed exercised shares used in calculating basic and diluted net income per share available to common stockholders follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic	34,957	35,864	35,166	35,750
Stock options and ESPP shares	479	363	415	391
Unvested RSUs and restricted stock awards	206	113	289	126
Diluted	35,642	36,340	35,870	36,267
Dilutive securities included in the calculation	1,907	1,928	1,860	1,967
Anti-dilutive securities excluded from the calculation	1,259	686	1,165	688

(12) Geographic Information

The following table presents the Company's revenue based on customer location (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
North America	\$ 49,565	\$ 41,189	\$ 96,707	\$ 78,695
Europe	41,094	34,944	80,280	69,046
Rest of the world	33,760	28,232	64,084	54,146
Total revenue	\$ 124,419	\$ 104,365	\$ 241,071	\$ 201,887

The United States, included in North America in the above table, accounted for 34% of consolidated revenue for both of the three months ended June 30, 2016 and 2015, and 35% and 34% for the six months ended June 30, 2016 and 2015, respectively. The United Kingdom, included in Europe in the above table, accounted for 10% of total revenue for both of the three and six months ended June 30, 2016 and 11% of consolidated revenue for both of the three and six months ended June 30, 2015. No other country accounts for more than 10% of the Company's revenue in any period presented.

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The Company's long-lived tangible assets were located as follows (in thousands):

	June 30, 2016	December 31, 2015
North America	\$ 40,373	\$ 31,699
Europe	974	395
Total long-lived tangible assets	<u>\$ 41,347</u>	<u>\$ 32,094</u>

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 together with our interim consolidated unaudited financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q and with information contained in our other filings, including the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on February 24, 2016.

In addition to historical consolidated financial information, this discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. These statements involve risks and uncertainties and our actual results could differ materially from those discussed below. See the “Special Note on Forward Looking Statements” disclosure included above for a discussion of the uncertainties, risks and assumptions associated with these statements. See also the “Risk Factors” disclosure of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for additional discussion of such risks.

Overview and Recent Developments

We are a leading global provider of high quality creative content including: (a) digital imagery, which consists of licensed photographs, illustrations, vectors and video clips that customers use in their visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and video content; and (b) commercial music, which consists of high-quality music tracks and sound effects and which is often used to complement the digital imagery. We also offer digital asset management services through WebDAM, our cloud-based digital asset management platform. This service provides tools for customers to better manage content and brand management assets.

Our global marketplace brings together users of creative content with content producers from around the world by providing a freely searchable collection of content that our customers can pay to license, download and incorporate into their work. More than 1.5 million active, paying customers contributed to our revenue for the twelve month period ended June 30, 2016. As of June 30, 2016, more than 130,000 approved contributors made their creative content available in our collection, which has grown to more than 90 million images and more than 4 million video clips. This makes our collection of creative content one of the largest of its kind, and we delivered more than 80 million paid downloads to our customers from that collection during the six months ended June 30, 2016. We believe that we delivered the highest volume of commercial image downloads in this period of any single brand in our industry.

In May 2016, we announced the release of a plugin for Microsoft Powerpoint which will provide business professionals around the world with instant access to our vast collection of high-quality images. Additionally, we released enhanced search and discovery features on our iOS mobile application, becoming the first stock photo provider to provide reverse image search capabilities on mobile devices.

In July 2016, we announced an API integration partnership with Google, which provides users of Google’s digital and mobile display advertising products, including AdSense, Adwords, and Admob, access to Shutterstock’s image collection for license.

As a global marketplace, we generate revenue by licensing creative content to our customers and paying royalties to our contributors each time their content is delivered to a customer for use. Currently, the majority of our revenue and downloads come from our e-commerce platforms, which allow customers the flexibility of high-volume content subscriptions or a variety of other purchase options. In addition to sales through our e-commerce platform, we offer a number of other purchase options, primarily to enterprise customers, that can be customized to meet their specific needs. As we continue to grow the business, we anticipate these other purchase options will grow as a share of our overall business.

Each time content is delivered to a customer for use, we record a royalty expense for the amount due to the associated contributor. Royalties are calculated using either a fixed dollar amount or a fixed percentage of revenue as described on our websites, and are typically paid to contributors on a monthly basis, subject to withholding taxes and certain payout minimums. Royalties represent the largest component of our operating expenses and tend to increase proportionally with revenue.

Our cost of revenue is substantially similar as a percentage of revenue across our various purchase options. While contributors earn a fixed amount per download for some of our plans, we have set the per-download amount paid to our contributors for each of our purchase options so that contributors earn more per download from plans where we collect higher revenue per download. Under this cost structure, changes in revenue activity are the primary drivers of changes in our cost of revenue, and we expect that shifts in the relative popularity of our purchase options will not materially impact our proportional cost of revenue.

As a provider of digital asset management technology, we generate revenue by licensing the use of our WebDAM platform to customers on a contractual basis, which typically has a term of one year.

An important driver of our growth is customer acquisition, which we achieve primarily through online marketing efforts, including paid search, organic search, online display advertising, email marketing, affiliate marketing, social media and strategic partnerships. We manage customer acquisition costs based on the expected blended customer lifetime value across our purchase options so that we are able to manage our marketing expenses to achieve certain desired growth targets. As a result, we do not believe that shifts in the mix between our purchase options will materially impact our operating margins.

Over the past several years, we have invested amounts in marketing that represent a significant percentage of revenue. Since we believe the market for creative content will continue to grow globally, we plan to continue to invest aggressively in customer acquisition through our various global channels to achieve revenue and market share growth. We believe that another important driver of growth is the quality of the user experience we provide on our websites, especially the efficiency with which our search interfaces and algorithms help customers find the content that they need, the degree to which we make use of the large quantity of data we collect about content and search patterns, and the degree to which we have been able to localize the overall experience for international audiences. In pursuit of our growth objectives, we have also invested aggressively in product development and we plan to broaden our investments in this area. Finally, the quality and quantity of content that we make available in our collection is another key driver of our growth. Approved and licensable high-quality content in the Shutterstock collection exceeded 90 million images and 4 million video clips as of June 30, 2016, making it one of the largest libraries of its kind.

Key Operating Metrics

In addition to key financial metrics, we regularly review a number of key operating metrics to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. We believe that these metrics can be useful for understanding the underlying trends in our business. The following table summarizes our key operating metrics, which are unaudited, for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in millions, except revenue per download)			
Paid downloads (during the period)	43.4	35.9	84.6	69.3
Revenue per download (during the period)	\$ 2.81	\$ 2.85	\$ 2.79	\$ 2.86
Images in collection (end of period)	92.1	57.2	92.1	57.2

Paid Downloads

Measuring the number of paid downloads that our customers make in any given period is important because our revenue and contributor royalties are driven primarily by paid download activity. For customers that choose our On Demand purchase options, each incremental download results in incremental recognition of revenue. For customers that choose our subscription purchase options, we do not recognize revenue from each incremental download, but we believe that download activity is an important measure of the value that we deliver to subscription customers and the likelihood that the customer will renew. We define paid downloads as the number of downloads of our creative content by customers in a given period, excluding re-downloads of content that a customer has downloaded in the past (which do not generate incremental revenue or contributor royalty expense) and downloads of promotional images (which we make available at no cost as a means of acquiring new customers and attracting existing customers to return to our websites more frequently).

Revenue per Download

We define revenue per download as the amount of revenue recognized in a given period divided by the number of paid downloads in that period excluding the impact of revenue that is not derived from or associated with the download of creative content. This metric captures changes in our pricing, if any, as well as the mix of purchase options that our customers choose and the impact of changes in foreign currency rates on our pricing. Over the last three years, revenue from each of our purchase options has grown; however our fastest growing purchase options have been those that generate more revenue per download, most notably our On Demand purchase options. As our business grows and expands into other products and regions around the world, this metric may become less important as a tool for evaluating the business.

Images in Collection

We define images in our collection as the total number of photographs, vectors and illustrations available to customers for commercial license on shutterstock.com at any point in time. We exclude content from this collection metric that is not uploaded directly to our site but is available to our customers through an application program interface and certain content that may be licensed for editorial use only. We record this metric as of the end of a period. Offering a large selection of images allows us to acquire and retain customers and, therefore, we believe that broadening our selection of high-quality images is an important driver of our revenue growth.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The preparation of the consolidated financial statements in conformity with U.S. GAAP requires our management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure or inclusion of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. We evaluate our significant estimates on an ongoing basis, including, but not limited to, estimates related to allowance for doubtful accounts, medical self-insurance accruals, chargeback and sales refund reserve, the fair value of goodwill, intangibles and other long-lived assets, non-cash equity-based compensation expense, the fair value of contingent consideration, the provision for income taxes and the amount of certain non-income tax accruals. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

We believe that the policies, assumptions and estimates associated with our revenue recognition, allowance for doubtful accounts, chargeback and sales refund reserve, stock-based compensation, self-insurance accruals, accounting for non-income and income taxes, goodwill and intangible assets and advertising costs have the greatest potential impact on our financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

A description of our critical accounting policies that involve significant management judgments appears in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 that we filed with the SEC on February 24, 2016, or the 2015 Form 10-K, under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.” There have been no material changes to our critical accounting policies and estimates as compared to our critical accounting policies and estimates included in the 2015 Form 10-K.

Key Components of Our Results of Operations

Revenue

The majority of our revenue, net of chargebacks and refunds, is generated through the licensing of creative content. The majority of our licensing revenue is generated by sales through our e-commerce platform.

We generate revenue through our e-commerce platform from the sale of subscriptions which provide customers the flexibility of high-volume content subscriptions or from a variety of other purchase options. Our subscriptions typically vary in length from one month to one year. In addition to sales through our e-commerce platform, we offer a number of other purchase options, primarily to enterprise customers, that can be customized to meet our customers’ specific needs.

We typically receive the full amount of purchases at the time of sale; however, revenue is recognized ratably over the course of a subscription or as content is downloaded. Some of our larger custom and enterprise accounts are invoiced and pay us on credit terms. For certain of these accounts, we receive payment in installments over the course of an annual commitment.

We also generate revenue through WebDAM, which we acquired in March 2014. WebDAM licenses digital asset management software services to marketing and creative teams and enterprise organizations through its cloud-based software platform. Software licensing fees are recognized ratably as revenue over the course of the contractual term, which is typically one year. Any setup or implementation fees are recognized ratably over the longer of the contractual term or the estimated customer relationship period, which is currently three years. Fees for on-boarding and other professional services, which typically take place over a period of time less than one year and provide immediate benefit to customers upon completion, are recorded as revenue when services are substantially complete and all other revenue recognition criteria have been met.

Our deferred revenue consists of amounts paid by customers for which revenue recognition criteria have not been met. For content revenue, deferred revenue is recognized as revenue through the passage of time, when content is downloaded or when the credits or the right to download content expires, and all other revenue recognition criteria have been met. For WebDAM, deferred revenue is recognized as revenue through passage of time (subscriptions) or when a project is substantially complete (professional services) and all other revenue recognition criteria have been met.

Costs and Expenses

Cost of Revenue. Cost of revenue consists of royalties paid to contributors, credit card processing fees, content review costs, customer service expenses, the infrastructure and hosting costs related to maintaining our e-commerce platform and cloud-based software platform and associated employee compensation, including non-cash equity-based compensation, bonuses and benefits, amortization of content and technology intangible assets, allocated facility costs and other supporting overhead costs. We expect that our cost of revenue will increase in absolute dollars in the foreseeable future as our revenue grows.

Sales and Marketing. Sales and marketing expenses include third-party marketing, advertising, branding, public relations and sales expenses. Sales and marketing expenses also include associated employee compensation, including non-cash equity-based compensation, bonuses and benefits, and commissions as well as allocated facility and other supporting overhead costs. We expect sales and marketing expenses to increase in absolute dollars in the foreseeable future as we continue to invest in new customer acquisition.

Product Development. Product development expenses consist of employee compensation, including non-cash equity-based compensation, bonuses and benefits, and expenses related to contractors engaged in product management, design, development and testing of our websites and products. Product development costs also include allocated facility and other supporting overhead costs. We expense product development expenses as incurred, except for costs that are capitalized for internal-use software development projects and subsequently depreciated over the expected useful life of the developed software. During 2015, we experienced an increase in capitalized costs for internal-use software development related primarily to our efforts to launch new and innovative products. We expect product development expenses, of which a portion will be capitalized, to increase in absolute dollars in the foreseeable future as we continue to invest in developing new products and internal tools and enhancing the functionality of our existing products and technology.

General and Administrative. General and administrative expenses include employee compensation, including non-cash equity-based compensation, bonuses and benefits for executive, finance, business development, accounting, legal, human resources, internal information technology, business intelligence and other administrative personnel. In addition, general and administrative expenses include outside legal, tax and accounting services, bad debt expense, insurance, facilities costs and other supporting overhead costs. We expect to incur incremental general and administrative expenses to support our global operational growth and enhancements to support our reporting and planning functions.

Other Expense, Net. Other expense consists of non-operating costs such as foreign currency transaction gains and losses, changes in fair value of contingent consideration related to acquisitions and interest income and expense. We expect to incur incremental expense related to changes in fair value of contingent consideration related to our PremiumBeat acquisition as we reach the measurement date. Additionally, as we increase the volume of business transacted in foreign currencies as a result of international expansion and as currency rates fluctuate, we expect foreign currency gains and losses to continue to fluctuate.

Income Taxes. We compute income taxes using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted statutory income tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

As we continue to expand our operations outside of the United States, we have been and may continue to become subject to taxation in additional non-U.S. jurisdictions and our effective tax rate could fluctuate accordingly.

Results of Operations

The following table presents our results of operations for the periods indicated. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands)				
Consolidated Statements of Operations:				
Revenue	\$ 124,419	\$ 104,365	\$ 241,071	\$ 201,887
Operating expenses:				
Cost of revenue	52,245	42,545	100,308	82,070
Sales and marketing	31,571	27,429	58,659	52,534
Product development	11,971	10,189	23,196	20,873
General and administrative	18,155	14,536	37,609	28,508
Total operating expenses	113,942	94,699	219,772	183,985
Income from operations	10,477	9,666	21,299	17,902
Other expense, net	(212)	(57)	(224)	(2,619)
Income before income taxes	10,265	9,609	21,075	15,283
Provision for income taxes	3,016	4,272	7,693	6,703
Net income	\$ 7,249	\$ 5,337	\$ 13,382	\$ 8,580

The following table presents the components of our results of operations for the periods indicated as a percentage of revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Consolidated Statements of Operations:				
Revenue	100 %	100 %	100 %	100 %
Operating expenses:				
Cost of revenue	42	41	42	41
Sales and marketing	25	26	24	26
Product development	10	10	10	10
General and administrative	15	14	16	14
Total operating expenses	92	91	92	91
Income from operations	8	9	8	9
Other expense, net	—	—	—	(1)
Income before income taxes	8	9	8	8
Provision for income taxes	2	4	3	3
Net income	6 %	5 %	5 %	5 %

Comparison of the Three Months Ended June 30, 2016 and 2015

The following table presents our results of operations for the periods indicated:

	Three Months Ended June 30,			
	2016	2015	\$ Change	% Change
(in thousands)				
Consolidated Statements of Operations:				
Revenue	\$ 124,419	\$ 104,365	\$ 20,054	19%
Operating expenses:				
Cost of revenue	52,245	42,545	9,700	23
Sales and marketing	31,571	27,429	4,142	15
Product development	11,971	10,189	1,782	17
General and administrative	18,155	14,536	3,619	25
Total operating expenses	113,942	94,699	19,243	20
Income from operations	10,477	9,666	811	8
Other expense, net	(212)	(57)	(155)	*
Income before income taxes	10,265	9,609	656	7
Provision for income taxes	3,016	4,272	(1,256)	*
Net income	\$ 7,249	\$ 5,337	\$ 1,912	36%

* Not meaningful

Revenue

Revenue increased by \$20.1 million, or 19%, to \$124.4 million in the three months ended June 30, 2016 compared to the same period in 2015. We continue to undertake initiatives focused on broadening our subscription product offerings, which has resulted in increased customer utilization and provides customers an effective price per content download that is more economical at higher volumes. We believe these offerings will lead to sustained customer engagement over longer periods. As a result of these initiatives, the increase in revenue during the quarter was primarily attributable to the 21% increase in the number of paid downloads, the acquisition of new customers and increased activity by our enterprise customers, despite a 1.4% decrease in revenue per download. In the three months ended June 30, 2016 and 2015, we delivered 43.4 million and 35.9 million paid downloads, respectively, and our average revenue per download during these periods was \$2.81 and \$2.85, respectively.

In the three months ended June 30, 2016 compared to the same period in 2015, as a percentage of total revenue, revenue from North America increased slightly to 40% from 39% while revenue from Europe and the rest of the world remained relatively flat at 33% and 27%, respectively.

Costs and Expenses

Cost of Revenue. Cost of revenue increased by \$9.7 million, or 23%, to \$52.2 million in the three months ended June 30, 2016 compared to the same period in 2015. Royalties increased \$6.2 million, or 20%, which was in line with the increase in the number of paid downloads during the period. We anticipate royalties will continue growing in absolute dollars as revenue grows, although royalties as a percentage of revenue may vary somewhat from period to period, primarily due to customer usage, product mix and to a lesser extent due to the contributors' achievement of royalty target thresholds. Costs associated with website hosting, content consulting and allocated depreciation and amortization expense increased by \$1.3 million, or 32%, to \$5.3 million in the three months ended June 30, 2016 compared to the same period in 2015, driven in large part by increases in the depreciation of capitalized internal-use software. Employee-related expenses increased \$0.8 million, or 21%, driven by an increase in headcount in customer service, content and website operations to support increased customer volume and a more robust hosting infrastructure.

Sales and Marketing. Sales and marketing expenses increased by \$4.1 million, or 15%, to \$31.6 million in the three months ended June 30, 2016 compared to the same period in 2015. The change was driven by a \$2.6 million increase in advertising expenses, which represents an 18% increase over the prior year. Advertising expenses have historically been the most significant component of sales and marketing expenses and can vary based on the timing of our strategic initiatives. Employee-related expenses, including travel and entertainment, increased by \$1.4 million, or 13%, driven by an increase in sales and marketing headcount to support our expansion into new markets and increased sales commissions as a result of

growing revenue from our direct sales. We anticipate that our global sales and marketing spend will continue to increase in absolute dollars for the foreseeable future as we continue to expand into additional markets.

Product Development. Product development expenses increased by \$1.8 million, or 17%, to \$12.0 million in the three months ended June 30, 2016 compared to the same period in 2015. Employee-related and consulting-related expenses increased by \$4.4 million, or 51%, driven by an increase in human capital requirements in product, engineering and quality assurance to support our increasing number of product development initiatives for our e-commerce platform, including ongoing efforts to improve our search capabilities. The increase in employee-related and consulting-related expenses was offset by an increase in capitalized labor costs of \$3.0 million for internal-use software development projects. We anticipate product development expenses will continue to increase in absolute dollars in the future, of which a portion will continue to be capitalized, as we continue to invest in developing new products and internal tools and enhancing the functionality of our existing products and technology.

General and Administrative. General and administrative expenses increased by \$3.6 million, or 25%, to \$18.2 million in the three months ended June 30, 2016 compared to the same period in 2015. Employee-related expenses, excluding non-cash equity-based compensation, increased by \$1.2 million, or 29%, driven by an increase in headcount in finance, legal, human resources, internal information technology and business intelligence personnel to support the growth in our business and the infrastructure necessary to operate as a public company, which was partly offset by a decrease in non-cash equity-based compensation of \$0.6 million or 14%. Expenses related to the allowance for doubtful accounts increased by approximately \$1.0 million primarily as a result of a deterioration of the aging of accounts receivable, evaluations of specific customers during the period and an increase in the gross receivable balance due to higher sales to enterprise customers. Professional fees, software licenses and allocated depreciation and amortization expense increased by \$0.7 million primarily due to increased outside services and costs related to improving our application and hardware infrastructure.

Other Expense, Net. Other expense primarily consists of the changes in the fair value of contingent consideration related to certain of our recent acquisitions and foreign currency transaction gains and losses. In the current period, foreign currency transaction losses and changes in fair value of contingent consideration were not significant. In the prior year's comparable period, foreign currency transaction gains mostly offset total charges related to contingent consideration. We expect foreign currency transaction gains and losses to continue to fluctuate as we continue to expand our international operations and increase the volume of business transacted in currencies other than the U.S. dollar.

Income Taxes. Income tax expense decreased by \$1.3 million to \$3.0 million in the three months ended June 30, 2016 compared to the same period in 2015. Our effective tax rate for the three months ended June 30, 2016 and 2015 was 29.4% and 44.5%, respectively. During the three months ended June 30, 2016, we incurred a net discrete tax benefit resulting primarily from a reserve release related to our uncertain tax positions which decreased our effective tax rate by 9.1% and during the three months ended June 30, 2015, we incurred a net discrete tax expense which increased our effective tax rate by 1.0%. Excluding those discrete items, our effective tax rate would have been 38.5% and 43.5% during the three months ended June 30, 2016 and 2015, respectively.

Comparison of the Six Months Ended June 30, 2016 and 2015

The following table presents our results of operations for the periods indicated:

	Six Months Ended June 30,			
	2016	2015	\$ Change	% Change
(in thousands)				
Consolidated Statements of Operations Data:				
Revenue	\$ 241,071	\$ 201,887	\$ 39,184	19%
Operating expenses:				
Cost of revenue	100,308	82,070	18,238	22%
Sales and marketing	58,659	52,534	6,125	12%
Product development	23,196	20,873	2,323	11%
General and administrative	37,609	28,508	9,101	32%
Total operating expenses	219,772	183,985	35,787	19%
Income from operations	21,299	17,902	3,397	19%
Other expense, net	(224)	(2,619)	2,395	*
Income before income taxes	21,075	15,283	5,792	38%
Provision for income taxes	7,693	6,703	990	*
Net income	\$ 13,382	\$ 8,580	\$ 4,802	56%

* Not meaningful

Revenue

Revenue increased by \$39.2 million, or 19%, to \$241.1 million in the six months ended June 30, 2016 compared to the same period in 2015. We continue to undertake initiatives focused on broadening our subscription product offerings, which has resulted in increased customer utilization and provides customers an effective price per content download that is more economical at higher volumes. We believe these offerings will lead to sustained customer engagement over longer periods. As a result of these initiatives, the increase in revenue was primarily attributable to a 22% increase in the number of paid downloads, the acquisition of new customers and increased activity by our enterprise customers, despite a 2% decrease in revenue per download. In the six months ended June 30, 2016 and 2015, we delivered 84.6 million and 69.3 million paid downloads, respectively, and our average revenue per download during these periods was \$2.79 and \$2.86, respectively.

In the six months ended June 30, 2016 compared to the same period in 2015, revenue from North America increased to 40% from 39% while revenue from Europe decreased to 33% from 34% and revenue from the rest of the world remained relatively flat at approximately 27% of total revenue.

Cost and Expenses

Cost of Revenue. Cost of revenue increased by \$18.2 million, or 22%, to \$100.3 million in the six months ended June 30, 2016 compared to the same period in 2015. Royalties increased \$12.5 million, or 22%, which was in line with the change in the number of paid downloads during the period. We anticipate royalties will continue growing in absolute dollars as revenue grows, although royalties as a percentage of revenue may vary somewhat from period to period primarily due to customer usage, product mix and to a lesser extent due to the contributors' achievement level of royalty target thresholds. Employee-related expenses increased by \$1.4 million, or 18%, driven by an increase in headcount in customer service, content and website operations to support increased customer volume and a more robust hosting infrastructure. Other costs associated with website hosting, content consulting and allocated depreciation and amortization expense increased by \$2.3 million, or 30%, to \$10.1 million in the six months ended June 30, 2016 compared to the same period in 2015.

Sales and Marketing. Sales and marketing expenses increased by \$6.1 million, or 12%, to \$58.7 million in the six months ended June 30, 2016 compared to the same period in 2015. Advertising expenses, the largest component of our sales and marketing expenses, increased by \$2.3 million, or 8%, compared to the same period in 2015 as a result of increased spending on affiliate, search advertising and other new channels. We anticipate that our global advertising spend will continue to increase in absolute dollars for the foreseeable future, as we further our international expansion. Employee-related expenses, including travel and entertainment, increased by \$3.4 million, or 16%, driven by an increase in sales and marketing headcount to support our expansion into new markets and increased sales commissions as a result of growing revenue from our direct sales. We anticipate that our global sales and marketing spend will continue to increase in absolute dollars for the foreseeable future as we continue to pursue growth through new products and geographies as well as growth from new customers.

Product Development. Product development expenses increased by \$2.3 million, or 11%, to \$23.2 million in the six months ended June 30, 2016 compared to the same period in 2015. Employee-related and consulting-related expenses increased by \$7.2 million, or 41%, driven by an increase in human capital requirements in product, engineering and quality assurance to support our increasing number of product development initiatives for our websites, including ongoing efforts to improve our search capabilities. The increase in employee-related and consulting-related expenses was partially offset by an increase in capitalized costs of \$5.7 million for internal-use software development projects. We anticipate product development expenses to increase in absolute dollars for the foreseeable future, of which a portion will continue to be capitalized, as we continue to invest in developing new products and internal tools and enhancing the functionality of our existing products and technology.

General and Administrative. General and administrative expenses increased by \$9.1 million, or 32%, to \$37.6 million in the six months ended June 30, 2016 compared to the same period in 2015. Employee-related expenses, excluding non-cash equity based compensation, increased by \$2.2 million, or 25%, driven by an increase in headcount in finance, legal, human resources, internal information technology and business intelligence personnel to support the growth in our business and the infrastructure necessary to operate as a public company, partly offset by a decrease in non-cash equity-based compensation costs of \$0.4 million. Professional fees, software licenses and allocated depreciation and amortization expense increased by \$2.1 million primarily due to increased outside services and costs related to improving our system infrastructure. Expenses related to the allowance for doubtful accounts increased by \$1.9 million primarily as a result of a deterioration of the aging of accounts receivable, evaluations of specific customers during the period and an increase in the gross receivable balance due to higher sales to enterprise customers. Also included in general and administrative expenses for the six months ended June 30, 2016 is a charge of \$1.7 million related to a modification of the terms of the PremiumBeat contingent consideration arrangement.

Other Expense, Net. Other expenses primarily include foreign currency gains and losses and changes in the fair value of contingent consideration related to the passage of time. During the six months ended June 30, 2016, expenses related to contingent consideration were partly offset by foreign currency transaction gains, as compared to 2015 where foreign currency transaction losses caused other expenses to be significantly higher. The change in the impact of foreign currency drove an increase in other expense of \$2.3 million in the six months ended June 30, 2016 as compared to the prior period. We expect foreign currency transaction gains and losses to continue to fluctuate as we continue to expand our international operations and increase the volume of business transacted in currencies other than the U.S. dollar.

Income Taxes. Income tax expense increased by \$1.0 million to \$7.7 million in the six months ended June 30, 2016 compared to the same period in 2015. Our effective tax rate for the six months ended June 30, 2016 and 2015 was 36.5% and 43.9%, respectively. During the six months ended June 30, 2016, we incurred a discrete tax benefit resulting primarily from a reserve release related to our uncertain tax positions, which decreased our effective tax rate by 3.3% and during the six months ended June 30, 2015, we incurred a net discrete tax expense which increased our effective tax rate by 1.7%. Excluding these discrete items, the effective tax rate would have been 39.8% and 42.2% during the six months ended June 30, 2016 and 2015, respectively.

Quarterly Trends

Our operating results may fluctuate from quarter to quarter as a result of a variety of factors, including the effects of some seasonal trends in customer behavior. For example, we expect certain customers' usage may decrease during the fourth quarter of each calendar year due to the year-end holiday vacation season and may increase in the first quarter of each calendar year as many customers return to work. While we believe seasonal trends have affected and will continue to affect our quarterly results, our trajectory of rapid growth may have overshadowed these effects to date. Additionally, because a significant portion of our revenue is derived from repeat customers who have purchased subscription plans, our revenues tend to be smoother and less volatile than if we had no subscription-based customers.

In addition, expenditures on digital content by customers tend to be discretionary in nature, reflecting overall economic conditions, the economic prospects of specific industries, budgeting constraints, buying patterns and a variety of other factors, many of which are outside our control. As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indicators of our future operating performance.

Liquidity and Capital Resources

As of June 30, 2016, we had cash and cash equivalents of \$210.9 million, which consisted primarily of money market mutual funds and checking account balances. Additionally, we held short-term investments in the amount of \$55.0 million, all of which mature in 90 days or less. Since inception, we have financed our operations primarily through cash flows generated from operations.

Historically, our principal uses of cash have been funding our operations, capital expenditures, content acquisition, business combinations that enhance our strategic position and share purchases under our share repurchase program. We plan to

finance our operations and capital expenses largely through cash generated by our operations. Since our results of operations are sensitive to the level of competition we face, increased competition could adversely affect our liquidity and capital resources.

Share Repurchase Program

In October 2015, our board of directors approved a share repurchase program, pursuant to which we are authorized to repurchase up to \$100 million of our common stock. We expect to fund repurchases through a combination of cash on hand, cash generated by operations and future financing transactions, if appropriate. Accordingly, our share repurchase program is subject to us having available cash to fund repurchases. Under this program, management is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors.

As of June 30, 2016, we have repurchased approximately 1,739,000 shares of our common stock under the share repurchase program at an average per-share cost of \$34.33, of which \$0.4 million has not been paid and is included in accrued expenses as of June 30, 2016. As of June 30, 2016, we had \$40.3 million remaining for share repurchases under this program.

Sources and Uses of Funds

We believe, based on our current operating plan, that our cash and cash equivalents, and cash from operations, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Consistent with previous periods, we expect that future capital expenditures will primarily relate to acquiring additional servers and network connectivity hardware and software, enhancements to the functionality of our current platform, leasehold improvements and furniture and fixtures related to office expansion and relocation, digital content and general corporate infrastructure. We anticipate capital additions, inclusive of digital content acquisition and capitalized labor, of approximately \$17.0 million during the remainder of 2016. In April 2016, we paid the full amount of the contingent purchase price for WebDAM of approximately \$4.0 million, and expect to pay \$10.0 million related to the contingent purchase price for PremiumBeat during the first half of 2017. See Note 6 to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding existing capital commitments as of June 30, 2016.

Cash Flows

Operating Activities

Our primary source of cash from operating activities is cash collections from our customers. The majority of our revenue is generated from credit card transactions and is typically settled within one to five business days. Our primary uses of cash for operating activities are for settlement of accounts payable to contributors and vendors and employee-related expenditures.

In the six months ended June 30, 2016, net cash provided by operating activities was \$41.6 million, including net income of \$13.4 million, non-cash equity-based compensation of \$14.6 million, depreciation and amortization of \$9.0 million and the change in fair value of contingent consideration of \$2.5 million. Cash inflows from changes in operating assets and liabilities included an increase in deferred revenue of \$13.0 million, primarily related to the change in the volume of sales activity for which revenue has not been recognized, and to a lesser extent an increase in deferred revenue related to our WebDAM services. These amounts were offset by the portion of the contingent consideration payment related to the WebDAM acquisition that was classified as an operating cash flow of approximately \$1.6 million.

Investing Activities

Cash used in investing activities in the six months ended June 30, 2016 was \$26.4 million, consisting primarily of capital expenditures to purchase software and equipment related to our data centers, as well as capitalization of leasehold improvements and website development costs in the amount of \$16.3 million. We also paid \$1.5 million to acquire the rights to distribute certain digital content in perpetuity. In addition, we increased our position in short-term investments by \$7.8 million, net of sales.

Financing Activities

Cash used in financing activities in the six months ended June 30, 2016 was \$43.9 million, consisting primarily of \$44.5 million paid for share repurchases during the period and \$2.4 million which was paid to the former owners of WebDAM in settlement of the contingent purchase price liability established at the acquisition date. These amounts were offset by proceeds of approximately \$4.3 million from the issuance of common stock in connection with the exercise of stock options and the sale of stock under our employee stock purchase plan.

Contractual Obligations and Commitments

We lease office facilities under operating lease agreements that expire on various dates through 2029. We also have several co-location agreements with third-party hosting facilities that expire through 2017. We do not have any material capital

lease obligations, and our property, equipment and software have been purchased primarily with cash. We anticipate expanding our office and co-location facilities as our revenue and customer base continue to grow and diversify.

On March 21, 2013, we entered into an operating lease agreement to lease our headquarters in New York City. The aggregate future minimum lease payments under the lease, as amended, are approximately \$84.7 million. We are also party to a letter of credit as a security deposit for this leased facility, which was increased to \$2.6 million in January 2016 in connection with an amendment of the lease. As of June 30, 2016, the letter of credit is collateralized by \$2.6 million of cash, which is reported as restricted cash on our consolidated balance sheet as of June 30, 2016.

Additionally, as of June 30, 2016, aggregate future minimum lease payments under other operating leases are approximately \$7.4 million.

As of June 30, 2016, our guaranteed royalty payments and unconditional purchase obligations for the remainder of 2016 and for the fiscal years ending December 31, 2017, 2018, 2019 and 2020 were approximately \$4.8 million, \$9.0 million, \$7.4 million, \$4.0 million and \$3.8 million, respectively.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditure or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks in the ordinary course of our business, including risks related to interest rate fluctuation, foreign currency exchange rate fluctuation and inflation.

Interest Rate Fluctuation Risk

Our investments include cash, cash equivalents and short-term investments which consist of commercial paper. Our cash and cash equivalents consist of cash and money market accounts. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Because our cash, cash equivalents and short-term investments have a maximum term of ninety days, our portfolio's fair value is not particularly sensitive to interest rate changes. We do not enter into investments for speculative purposes. We determined that the nominal difference in basis points for investing our cash, cash equivalents and short-term investments in longer-term investments did not warrant a change in our investment strategy. In future periods, we will continue to evaluate our investment policy in order to ensure that we continue to meet our overall objectives.

We did not have any borrowings as of June 30, 2016.

Foreign Currency Exchange Risk

Revenue derived from customers residing outside North America as a percentage of total revenue was approximately 60% for both of the three months ended June 30, 2016 and 2015 and approximately 60% and 61% for the six months ended June 30, 2016 and 2015, respectively. Our sales to international customers are denominated in multiple currencies, including but not limited to the U.S. dollar, the euro, the British pound, the Australian dollar and the Japanese yen. Revenue denominated in foreign currencies as a percentage of total revenue was approximately 33% and 31% for the three months ended June 30, 2016 and 2015, respectively, and approximately 32% and 32% for the six months ended June 30, 2016 and 2015, respectively. We have foreign currency exchange risks related to non-U.S. dollar denominated revenues. All amounts earned by and paid to our foreign contributors are denominated in the U.S. dollar and therefore do not create foreign currency exchange risk. However, changes in exchange rates will affect our revenue and certain operating expenses, primarily employee-related expenses for our non-U.S. employees. Based on our foreign currency denominated revenue for the six months ended June 30, 2016, we estimate that a 10% change in the exchange rate of the U.S. dollar against all foreign currency denominated revenues would result in an approximately 3% impact on our revenue.

Although the majority of our revenue and expenses are incurred in the U.S. dollar, we have experienced fluctuations in our net income as a result of the volume of our business transacted in foreign currency and the changes in strength of the U.S. dollar against foreign currencies, specifically the euro and British pound. During the three and six months ended June 30, 2016, the impact of foreign currency transactions was a loss of \$0.3 million and a gain of \$0.4 million, respectively. We do not currently enter into derivatives or other financial instruments in order to hedge our foreign currency exchange risk, but we may do so in the future. It is difficult to predict the impact hedging activities would have on our results of operations.

We have established foreign subsidiaries in various countries around the world and as a result the financial statements of these foreign subsidiaries are reported in the applicable foreign currencies (functional currencies). For those entities where the functional currency is the local currency, adjustments resulting from translating the financial statements into U.S. dollars are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity. Monetary assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at the weighted average exchange rates during the period. Equity transactions are translated using historical exchange rates. Foreign currency transaction gains and losses are included in other income (expense), net in the consolidated statements of operations.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. 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.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (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 SEC's rules and forms. Disclosure controls and procedures include 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 June 30, 2016, 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

Our management is in the process of implementing our internal control structure over Rex Features and PremiumBeat, both of which we acquired in January 2015. Except for the changes associated with this implementation, there were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Although we are not currently a party to any material active litigation, from time to time, third parties assert claims against us regarding intellectual property rights, privacy issues and other matters arising during the ordinary course of business. Although we cannot be certain of the outcome of any litigation or the disposition of any claims, nor the amount of damages and exposure, if any, that we could incur, we currently believe that the final disposition of all existing matters will not have a material adverse effect on our business, results of operations, financial condition or cash flows. In addition, in the ordinary course of our business, we are also subject to periodic threats of lawsuits, investigations and claims. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2015 Form 10-K, which could materially affect our business, financial condition or future results. During the three months ended June 30, 2016, there were no material changes to the risk factors described in our 2015 Form 10-K, other than as disclosed below.

Continuing expansion into international markets is important for our growth, and as we continue to expand internationally, we face additional business, political, regulatory, operational, financial and economic risks, any of which could increase our costs or otherwise limit our growth.

Continuing to expand our business to attract customers and contributors in countries other than the United States is a critical element of our business strategy. In the six months ended June 30, 2016, approximately 65% of our revenue was derived from customers located outside of the United States. While a significant portion of our customers reside outside of the United States, we have a limited operating history as a company outside the United States. We expect to continue to devote significant resources to international expansion through establishing additional offices, hiring additional overseas personnel and exploring acquisition opportunities. In addition, we expect to increase marketing for our foreign language offerings and to further localize our collection and user experience for foreign markets. Our ability to expand our business and to attract talented employees, as well as customers and contributors, in an increasing number of international markets requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. Expanding our international focus may subject us to risks that we have not faced before or increase risks that we currently face, including risks associated with:

- modifying our technology and marketing our offerings for customers and contributors beyond the 20 languages we currently offer;
- localizing our content to foreign customers' preferences and customs;
- legal, political or systemic restrictions on the ability of U.S. companies to do business in foreign countries, including, among others, restrictions imposed by the U.S. Office of Foreign Assets Control (OFAC) on the ability of U.S. companies to do business in certain specified foreign countries or with certain specified organizations and individuals;
- compliance with foreign laws and regulations, including disclosure requirements, privacy laws, marketing restrictions, rights of publicity, technology laws and laws relating to our content;
- disturbances in a specific country's or region's political, economic or military conditions, including potential sanctions (e.g., recent significant civil, political and economic disturbances in Russia, Ukraine and the Crimean peninsula);
- protecting and enforcing our intellectual property rights;
- recruiting and retaining talented and capable management and employees in foreign countries;
- potential adverse tax consequences;
- strains on our financial and other systems to properly implement compliance requirements;
- currency exchange fluctuations; and
- higher costs associated with doing business internationally.

These risks may make it impossible or prohibitively expensive to expand to new international markets, or delay entry into such markets, which may affect our ability to grow our business.

In addition, we could be adversely affected if legislation or regulations are imposed or expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business. For example, the Russian government recently passed a law effective September 1, 2015 requiring companies that collect personal data of Russian citizens to process and store that data on servers located in Russia. In addition, the European Court of Justice recently invalidated the U.S.-EU Safe Harbor regime on which we depended to legitimize some of our data flows from Europe to the United States. As a result, we are in the process of implementing alternative mechanisms to comply with Russian data localization laws and European Union (“E.U.”) privacy laws. However, there can be no assurance that we will be able to successfully comply with these laws, and therefore we may be in violation of all or some of these laws.

On June 23, 2016, the United Kingdom held a referendum in which voters approved a withdrawal from the European Union, commonly referred to as “Brexit”. Since the 2015 fiscal year, sales to customers in the United Kingdom have accounted for 10% or more of our total revenue and sales to customers in Europe, including the United Kingdom, have accounted for 30% or more of our total revenue. As a result of the Brexit vote, the United Kingdom is expected to initiate a process to leave the European Union, and begin negotiating the terms of the United Kingdom’s future relationship with the European Union. At this time, it is uncertain what impact this process will have on the economy in Europe, including in the United Kingdom, or on the British pound or other European exchange rates. Adverse consequences such as deterioration in economic conditions, volatility in currency exchange rates or adverse changes in regulation could have a negative impact on our results of operations or financial position. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations, such as those related to data privacy, as the United Kingdom determines which E.U. laws to replace or replicate.

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

(c)

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
April 1 - 30, 2016	153,881	\$ 39.4	153,881	
May 1 - 31, 2016	148,561	40.65	148,561	
June 1 - 30, 2016	96,800	42.98	96,800	
	399,242	\$ 40.73	399,242	\$ 40,289,734

(1) In October 2015, our board of directors authorized the repurchase of up to \$100 million of our common stock.

Item 6. Exhibits.

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

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.

SHUTTERSTOCK, INC.

Dated: August 4, 2016

By: /s/ Jonathan Oringer
Jonathan Oringer
Chief Executive Officer
(Principal Executive Officer)

Dated: August 4, 2016

By: /s/ Steven Berns
Steven Berns
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit Number	Exhibit Description
10.1#	Third Lease Modification Agreement, dated July 19, 2016, by and between Shutterstock, Inc. and ESRT Empire State Building, L.L.C.
10.2#	Employment Agreement, dated April 13, 2015 between the Company and Aditi Gokhale
10.3#	Mutual Separation Agreement and General Release, dated November 3, 2015, between the Company and Aditi Gokhale
10.4# §	Shutterstock, Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan
31.1#	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2#	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32#	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 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 Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Filed herewith.

§ Management contract or compensatory plan or arrangement.

THIRD LEASE MODIFICATION AGREEMENT

AGREEMENT (“Agreement”) made as of this 19th day of July, 2016 between ESRT EMPIRE STATE BUILDING, L.L.C., a Delaware limited liability company with an office c/o Empire State Realty Trust, Inc., One Grand Central Place, 60 East 42nd Street, New York, New York 10165 (hereinafter called “Landlord”), and SHUTTERSTOCK, INC., a Delaware corporation with an office at 350 Fifth Avenue, 21st Floor, New York, New York 10118 (hereinafter called “Tenant”).

WITNESSETH:

WHEREAS, Landlord is successor-in-interest to Empire State Building Company L.L.C., the original landlord, and Tenant is the tenant, under that certain lease (the “Original Lease”), dated as of March 21, 2013, covering certain space (the “Original Demised Premises”) consisting of a portion of the 20th floor and the entire rentable area of the 21st floor of the building (“Building”) known as the Empire State Building, 350 Fifth Avenue, New York, New York (which Original Lease, as modified by a certain letter agreement, dated July 23, 2013, by a certain letter agreement, dated August 7, 2013, by a certain First Lease Modification Agreement, dated as of August 31, 2015 (the “First Modification”), and by a certain Second Lease Modification and Extension Agreement, dated as of January 21, 2016 (the “Second Modification”), is hereinafter called the “Existing Lease”); and

WHEREAS, pursuant to the First Modification, certain space on the 20th floor of the Building, which was designated under Article 54 of the Lease as the “Twentieth Floor Must Take Premises” (and is hereinafter referred to as the “First Additional Premises”), was added to the premises demised under the Lease; and

WHEREAS, pursuant to the Second Modification, the entire rentable area of the thirty-sixth (36th) floor of the Building (the “Second Additional Premises”) was added to the premises demised under the Lease, so that, as of the date hereof, the premises demised under the Lease consists of the Original Demised Premises, the First Additional Premises, and the Second Additional Premises (collectively, the “Demised Premises”); and

WHEREAS, Landlord and Tenant wish to further modify the Lease in accordance with the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Capitalized Terms, Etc. Capitalized terms not defined herein shall have the meanings ascribed to such terms under the Lease. The Existing Lease, as modified by this Agreement, is hereinafter called the “Lease”.

2. Elevator Work.

A. (i) Landlord shall, at Tenant’s sole cost and expense, perform all work (the “D Bank Elevator Work”) necessary to modify elevator cabs 1, 2, 6 and 7 in the D elevator bank of the Building (the “Modified D Bank Cabs”), so that the Modified D Bank Cabs shall operate to provide service between the 21st floor of the Building and the 36th floor of the Building; it being understood and agreed, however, that the Modified D Bank Cabs shall also continue to provide normal elevator service to all floors in the D elevator bank of the Building (i.e., to the 24th floor through the 41st floor). Landlord shall perform the D Bank Elevator Work as promptly as is reasonably practicable following the execution and delivery of this Agreement, and shall use commercially reasonable efforts to commence such work no later than July, 2016 and to substantially complete it by no later than December, 2016 (subject to delays caused by any act or omission (where there is a duty to act) of Tenant, its agents, contractors or employees or any of the causes set forth in Article 21A of the Lease); it being understood and agreed, however, that the completion of the D Bank Elevator Work shall not be a condition precedent to the occurrence of any of the Part A SAP Commencement Date, the Part B SAP Commencement Date, the Part A SAP Rent Commencement Date, or the Part B Rent SAP Commencement Date, and any delay in the completion of the Elevator Work shall not give rise to any rent credit or

deduction right on the part of Tenant. Landlord shall perform the D Bank Elevator Work in a good and workmanlike manner, and in compliance with all applicable laws, rules, codes and regulations. Landlord shall provide Tenant with a schedule for the performance of the D Bank Elevator Work, including dates, within ten (10) days after the execution and delivery of this Agreement.

(ii) Tenant shall provide Landlord and its contractors with such access to the Demised Premises as Landlord may deem reasonably necessary for the performance of the D Bank Elevator Work, which shall include, without limitation, access to the work space on the 21st floor which is shown on Exhibit A attached hereto and made a part hereof, and to the route from the freight elevators on such floor to such work space, also as shown on said Exhibit A (such work space and such route to the work space being hereinafter referred to as the "Work Area"). Tenant shall remove all storage racks and other personal property from the Work Area, promptly after the execution and delivery of this Agreement (it being understood and agreed that Landlord shall have no obligation to commence the D Bank Elevator Work unless and until Tenant removes such property from the Work Area). Landlord may also use the Work Area for the storage of materials and equipment associated with the performance of the D Bank Elevator Work, at all times while such work is being performed. Notwithstanding the foregoing, Landlord shall use reasonable efforts to minimize any interference with Tenant's business operations in the Demised Premises as a result of the performance of the D Bank Elevator Work. The parties acknowledge and agree that, unless Tenant otherwise requests, the D Bank Elevator Work shall be performed on an after-hours basis (i.e., outside of Business Hours).

(iii) Promptly after the execution and delivery of this Agreement, Landlord shall provide Tenant with a color chart, and within five (5) Business Days after Tenant's receipt of such color chart, Tenant shall select the color of the doors to the Modified D Bank Cabs and the sill heights.

(iv) Landlord agrees that, during the performance of the D Bank Elevator Work, upon Tenant's request, Landlord shall provide Tenant and its contractors and consultants, as Tenant's requests, with progress reports regarding the D Bank Elevator Work, and shall advise Tenant of any anticipated or actual delays with respect to such work.

(v) Tenant shall reimburse Landlord for any and all actual out-of-pocket costs and expenses incurred by Landlord in connection with the D Bank Elevator Work, including, without limitation, all architectural and engineering fees and permitting costs (collectively, the "D Bank Elevator Work Costs"). Tenant shall reimburse Landlord for the D Bank Elevator Work Costs, which Landlord reasonably and in good faith estimates to be \$475,371.00 (based on the proposals and other backup documentation attached hereto and made a part hereof as Exhibit B), as additional rent under the Lease, as follows: (a) Tenant shall pay Landlord an amount equal to fifty percent (50%) of Landlord's reasonable good faith estimate of the D Bank Elevator Work Costs, in the amount of \$237,685.50, simultaneously with the execution and delivery of this Agreement by Tenant; and (ii) Tenant shall pay Landlord the difference between such initial payment and the actual D Bank Elevator Work Costs, within ten (10) days after the presentation to Tenant of a reasonably detailed invoice showing the total D Bank Elevator Work Costs. Tenant's obligation to reimburse Landlord for the D Bank Elevator Work shall survive the expiration or sooner termination of the term of the Lease.

(vi) It is acknowledged and agreed that Tenant shall be solely responsible for any and all work necessary to restore the elevator lobby on the 21st floor upon completion of the D Bank Elevator Work, including, without limitation, any necessary patching and painting or other restoration of finishes. Promptly upon completion of the D Bank Elevator Work, Landlord shall remove all construction materials and equipment associated with the performance of such work from the Work Area.

B. Tenant shall have the non-exclusive right to utilize the Modified D Bank Cabs for transportation between the 21st and 36th floors of the Building, in the course of Tenant's ordinary business operations therein. All such use of the Modified D Bank Cabs shall be in compliance with the provisions of the Lease and with the Rules and Regulations of the Building, as same may be modified from time to time.

C. It is understood and agreed that such right of Tenant to use the Modified D Bank Cabs shall be personal to the named tenant under the Lease (i.e., Shutterstock, Inc.), and to any Affiliate of, or Successor Entity

to, such named tenant, so that if such named tenant, Affiliate or Successor Entity is no longer the tenant under the Lease and/or is no longer in occupancy of the entire Demised Premises, then Landlord shall have the right (but not the obligation), at Tenant's expense, to perform such work (the "D Bank Cab Restoration Work") as is necessary to restore the Modified D Bank Cabs to the condition (and function) existing prior to the performance of the D Bank Elevator Work (ordinary wear and tear and damage by fire or other casualty excepted). The costs of the D Bank Cab Restoration Work shall be deemed additional rent under the Lease, and shall be due to Landlord within thirty (30) days after the presentation to Tenant of a reasonably detailed invoice therefor. It is understood and agreed that Landlord shall also have the right (but not the obligation), at Tenant's expense, to perform the D Bank Cab Restoration Work upon the expiration or sooner termination of the term of the Lease. Tenant's obligation to reimburse Landlord for the D Bank Cab Restoration Work (whenever it is performed) shall survive the expiration or sooner termination of this Lease.

3. Brokerage.

A. Tenant represents and warrants that it neither consulted nor negotiated with any broker or finder with regard to this Agreement. Tenant shall indemnify, defend and save Landlord harmless from and against any claims for fees or commissions from anyone with whom Tenant has dealt in connection with this Agreement.

B. Landlord represents and warrants that it neither consulted nor negotiated with any broker or finder with regard to this Agreement. Landlord shall indemnify, defend and save Tenant harmless from and against any claims for fees or commissions from anyone with whom Landlord has dealt in connection with this Agreement.

4. Miscellaneous.

A. Except as hereinabove set forth, the Demised Premises shall continue to be leased to Tenant pursuant to all of the terms, covenants and conditions of the Lease.

B. This Agreement shall not in any way bind Landlord until such time as it has been executed by Landlord and Tenant, and a fully executed counterpart has been delivered to Tenant.

C. Except as herein modified, all of the terms, covenants and conditions of the Lease are and shall remain in full force and effect and are hereby ratified and confirmed.

D. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective legal representatives, successors and permitted assigns.

E. Tenant hereby represents that Landlord is in full compliance with all of the terms, covenants and conditions of the Lease and is not in default beyond any applicable grace period with respect to any of its respective obligations under the Lease, and there exists no defense or counterclaim to the payment of rent pursuant thereto.

F. This Agreement may be executed in two or more counterparts, and all counterparts so executed shall, for all purposes, constitute one agreement binding on all of the parties hereto, notwithstanding that all parties shall not have executed the same counterparts. Facsimile, digital and photocopy signatures on this Agreement shall have the same force and effect as originals.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

LANDLORD:

ESRT EMPIRE STATE BUILDING, L.L.C., Landlord
By Empire State Building Parent, L.L.C., its sole member
By ESRT Empire State Building G-Parent, L.L.C.,
its sole member
By: Empire State Realty OP, L.P., as its sole Member
By: Empire State Realty Trust, Inc., as its general Partner

By: /s/ Thomas P. Durels
Name: Thomas P. Durels
Title: Executive Vice President,
Director of Leasing and Operations

SHUTTERSTOCK, INC.

By: /s/ Laurie Harrison
Name: Laurie Harrison
Title: VP, General Counsel & Secretary

EXHIBIT B

BACK-UP FOR COST D BANK ELEVATOR WORK

SHUTTERSTOCK, INC.
Empire State Building
350 Fifth Avenue, 21st Floor
New York, NY 10118

Aditi Gokhale
25 Murray Street, Apt. 6J
New York, NY 10007

Re: **EMPLOYMENT AGREEMENT**

Dear Aditi:

This Employment Agreement (the “**Agreement**”) between you (referred to hereinafter as the “**Executive**”) and Shutterstock, Inc., a Delaware corporation (the “**Company**”), sets forth the terms and conditions that shall govern the period of your employment with the Company (referred to hereinafter as “**Employment**” or the “**Employment Period**”).

1. **Duties and Scope of Employment.**

(a) **At-Will Employment.** Executive will commence full-time Employment with the Company effective as of April 13, 2015 (the “**Start Date**”), the terms of such Employment will be governed by this Agreement. Executive’s Employment with the Company is for no specified period and constitutes “at will” employment. As a result, Executive is free to terminate Employment at any time, with or without advance notice, and for any reason or for no reason. Similarly, the Company is free to terminate Executive’s Employment at any time, with or without advance notice, and with or without Cause (as defined below), subject to the terms and conditions of this Agreement. Furthermore, although the terms and conditions of Executive’s Employment with the Company may change over time, nothing shall change the at-will nature of Executive’s Employment.

(b) **Position and Responsibilities.** During the Employment Period, the Company agrees to employ Executive in the position of Chief Marketing Officer. Executive will report to the Company’s Chief Executive Officer, or to such other person as the Company subsequently may in good faith determine (your “**Supervisor**”), and Executive will be working out of the Company’s office in New York City, New York at the address set forth above. Executive will perform the duties and have the responsibilities and authority customarily performed and held by an employee in Executive’s position or as otherwise may reasonably be assigned or delegated to Executive by your Supervisor.

(c) **Obligations to the Company.** During the Employment Period, Executive shall perform Executive’s duties faithfully and to the best of Executive’s ability and will devote Executive’s full business efforts and time to the Company. During the Employment Period, without the prior written approval of your Supervisor, which approval shall not be unreasonably withheld, Executive shall not render services in any capacity to any other person or entity and shall not act as a sole proprietor or partner of any other person or entity or own more than five percent (5%) of the equity of any other entity. Notwithstanding the foregoing, Executive may serve on civic or charitable boards or committees and the board of directors of Churchill Downs Incorporated and its subsidiaries, deliver lectures, fulfill speaking engagements, teach at educational institutions, or manage personal investments without advance written consent of your Supervisor; provided that such activities do not individually or in the aggregate interfere with the performance of Executive’s duties under this Agreement or create a potential business or fiduciary conflict. Executive shall comply with the Company’s policies and rules, as they may be in effect from time to time during Executive’s Employment.

(d) **No Conflicting Obligations.** Executive represents and warrants to the Company that Executive is under no obligations or commitments, whether contractual or otherwise, that are inconsistent with

Executive's obligations under this Agreement. In connection with Executive's Employment, Executive shall not use or disclose any trade secrets or other proprietary information or intellectual property in which Executive or any other person has any right, title or interest and Executive's Employment will not infringe or violate the rights of any other person. Executive represents and warrants to the Company that Executive has returned all property and confidential information belonging to any prior employer.

2. Cash and Incentive Compensation.

(a) **Base Salary.** The Company shall pay Executive, as compensation for Executive's services, a base salary at a gross annual rate of \$400,000.00, less all required tax withholdings and other applicable deductions, in accordance with the Company's standard payroll procedures. The annual compensation specified in this subsection (a), together with any modifications in such compensation that the Company may make from time to time, is referred to in this Agreement as the "**Base Salary**." Executive's Base Salary will be subject to review and adjustments that will be made based upon the Company's normal performance review practices. Effective as of the date of any change to Executive's Base Salary, the Base Salary as so changed shall be considered the new Base Salary for all purposes of this Agreement.

(b) **Cash Incentive Bonus.** Executive will be eligible to be considered for an annual cash incentive bonus (the "**Cash Bonus**") each calendar year during the Employment Period based upon the achievement of certain objective or subjective criteria (collectively, the "**Performance Goals**"). In compliance with all relevant legal requirements and based on Executive's level within the Company, the Performance Goals for Executive's Cash Bonus for a particular year will be established by, and in the reasonable discretion of, the Company's Board of Directors (the "**Board**"), any Compensation Committee of the Board (the "**Committee**"), or a delegate of either the Board or the Committee (the "**Delegate**"), as applicable. The target amount for any such Cash Bonus will be up to 50% of Executive's Base Salary (the "**Target Bonus Percentage**"), less all required tax withholdings and other applicable deductions. The determinations of the Board, the Committee or the Delegate, as applicable, with respect to such Cash Bonus or the Target Bonus Percentage shall be final and binding. Executive's Target Bonus Percentage for any subsequent year may be adjusted up or down, as determined in the reasonable discretion of the Board, the Committee or the Delegate, as applicable. Except as expressly provided in Section 6, Executive shall not earn a Cash Bonus unless Executive is employed by the Company on the date when such Cash Bonus is actually paid by the Company. Notwithstanding the foregoing, provided, except as expressly provided in Section 6, that Executive is still employed by the Company on the twelve-month anniversary of the Start Date, Executive's gross Cash Bonus for 2015 will not be less than \$200,000.00, before all required tax withholdings and other applicable deductions. If the Cash Bonus for 2015 is paid to Executive before the twelve-month anniversary of the Start Date and is otherwise less than \$200,000.00, the difference between \$200,000.00 and the Cash Bonus paid will be paid in the first standard payroll period occurring on or after the twelve (12)-month anniversary of the Start Date, subject to, except as expressly provided in Section 6, Executive's continued employment with the Company on the twelve (12)-month anniversary of the Start Date.

(c) **Restricted Stock Units.** Subject to the approval of the Board, the Committee or a Delegate, as applicable, the Company shall grant Employee restricted stock units in respect of 42,000 shares of the Company's common stock (the "**RSU Award**"). The RSU Award shall be granted as soon as reasonably practicable after the date of this Agreement and, in any event, no later than the Start Date and shall be settled in shares of Company common stock. Subject to any vesting acceleration rights Executive may have, the RSU Award shall vest and become payable as to one-third (1/3) of the shares subject to the RSU Award on each of the first three (3) anniversaries of the Start Date, subject to, except as provided in Section 6, Executive continuing to provide services to the Company through the relevant vesting dates. The RSU Award will be subject to the terms, definitions and provisions of the Company's 2012 Omnibus Equity Incentive Plan (the "**Equity Plan**") and the restricted stock unit agreement by and between Executive and the Company (the "**RSU Agreement**"), both of which documents are incorporated herein by reference. Executive will be eligible for future awards under the Equity Plan and any other equity plans of the Company, as determined in the reasonable discretion of the Board, the Committee or the Delegate, as applicable.

3. **Employee Benefits.** During the Employment Period, Executive shall be eligible to participate in the employee benefit plans maintained by the Company and generally available to similarly situated employees of the Company, subject in each case to the generally applicable terms and conditions of the plan in question and to the

determinations of any person or committee administering such employee benefit plan. The Company reserves the right to cancel or change the employee benefit plans and programs it offers to its employees at any time.

4. **Business Expenses.** The Company will reimburse Executive for necessary and reasonable business expenses incurred in connection with Executive's duties hereunder upon presentation of an itemized account and appropriate supporting documentation, all in accordance with the Company's generally applicable policies.

5. **Rights Upon Termination.** Except as expressly provided in Section 6, upon the termination of Executive's Employment, Executive shall only be entitled to (i) accrued but unpaid Base Salary compensation and paid time off (PTO), (ii) other benefits earned and the reimbursements described in this Agreement or under any Company-provided plans, policies, and arrangements for the period ending on the effective date of the termination of Employment and (iii) such other compensation or benefits from the Company as may be required by law (collectively, the "**Accrued Benefits**").

6. **Termination Benefits.**

(a) **Termination without Cause or Resignation for Good Reason and not in Connection with a Change in Control.** If (x) the Company terminates Executive's employment with the Company for a reason other than for Cause, Executive becoming Disabled or Executive's death or (y) Executive resigns from such employment for Good Reason at any time other than during the twelve (12)-month period immediately following a Change in Control, then, subject to Section 7, Executive will receive the following severance benefits from the Company:

(i) **Accrued Compensation.** The Company will pay Executive all Accrued Benefits.

(ii) **Severance Payment.** Executive will receive semi-monthly continuing payments of severance pay at a rate equal to Executive's Base Salary, as then in effect, for the Severance Period (as defined below), less all required tax withholdings and other applicable deductions, which will be paid in accordance with the Company's regular payroll procedures.

(iii) **Continued Employee Benefits.** If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**") within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for the COBRA premiums for such coverage for Executive and, if applicable, Executive's eligible dependents (at the coverage levels in effect immediately prior to Executive's termination or resignation) until the earlier of (A) the end of the Severance Period, or (B) the date upon which Executive and Executive's eligible dependents become covered under similar plans. COBRA reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy and will be taxable to the extent required to avoid adverse consequences to Executive or the Company under either Code Section 105(h) or the Patient Protection and Affordable Care Act of 2010.

(iv) **Equity.** Notwithstanding anything to the contrary contained in the RSU Agreement or any other equity award agreement in effect between the Company and Executive, fifty percent (50%) of all of Executive's unvested and outstanding equity awards that would have become vested had Executive remained in the employ of the Company for the twelve (12)-month period following Executive's termination of employment shall immediately vest and become exercisable as of the date of Executive's termination.

(v) **Pro-Rated Bonus Payment.** Executive will receive a pro-rated annual bonus for the fiscal year in which Executive terminates employment equal to (x) the annual bonus that Executive would have received based on actual performance for such fiscal year if Executive had remained in the employ of the Company for the entire fiscal year *multiplied by* (y) a fraction, the numerator of which is the number of days Executive was in the employ of the Company during the fiscal year including the Termination Date and the denominator of which is 365 (the "**Pro-Rated Bonus**"). The Pro-Rated Bonus, if any, shall be paid at the same time annual bonuses are paid by the Company to other executives of the Company for the fiscal year in which Executive terminated employment, but no later than March 15th of the calendar year following the calendar year in which Executive terminated employment.

(b) **Termination without Cause or Resignation for Good Reason in Connection with a Change in Control.** If during the twelve (12)-month period immediately following a Change in Control, (x) the Company terminates Executive's employment with the Company for a reason other than for Cause, Executive becoming Disabled or Executive's death, or (y) Executive resigns from such employment for Good Reason, then, subject to Section 7, Executive will receive the following severance benefits from the Company in lieu of the benefits described in Section 6(a) above:

(i) **Accrued Compensation.** The Company will pay Executive all Accrued Benefits.

(ii) **Severance Payment.** Executive will receive a lump sum severance payment equal to six (6) months' of Executive's Base Salary as in effect immediately prior to the date of Executive's termination of employment, less all required tax withholdings and other applicable deductions, which will be paid in accordance with the Company's regular payroll procedures.

(iii) **Continued Employee Benefits.** If Executive elects continuation coverage pursuant to COBRA within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for the COBRA premiums for such coverage for Executive and, if applicable, Executive's eligible dependents (at the coverage levels in effect immediately prior to Executive's termination or resignation) until the earlier of (A) a period of six (6) months from the last date of employment of Executive with the Company, or (B) the date upon which Executive and Executive's eligible dependents become covered under similar plans. COBRA reimbursements will be made by the Company to Executive consistent with the Company's normal expense reimbursement policy and will be taxable to the extent required to avoid adverse consequences to Executive or the Company under either Code Section 105(h) or the Patient Protection and Affordable Care Act of 2010.

(iv) **Equity.** Notwithstanding anything to the contrary contained in the RSU Agreement or any other equity award agreement in effect between the Company and Executive, fifty percent (50%) of all of Executive's unvested and outstanding equity awards that would have become vested had Executive remained in the employ of the Company for the twelve (12)-month period following Executive's termination of employment shall immediately vest and become exercisable as of the date of Executive's termination.

(v) **Pro-Rated Bonus Payment.** Executive will receive the Pro-Rated Bonus, as described in Section 6(a)(v).

(c) **Disability; Death; Voluntary Resignation other than for Good Reason; Termination for Cause.** If Executive's employment with the Company is terminated due to (i) Executive becoming Disabled or Executive's death, (ii) Executive's voluntary resignation (other than for Good Reason), or (iii) the Company's termination of Executive's employment with the Company for Cause, then Executive or Executive's estate (as the case may be) will receive the Accrued Benefits, but will not be entitled to any other compensation or benefits from the Company except to the extent required by law (for example, COBRA). All Accrued Benefits shall in all cases be paid within thirty (30) days of Executive's termination of employment (or such earlier date as required by applicable law) pursuant to this Section 6(c).

(d) **Timing of Payments.** Subject to any specific timing provisions in Section 6(a), 6(b) or 6(c), as applicable, or the provisions of Section 7, payment of the severance and benefits hereunder shall be made or commence to be made as soon as practicable following Executive's termination of employment.

(e) **Exclusive Remedy.** In the event of a termination of Executive's employment with the Company, the provisions of this Section 6 are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company may otherwise be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses). Executive will be entitled to no other severance, benefits, compensation or other payments or rights upon a termination of employment, other than those benefits expressly set forth in Section 6 of this Agreement.

(f) **No Duty to Mitigate.** Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any earnings that Executive may receive from any other source reduce any such payment.

7. **Conditions to Receipt of Severance.**

(a) **Release of Claims Agreement.** The receipt of any severance payments or benefits pursuant to this Agreement is subject to Executive signing and not revoking a customary separation agreement and release of claims in a form acceptable to the Company (the “**Release**”), which must become effective no later than the sixtieth (60th) day following Executive’s termination of employment (the “**Release Deadline**”), and if not, Executive will forfeit any right to severance payments or benefits under this Agreement. To become effective, the Release must be executed by Executive and any revocation periods (as required by statute, regulation, or otherwise) must have expired without Executive having revoked the Release. In addition, in no event will severance payments or benefits be paid or provided until the Release actually becomes effective. If the termination of employment occurs at a time during the calendar year where the Release Deadline could occur in the calendar year following the calendar year in which Executive’s termination of employment occurs, then any severance payments or benefits under this Agreement that would be considered Deferred Payments (as defined in Section 7(c)(i)) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or such later time as required by (i) the payment schedule applicable to each payment or benefit as set forth in Section 6, (ii) the date the Release becomes effective, or (iii) Section 7(c)(ii); provided that the first payment shall include all amounts that would have been paid to Executive if payment had commenced on the date of Executive’s termination of employment.

(b) **Non-Disclosure Agreement.** Executive’s receipt of any payments or benefits under Section 6 will be subject to Executive’s continued compliance with the requirements set for in the Non-Disclosure Agreement (as defined in Section 9(a) below).

(c) **Section 409A.**

(i) Notwithstanding anything to the contrary in this Agreement, no severance pay or benefits to be paid or provided to Executive, if any, pursuant to this Agreement that, when considered together with any other severance payments or separation benefits, are considered deferred compensation not exempt under Section 409A (together, the “**Deferred Payments**”) will be paid or otherwise provided until Executive has a “separation from service” within the meaning of Section 409A. And for purposes of this Agreement, any reference to “termination of employment,” “termination” or any similar term shall be construed to mean a “separation from service” within the meaning of Section 409A. Similarly, no severance payable to Executive, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until Executive has a “separation from service” within the meaning of Section 409A.

(ii) Notwithstanding anything to the contrary in this Agreement, if Executive is a “**specified employee**” within the meaning of Section 409A at the time of Executive’s termination of employment (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following Executive’s separation from service, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive’s separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive’s separation from service, but prior to the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive’s death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment, installment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(iii) Without limitation, any amount paid under this Agreement that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations is not intended to constitute Deferred Payments for purposes of clause (i) above.

(iv) Without limitation, any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit is not intended to constitute Deferred Payments for purposes of clause (i) above. Any payment intended to qualify under this exemption must be made within the allowable time period specified in Section 1.409A-1(b)(9)(iii) of the Treasury Regulations.

(v) To the extent that reimbursements or in-kind benefits under this Agreement constitute non-exempt “nonqualified deferred compensation” for purposes of Section 409A, (1) all reimbursements hereunder shall be made on or prior to the last day of the calendar year following the calendar year in which the expense was incurred by Executive, (2) any right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (3) the amount of expenses eligible for reimbursement or in-kind benefits provided in any calendar year shall not in any way affect the expenses eligible for reimbursement or in-kind benefits to be provided, in any other calendar year.

(vi) The payments and benefits provided under Sections 6(a) and 6(b) are intended to be exempt from or comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to be exempt or so comply. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions that are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A.

8. **Definition of Terms.** The following terms referred to in this Agreement will have the following meanings:

(a) **Cause.** “Cause” means:

(i) Executive’s gross negligence or willful misconduct in the performance of his or her duties and responsibilities to the Company or Executive’s violation of any written Company policy;

(ii) Executive’s commission of any act of fraud, theft, embezzlement, financial dishonesty or any other willful misconduct that has caused or is reasonably expected to result in injury to the Company;

(iii) Executive’s conviction of, or pleading guilty or nolo contendere to, any felony or a lesser crime involving dishonesty or moral turpitude;

(iv) Executive’s alcohol abuse or other substance abuse;

(v) Executive’s unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom Executive owes an obligation of nondisclosure as a result of his or her relationship with the Company; or

(vi) Executive’s material breach of any of her obligations under any written agreement or covenant with the Company.

(b) **Change in Control.** “Change in Control” shall have the meaning ascribed to such term in the Company’s 2012 Omnibus Equity Incentive Plan.

(c) **Code.** “Code” means the Internal Revenue Code of 1986, as amended.

(d) **Disability.** “Disability” or “Disabled” means that Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one (1) year.

(e) **Good Reason.** “Good Reason” means Executive’s termination of employment within ninety (90) days following the expiration of any cure period (discussed below) following the occurrence, without Executive’s consent, of one or more of the following:

(i) A material reduction of Executive’s duties, authority or responsibilities, relative to Executive’s duties, authority or responsibilities in effect immediately prior to such reduction; provided, however, that, in the context of a Change in Control, not being named the Chief Marketing Officer of the acquiring corporation following such Change in Control will not constitute Good Reason;

(ii) A material reduction in Executive’s base compensation (except where there is a reduction applicable to all similarly situated executive officers generally); provided, that a reduction of less than ten percent (10%) will not be considered a material reduction in base compensation;

(iii) A material change in the geographic location of Executive’s primary work facility or location; provided, that a relocation of less than thirty-five (35) miles from Executive’s then-present work location will not be considered a material change in geographic location; or

(iv) A material breach by the Company of a material provision of this Agreement.

Executive will not resign for Good Reason without first providing the Company with written notice within sixty (60) days of the event that Executive believes constitutes “Good Reason” specifically identifying the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice during which such condition must not have been cured.

(f) **Section 409A.** “Section 409A” means Code Section 409A, and the final regulations and any guidance promulgated thereunder or any state law equivalent.

(g) **Section 409A Limit.** “Section 409A Limit” will mean two (2) times the lesser of: (i) Executive’s annualized compensation based upon the annual rate of pay paid to Executive during Executive’s taxable year preceding Executive’s taxable year of his or her separation from service as determined under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Internal Revenue Code for the year in which Executive’s separation from service occurred.

(h) **Severance Period.** “Severance Period” shall mean six (6) months.

9. **Pre-Employment Conditions.**

(a) **Non-Disclosure Agreement.** Your acceptance of this offer and your Employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company’s Non-Disclosure Agreement, in the form attached hereto as Attachment A (the “**Non-Disclosure Agreement**”), prior to or on your Start Date.

(b) **Right to Work.** For purposes of federal immigration law, you will be required, if you haven’t already, to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your Start Date, or our Employment relationship with you may be terminated.

(c) **Verification of Information.** This Agreement is also contingent upon the successful verification of the information you provided to the Company during your application process, as well as a general background check performed by the Company to confirm your suitability for Employment. By accepting this Agreement, you warrant that all information provided by you is true and correct to the best of your knowledge, you agree to execute any and all documentation necessary for the Company to conduct a background check and you expressly release the Company from any claim or cause of action arising out of the Company’s verification of such information.

10. Tax Matters.

(a) Anything in this Agreement to the contrary notwithstanding, if any payment or benefit Executive would receive from the Company or otherwise (“**Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code; and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then such Payment shall be equal to the Reduced Amount. The “**Reduced Amount**” shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax; or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive’s receipt, on an after-tax basis, of the greater amount of the Payment. Any reduction made pursuant to this Section 10(a) shall be made in accordance with the following order of priority: (i) stock options whose exercise price exceeds the fair market value of the optioned stock (“**Underwater Options**”) (ii) Full Credit Payments (as defined below) that are payable in cash, (iii) non-cash Full Credit Payments that are taxable, (iv) non-cash Full Credit Payments that are not taxable (v) Partial Credit Payments (as defined below) and (vi) non-cash employee welfare benefits. In each case, reductions shall be made in reverse chronological order such that the payment or benefit owed on the latest date following the occurrence of the event triggering the excise tax will be the first payment or benefit to be reduced (with reductions made pro-rata in the event payments or benefits are owed at the same time). “**Full Credit Payment**” means a payment, distribution or benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, that if reduced in value by one dollar reduces the amount of the parachute payment (as defined in Section 280G of the Code) by one dollar, determined as if such payment, distribution or benefit had been paid or distributed on the date of the event triggering the excise tax. “**Partial Credit Payment**” means any payment, distribution or benefit that is not a Full Credit Payment. In no event shall Executive have any discretion with respect to the ordering of payment reductions.

(b) Unless the Company and Executive otherwise agree in writing, any determination required under this Section 10 will be made in writing by an independent firm (the “**Firm**”), whose determination will be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 10, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and Executive will furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section 10. The Company will bear all costs the Firm may reasonably incur in connection with any calculations contemplated by this Section 10.

11. Arbitration.

(a) **Arbitration.** In consideration of your Employment with the Company, its promise to arbitrate all employment-related disputes, and your receipt of the compensation, pay raises and other benefits paid to you by the Company, at present and in the future, you agree that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from your Employment with the Company or termination thereof, including any breach of this Agreement, will be subject to binding arbitration.

(b) **Dispute Resolution.** Disputes that Executive agrees to arbitrate, and thereby agrees to waive any right to a jury trial, include any statutory claims under local, state, or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Sarbanes Oxley Act, the Worker Adjustment and Retraining Notification Act, the New York State Human Rights Law, New York Equal Rights Law, New York Whistleblower Protection Law, New York Family Leave Law, New York Equal Pay Law, the New York City Human Rights Law,, claims of harassment, discrimination, and wrongful termination, and any statutory or common law claims. Executive further understands that this agreement to arbitrate also applies to any disputes that the Company may have with Executive.

(c) **Procedure.** Executive agrees that any arbitration will be administered by Judicial Arbitration & Mediation Services, Inc. (“**JAMS**”), pursuant to its Employment Arbitration Rules & Procedures (the “**JAMS Rules**”). The arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication, motions to dismiss and demurrers, and motions for class certification, prior to any arbitration hearing. The arbitrator shall have the power to award any remedies available under applicable law, and the arbitrator shall award attorneys’ fees and costs to the prevailing party, except as prohibited by law. The Company will pay for any administrative or hearing fees charged by the administrator or JAMS, and all arbitrator’s fees, except that Executive shall pay any filing fees associated with any arbitration that Executive initiates, but only so much of the filing fee as Executive would have instead paid had Executive filed a complaint in a court of law. Executive agrees that the arbitrator shall administer and conduct any arbitration in accordance with New York law, and that the arbitrator shall apply substantive and procedural New York law to any dispute or claim, without reference to the rules of conflict of law. To the extent that the JAMS Rules conflict with New York law, New York law shall take precedence. The decision of the arbitrator shall be in writing. Any arbitration under this Agreement shall be conducted in New York County, New York.

(d) **Remedy.** Except as provided by the Act, arbitration shall be the sole, exclusive, and final remedy for any dispute between you and the Company. **Accordingly, except as provided by the Act and this Agreement, neither you nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration.** Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator will not order or require the Company to adopt a policy not otherwise required by law that the Company has not adopted.

(e) **Administrative Relief.** You are not prohibited from pursuing an administrative claim with a local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, including, but not limited to, the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission, the National Labor Relations Board, or the Workers’ Compensation Board. However, you may not pursue court action regarding any such claim, except as permitted by law.

(f) **Voluntary Nature of Agreement.** You acknowledge and agree that you are executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. You further acknowledge and agree that you have carefully read this Agreement and that you have asked any questions needed for you to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that **YOU ARE WAIVING YOUR RIGHT TO A JURY TRIAL.** Finally, you agree that you have been provided an opportunity to seek the advice of an attorney of your choice before signing this Agreement.

12. **Successors.**

(a) **Company’s Successors.** This Agreement shall be binding upon any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company’s business and/or assets. For all purposes under this Agreement, the term “**Company**” shall include any successor to the Company’s business or assets that become bound by this Agreement.

(b) **Your Successors.** This Agreement and all of Executive’s rights hereunder shall inure to the benefit of, and be enforceable by, Executive’s personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

13. **Miscellaneous Provisions.**

(a) **Indemnification.** The Company shall indemnify Executive to the maximum extent permitted by applicable law and the Company’s Bylaws with respect to Executive’s service and Executive shall also be covered under a directors and officers liability insurance policy paid for by the Company to the extent that the Company maintains such a liability insurance policy now or in the future.

(b) **Headings.** All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(c) **Notice.**

(i) **General.** Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In Executive's case, mailed notices shall be addressed to Executive at the home address that Executive most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(ii) **Notice of Termination.** Any termination by the Company for Cause or by Executive for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 13(c)(i) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than thirty (30) days after the giving of such notice), subject to any applicable cure period. The failure by Executive or the Company to include in the notice any fact or circumstance which contributes to a showing of Good Reason or Cause, as applicable, will not waive any right of Executive or the Company, as applicable, hereunder or preclude Executive or the Company, as applicable, from asserting such fact or circumstance in enforcing his or her or its rights hereunder, as applicable.

(d) **Modifications and Waivers.** No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(e) **Whole Agreement.** No other agreements, representations or understandings (whether oral or written and whether express or implied) that are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof, except for the Non-Disclosure Agreement, the RSU Agreement and any other equity award entered into in connection with this Agreement (the "Ancillary Documents"), each of which form a part of this entire Agreement. This Agreement and the Ancillary Documents contain the entire understanding of the parties with respect to the subject matter hereof.

(f) **Withholding Taxes.** All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

(g) **Choice of Law and Severability.** This Agreement shall be interpreted in accordance with the laws of the State of New York without giving effect to provisions governing the choice of law. If any provision of this Agreement becomes or is deemed invalid, illegal or unenforceable in any applicable jurisdiction by reason of the scope, extent or duration of its coverage, then such provision shall be deemed amended to the minimum extent necessary to conform to applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision shall be stricken and the remainder of this Agreement shall continue in full force and effect. If any provision of this Agreement is rendered illegal by any present or future statute, law, ordinance or regulation (collectively, the "**Law**") then that provision shall be curtailed or limited only to the minimum extent necessary to bring the provision into compliance with the Law. All the other terms and provisions of this Agreement shall continue in full force and effect without impairment or limitation.

(h) **No Assignment.** This Agreement and all of your rights and obligations hereunder are personal to you and may not be transferred or assigned by you at any time. The Company may assign its rights under this Agreement to any entity that assumes the Company's obligations hereunder in connection with any sale or transfer to such entity of all or a substantial portion of the Company's assets.

(i) **Acknowledgment**. You acknowledge that you have had the opportunity to discuss this matter with and obtain advice from your personal attorney, have had sufficient time to, and have carefully read and fully understand all the provisions of this Agreement, and are knowingly and voluntarily entering into this Agreement.

(j) **Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signature Page Follows]

After you have had an opportunity to review this Agreement, please feel free to contact me if you have any questions or comments. To indicate your acceptance of this Agreement, please sign and date this letter in the space provided below and return it to the Company.

Very truly yours,

SHUTTERSTOCK, INC.

By: /s/ Timothy Bixby

(Signature)

Name: Timothy Bixby

Title: Chief Financial Officer

ACCEPTED AND AGREED:

ADITI GOKHALE

/s/ Aditi Gokhale

(Signature)

April 13, 2015

Date

ATTACHMENT A

NON-DISCLOSURE AGREEMENT

(See Attached)

Mutual Separation Agreement and General Release
Dated as of November 3, 2015

Aditi Gokhale
25 Murray Street, Apt. 6J
New York, NY 10007

Dear Aditi,

When signed below in the places indicated, the following shall constitute an agreement (the "Agreement") between you ("you" or "Employee") and Shutterstock, Inc. ("Shutterstock" or "Company").

1. Your employment as an "at-will employee" of Shutterstock will end at the close of business on November 13, 2015 ("Effective Resignation Date").
 - a. You will be paid your current salary through the close of business on the Effective Resignation Date;
 - b. You will be paid for unused paid time off days accrued through the Effective Resignation Date in accordance with Company policy;
 - c. On the Effective Resignation Date, you will be automatically withdrawn from Shutterstock's Employee Stock Purchase Plan ("ESPP"), and any payroll deductions credited to your ESPP account during the "offering period" (as said term is defined in the ESPP) but not used to purchase shares of Company stock will be returned to you (without interest) in accordance with the ESPP;
 - d. Upon your resignation, your rights in respect of any restricted stock units ("RSUs") granted to you shall cease in accordance with the Restricted Stock Unit Award Agreement and Shutterstock's 2012 Omnibus Equity Incentive Plan (the "Plan") and all RSUs issued to you under the Plan shall be immediately cancelled; and
 - e. You agree to work with the Company on a schedule of matters to be completed prior to the Effective Resignation Date (collectively, the "Transition Duties"), which shall be mutually agreed upon in writing by the parties.
2. The Company wishes to settle any claims that you may or could assert in connection with your employment with, or resignation from Shutterstock. Accordingly, notwithstanding your resignation of employment, subject to the timely execution and delivery (and not revoking) hereof and in consideration of the Transition Duties and agreements contained herein:
 - a. You will be entitled to an aggregate payment in the amount of \$275,000.00, less all applicable taxes and withholdings, payable in two equal installments. The first payment shall be made within fifteen business days of the "Effective Date" (as defined in Section 4(b)) of this Agreement and the second payment shall be made within fifteen business days of the one year anniversary of the Effective Date (the "Payment Period"). Except in the event of your breach of this or any other Agreement between you and Shutterstock, such payments shall be made regardless of your employment by another company during the Payment Period; and

- b. The Company will be responsible for payment for continued health coverage for you and your covered dependents under the Consolidated Omnibus Budget and Reconciliation Act (“COBRA”) beginning the month immediately following the month of the Effective Resignation Date and ending upon the earlier of (i) the one year anniversary of the Effective Resignation Date; and (ii) the date upon which you become eligible for coverage under another employer’s group health plan. After the date any subsidized COBRA ends, and pursuant to COBRA regulations, you may continue such coverage for the remainder of your COBRA continuation period by paying the applicable COBRA rate. Under separate cover, you will receive notice of your rights to continue your medical benefits pursuant to COBRA.
3. If this Agreement does not become effective and irrevocable pursuant to Section 4(b) hereof within thirty (30) days of the Effective Resignation Date, you will not be entitled to any of the benefits set forth under Section 2 hereof.
4. This Agreement is intended to satisfy the requirements of the Older Workers’ Benefit Protection Act (the “OWBPA”), 29 U.S.C. sec. 626(f).
 - a. You acknowledge and agree that (i) you have read and understand the terms of this Agreement; (ii) you are advised to consult with an attorney before executing this Agreement, and you have been represented by legal counsel in connection with the signing of this Agreement or you have waived your right to such representation; (iii) you understand that the Company hereby gives you a period of twenty-one (21) days to review and consider this Agreement before signing it. You further understand that you may use as much of this twenty-one (21) day period as you wish prior to signing. However, if you fail to sign this Agreement before the twenty-one (21) day period expires, this Agreement will terminate automatically and you will have no rights hereunder or under any equity agreement with Shutterstock. Changes to this Agreement, material or otherwise, will not extend the aforementioned twenty-one (21) day period. You also agree and acknowledge that the consideration provided to you under this Agreement is in addition to anything of value to which you are already entitled.
 - b. You may revoke this Agreement for a period of seven (7) days following the day you sign same (the “Revocation Period”). Any revocation must be submitted, in writing, to Shutterstock, Inc. 350 Fifth Avenue, 21st Floor, New York, New York 10118 Attention: General Counsel, and must state, “I hereby revoke my acceptance of my Mutual Separation Agreement and General Release Agreement”. This Agreement shall not become effective or enforceable until the expiration of the Revocation Period (the “Effective Date”). If the last day of the Revocation Period is a Saturday, Sunday or legal holiday recognized by the State of New York, then the Revocation Period shall not expire until the next following day which is not a Saturday, Sunday or legal holiday. If you revoke this Agreement, it shall not be effective or enforceable, and you will not receive the benefits described in Section 2.
 - c. Preserved Rights of Employee. This Agreement does not waive or release any rights or claims that you may have under the Age Discrimination in Employment Act of 1967 (the “ADEA”) that arise after the execution of this Agreement. In addition, this Agreement does not prohibit you from challenging the validity of this Agreement’s waiver and release of claims under the ADEA or the OWBPA or commencing an action or preceding to enforce this Agreement.
5. Except as expressly set forth in this Agreement, you shall not be entitled to any other compensation, including but not limited to salary, front pay, back pay, vacation pay, severance, commissions or bonuses from Shutterstock with respect to your employment with or resignation from Shutterstock.

6. [Intentionally omitted]

7.

- a. For and in consideration of the payments and benefits enumerated in Section 2, and for other valuable consideration to be provided to you pursuant to this Agreement, the receipt and sufficiency of which you hereby acknowledge, provided that the “Company Releasees” (as said term is hereinafter defined) do not breach the material terms of this Mutual Separation Agreement and General Release, including, without limitation, Sections 2, 7c. and 11, you, for yourself, your heirs, executors, administrators, trustees, legal representatives, successors and assigns (collectively referred to as “Employee Releasers”), hereby forever release and discharge Shutterstock and any of its employees, officers, shareholders, investors, subsidiaries, joint ventures, affiliates, divisions, employee benefit and/or pension plans or funds, successors and assigns and any of their past, present or future directors, officers, attorneys, agents, trustees, administrators, employees, or assigns (whether acting as agents or in their individual capacities) (collectively referred to as “Company Releasees”), from any and all claims, demands, causes of action, contracts, suits, proceedings, debts, damages and liabilities, in law or equity, known or unknown, whether asserted or not, arising out of or relating to your employment by or performance of services for Shutterstock or the end of such employment or services, including without limitation any claims relating to a wrongful, premature or discriminatory end of your employment and/or any and all claims under any and all federal, state or local laws including, but not limited to the fair employment practice laws of all jurisdictions, states, municipalities and localities, including, but not limited to Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. §2000 et seq., the Civil Rights Act of 1991, the Older Workers Benefit Protection Act, the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. §621 et seq., the Americans With Disabilities Act of 1990, 42 U.S.C. §1211 et seq., the Consolidated Omnibus Budget Reconciliation Act of 1985, the Immigration Reform and Control Act of 1986, the Civil Rights Act of 1866, 42 U.S.C. §1982, the Employee Retirement Income Security Act of 1974; the Family and Medical Leave Act of 1993, the Genetic Information Non-Discrimination Act of 2008; the Worker Adjustment and Retraining Notification Act, 29 U.S.C. §2101 et seq., the New York Executive Law, Article 15, §290 et seq., the New York State Labor Law, the New York City Human Rights law; all as amended; and any claims relating to rights under federal, state or local laws prohibiting discrimination on the basis of race, color, creed, ancestry, national origin, age, sex, or other basis prohibited by law, and any other applicable federal, state or local laws or regulations. You expressly waive any and all entitlement you have now, to any relief, such as back pay (to the exclusion of any references in this Agreement), front pay, reinstatement, compensatory damages, punitive damages, as well as all claims, demands, causes of action, and liabilities of any kind whatsoever (upon any legal or equitable theory, whether contractual, common-law, statutory, federal, state, local or otherwise including but not limited to tortious conduct), whether known or unknown, by reason of any act, omission, transaction or occurrence which Employee Releasers ever had, now have or hereafter can, shall or may have arising out of your employment with Shutterstock against the Company Releasees up to and including the Effective Date of this Agreement arising out of your employment with the Company. Notwithstanding the foregoing or Section 7(b) below, you will not release or discharge the Company Releasees from any of Shutterstock’s obligations to you under or pursuant to (1) Section 1, 2, 7 and/or 11 of this Agreement or the enforcement of your rights hereunder or (2) any tax qualified pension plan of Shutterstock.

- b. You understand and agree that this is a full and general release covering all unknown, undisclosed and unanticipated losses, wrongs, injuries, debts, claims or damages to you which may have arisen, or may arise from any act or omission prior to the date of the complete execution of this Agreement, including, without limitation, any claim arising out of or related, directly or indirectly, to your employment, compensation or end of employment, as well as those losses, wrongs, injuries, debts, claims or damages now known or disclosed which may arise as a result of any act or omission as described above.
 - c. For and in consideration of the valuable consideration to be provided to Company pursuant to this Agreement, the receipt and sufficiency of which Company hereby acknowledges, the Company hereby fully, forever, irrevocably and unconditionally releases, remises and discharges Employee from any and all claims arising out of acts undertaken by her in good faith and in a manner she reasonably believed to be in or not opposed to the best interests of the Company; provided, however, that this release does not include any claims arising out of or related to any fraudulent, criminal, or willful misconduct by the Employee.
8. You agree that your employment with the Company will end on the Effective Resignation Date. You further acknowledge that no representations have been made to you by the Company (other than in this Agreement) about the benefits that the Company might or might not offer in the future. In the event that you apply for employment with Shutterstock, and/or any of its affiliates and/or subsidiaries, at any time in the future, and your application is rejected, you hereby agree that you shall make no claim of any nature whatsoever against Shutterstock or any of its affiliates arising out of such rejection, including without limitation, a claim of retaliatory rejection.
9. You agree that by the Effective Resignation Date, or as soon thereafter as possible, you will return to the Company all Company credit cards, files, memoranda, documents, records and copies of the foregoing, keys, all storage media containing Company information and any other property of the Company or its affiliates in your possession. You represent and warrant that as of the Effective Resignation Date, or as soon thereafter as possible, you will have deleted all files, memoranda, documents and/or records containing Company information from any computer or storage device which you have utilized which is not located on Company premises. The Company acknowledges and agrees that you may retain any documents in your possession concerning employee benefits and/or compensation. You further agree not to disclose, nor use for your benefit or the benefit of any other person or entity, any information received in connection with the Company or its affiliates which is confidential or proprietary and (i) which has not been disclosed publicly by the Company, (ii) which is otherwise not a matter of public knowledge or (iii) which is a matter of public knowledge but you know or have reason to know that such information became a matter of public knowledge through an unauthorized disclosure. You further understand and acknowledge that you continue to be bound by the Shutterstock Inc. Employee Non-Disclosure Agreement executed by you on April 13, 2015 (the "NDA").
10. [Intentionally omitted]
11.
 - a. Unless otherwise agreed to in a separate writing signed by you and Company, you promise not to discuss or disclose the terms of your separation from the Company or the amount or nature of the benefits paid to you under this Agreement to any person other than your family members and your attorney and/or financial advisor, should one be consulted, provided that those to whom you may

make such disclosure agree to keep said information confidential and not disclose it to others. You shall not disparage or make any statement which might adversely affect the reputation of any Releasee. For the purpose of this Agreement, the term “disparage” shall include, without limitation, any statement impugning the reputation or integrity of a Releasee, accusing the aforesaid individual or entity of acting in violation of any law or governmental regulation or of condoning any such action, or otherwise acting in an unprofessional, dishonest, disreputable, improper, incompetent or negligent manner. In addition, the term “disparage” shall include any comments or communications you make to any person regarding personal, intimate, or confidential matters relating any Releasee, and/or any comment or communication, which might have the effect of embarrassing a Releasee in any manner. Nothing herein shall prevent you from including your employment with Shutterstock on your resume.

- b. Shutterstock agrees that its executive officers shall not disparage, or induce or encourage others to disparage, you at any time; and that Shutterstock shall use commercially reasonable efforts to prevent all other employees from disparaging, or inducing or encouraging others to disparage, you at any time.
 - c. You understand that during your employment with Shutterstock you were exposed to Trade Secrets of Shutterstock. Therefore, it is possible that you could gravely harm Shutterstock if you worked for a competitor of Shutterstock anywhere in the world. Accordingly, you agree that for a period of twelve (12) months following the Effective Date, you will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise) engage in, assist or have an interest in, or enter the employment of or act as an agent, advisor or consultant for, any person or entity which is (a) engaged in or will be engaged in, the development, manufacture, licensing, sale, or otherwise supplying of (1) commercial and editorial digital images, footage, music or related content and/or (2) digital asset management software or services and/or (3) any creative workflow products or services (i.e., “Shutterstock 2.0”, as both parties understand that term as of the Effective Date) ((1), (2) and (3) are collectively the “SSTK Offering”) and (b) competitive with the SSTK Offering. Given the global nature of Shutterstock’s business and the fact that it could be conducted from virtually anywhere, you agree that placing geographical limitations on this non-competition agreement would be contrary to the intention of the parties.
 - d. The Human Resources/People Department will reply to all requests for a reference directed to it regarding your employment. The response to such request shall be limited to a statement of the dates of your employment and your position with the Company, or words to that effect and if requested by you, verification of your salary.
 - e. Company agrees that it will not contest any application you may make for unemployment compensation benefits following the Effective Resignation Date.
12. You represent, warrant and agree that you have not filed any lawsuits or arbitrations against Company Releasees, or filed or caused to be filed any claims, charges or complaints against the Company Releasees, in any administrative, judicial, arbitral or other forum, including any charges or complaints against the Company Releasees with any international, federal, state or local agency charged with the enforcement of any law or any self-regulatory organization. You are not aware of any factual or legal basis for any legitimate claim that the Company is in violation of any whistleblower, corporate compliance, or other regulatory obligation of the Company under international, federal, state or local law, rule or the Company policy. You further represent, warrant and agree that if you were ever aware of any such basis for a legitimate claim against the Company, you informed the Company of same.

13. Upon service on you, or anyone acting on your behalf, of any subpoena, order, directive or other legal process requiring you to provide any information pertaining to the Company or its affiliates, or to engage in conduct encompassed within Sections 9 or 11(a) of this Agreement, you or your attorney shall immediately notify the Company of such service and of the content of any testimony or information to be provided pursuant to such subpoena, order, directive or other legal process and within two (2) business days send to the undersigned representative of the Company via overnight delivery (at the Company's expense) a copy of the documents that have been served upon you. Provided, however, that if you are requested to respond to an inquiry or provide testimony by or before any federal, state or local administrative or regulatory agency or authority about this Agreement or its underlying facts and circumstances, you (or your attorney) should fulfill your obligation to the Company, as set forth in this paragraph, only after you have responded to the inquiry or provided the testimony sought.
14. Nothing in this Agreement, including, but not limited to, Sections 7(a), 9, 11 (a), 12, 13, or 16, shall prohibit or restrict you (or your attorney) from filing a charge, testifying, assisting, or participating in any manner in an investigation, hearing or proceeding; responding to any inquiry; or otherwise communicating with, any administrative or regulatory agency or authority, including, but not limited to, the Equal Employment Opportunity Commission (EEOC) and the National Labor Relations Board (NLRB). To the extent any lawsuits, arbitrations, claims, charges or complaints are filed against the Company in any administrative, judicial, arbitral or other forum, including any charges or complaints against the Company with any international, federal, state or local agency by a third party or otherwise, you expressly waive any claim to any form of monetary or other damages, or any other form of recovery or relief in connection with any such proceeding. If you break any of your promises set forth in Sections 9 or 11(a) of this Agreement, you will pay for all costs incurred by the Company Releasees, including their reasonable attorneys' fees, in defending against your claims. You shall also repay to the Company the entire monetary consideration you received pursuant to Section 2 above.
15. The parties agree that this Agreement shall not constitute or operate as an acknowledgment or admission of any kind by Shutterstock that it has violated any federal, state, local or municipal statute, regulation or common law, or breached any other legal obligation or duty it has or ever had to you. In addition, you acknowledge that you have disclosed to the Company any information you have concerning any conduct involving the Company, or any of its employees that you have any reason to believe may be unlawful.
16. You agree to cooperate fully in any investigation the Company undertakes into matters occurring during your employment with the Company. Additionally, you agree that when requested by the Company or third parties with the Company's consent ("Designated Third Parties"), you will promptly and fully respond to all inquiries from the Company, Designated Third Parties and its/their representatives concerning matters relating to the Company including but not limited to any claims or lawsuits by or against the Company or any third parties. Furthermore, you agree to testify in matters related to the Company when requested by the Company or Designated Third Parties and, for all matters which are not adverse to the Employee, the Company shall reimburse your reasonable expenses incident to such cooperation and provide counsel at Company's sole expense on your behalf. In the event that you would prefer to have your own counsel, you may do so at your own cost and expense. In the event the Company requires your cooperation, the Company agrees to pay you for all time you devote to such cooperation at a rate not less than the pro-rated hourly rate of your annual compensation at the Effective Resignation Date, plus reasonable travel and expenses.
17. By executing this Agreement, you affirm that you are competent and understand and accept the nature, terms and scope of this Agreement as fully resolving totally all differences and disputes between you and Shutterstock. Moreover, you acknowledge that by signing your name below you have read, understand and accept each of the terms of this Agreement, that you have had sufficient opportunity to review it, to

consult with an attorney or other advisor (at your own expense), and have done so to the extent that you deem appropriate.

18. Except for the NDA, which, except for Sections 11 and 12 therein, shall remain in full force and effect, this is the entire Agreement between you and the Company and supersedes in its entirety that certain Employment Agreement entered into by and between you and the Company on April 13, 2015. For purposes of clarity, Sections 11 and 12 of the NDA are replaced in their entirety by Sections 11(a), 11(b) and 11(c) of this Agreement. This Agreement may not be modified or canceled in any manner except by a writing signed by both you and an authorized Company official. You acknowledge that the Company has made no promises or representations to you other than those in this Agreement. It is not necessary that the Company sign this Agreement for it to become binding upon you.
19. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York, without regard to conflicts of laws. The parties agree to the exclusive jurisdiction and venue of the Supreme Court of the State of New York for New York County and/or the United States District Court for the Southern District of New York for the resolution of all disputes arising under this Agreement. Finally, to the extent permissible under applicable law, you hereby agree to waive your right to a jury trial in connection with any claim you may have against the Company.
20. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The signatures of any party to a counterpart shall be deemed to be a signature to, and may be appended to, any other counterpart. Executed originals transmitted electronically as PDF files (or their equivalent) shall have the same force and effect as signed originals.
21. YOU ACKNOWLEDGE THAT YOU HAVE CAREFULLY READ THIS AGREEMENT AND RELEASE, UNDERSTAND IT, AND ARE VOLUNTARILY ENTERING INTO IT OF YOUR OWN FREE WILL, WITHOUT DURESS OR COERCION, AFTER DUE CONSIDERATION OF ITS TERMS AND CONDITIONS. YOU FURTHER ACKNOWLEDGE THAT EXCEPT AS STATED IN THIS AGREEMENT, NEITHER THE COMPANY NOR ANY REPRESENTATIVE OF THE COMPANY HAS MADE ANY REPRESENTATIONS OR PROMISES TO YOU. YOU FURTHER ACKNOWLEDGE THAT YOU HAVE BEEN GIVEN AN OPPORTUNITY TO CONSULT WITH COUNSEL OF YOUR CHOICE BEFORE SIGNING THIS AGREEMENT. YOU UNDERSTAND THAT WHETHER OR NOT YOU DO SO IS YOUR DECISION.
22. Should any provision of this Agreement be declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

If the terms of this Agreement are acceptable to you, please sign both original copies and return them to Shutterstock Inc., Director, Human Resources, 350 Fifth Avenue, 21st Floor, New York, NY 10118 for countersignature. Once we have countersigned the Agreement we will send you a fully executed copy.

You must sign and return this Agreement to Shutterstock Inc., Director, Human Resources/People Department, 350 Fifth Avenue, 21st Floor, New York, NY 10118 no later than the close of business on the twenty-first (21st) day following your receipt of this Mutual Separation Agreement and General Release or irrevocably lose the right to receive the consideration detailed herein. You received the Agreement on November 3, 2015. Once we have countersigned the Agreement we will send you a fully executed copy.

Sincerely,

Shutterstock, Inc.

By: /s/ Steven Berns 11/11/2015
Steven Berns Date

Read, Agreed to and Accepted:

/s/ Aditi Gokhale 11/10/2015
Aditi Gokhale Date

SHUTTERSTOCK, INC.

AMENDED AND RESTATED 2012 OMNIBUS EQUITY INCENTIVE PLAN

1. Purposes of the Plan. The purposes of this Plan are (a) to attract and retain the best available personnel to ensure the Company's success and accomplish the Company's goals; (b) to incentivize Employees, Directors and Consultants with long-term equity-based compensation to align their interests with the Company's stockholders, and (c) to promote the success of the Company's business. The Plan amends and restates the 2012 Omnibus Equity Incentive Plan (the "Original Plan") that was originally adopted by the Board in May 2012 (the "Effective Date") and which became effective on October 10, 2012 and was amended and restated by the Board on April 15, 2016 and approved by our stockholders on [June 7, 2016].

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Change in Control" except as may otherwise be provided in a Stock Option Agreement, R

restricted Stock Agreement or other applicable agreement, means the occurrence of any of the following:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if the Company's shareholders immediately prior to such merger, consolidation or reorganization cease to directly or indirectly own immediately after such merger, consolidation or reorganization at least a majority of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization;

(ii) The consummation of the sale, transfer or other disposition of all or substantially all of the Company's assets (other than (x) to a corporation or other entity of which at least a majority of its combined voting power is owned directly or indirectly by the Company, (y) to a corporation or other entity owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of the common stock of the Company or (z) to a continuing or surviving entity described in Section 2(f)(i) in connection with a merger, consolidation or corporate reorganization which does not result in a Change in Control under Section 2(f)(i));

(iii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause, if any Person (as defined below in Section 2(f)(iv)) is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control;

(iv) The consummation of any transaction as a result of which any Person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities. For purposes of this Paragraph (iv), the term "person" shall have the same meaning as when used in Sections 13(d) and 14(d) of the Exchange Act but shall exclude:

(1) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or an affiliate of the Company;

(2) a corporation or other entity owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of the common stock of the Company;

(3) the Company; and

(4) a corporation or other entity of which at least a majority of its combined voting power is owned directly or indirectly by the Company; or

(v) A complete winding up, liquidation or dissolution of the Company.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transactions.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Shutterstock, Inc., a Delaware corporation, or any successor thereto.

(k) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity (as the terms consultant and advisor are defined and interpreted for purposes of Form S-8 under the Securities Act of 1933, as amended, or any successor form).

(l) "Director" means a member of the Board.

(m) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(n) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(o) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(p) “Exchange Program” means a program established by the Committee under which outstanding Awards are amended to provide for a lower Exercise Price or surrendered or cancelled in exchange for (i) Awards with a lower exercise price, (ii) a different type of Award or awards under a different equity incentive plan, (iii) cash, or (iv) a combination of (i), (ii) and/or (iii). Notwithstanding the preceding, the term Exchange Program does not include any (i) action described in Section 13 or any action taken in connection with a change in control transaction nor (ii) transfer or other disposition permitted under Section 12. For the purpose of clarity, each of the actions described in the prior sentence, none of which constitute an Exchange Program, may be undertaken (or authorized) by the Committee in its sole discretion without approval by the Company’s shareholders.

(q) “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) For purposes of any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company’s Common Stock; or

(iv) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(r) “Fiscal Year” means the fiscal year of the Company.

(s) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(t) “Inside Director” means a Director who is an Employee.

(u) “Nonstatutory Stock Option” means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(v) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(w) “Option” means a stock option granted pursuant to the Plan.

(x) “Outside Director” means a Director who is not an Employee.

(y) “Parent” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

(z) “Participant” means the holder of an outstanding Award.

(aa) “Performance Goal” means a performance goal established by the Committee pursuant to Section 10(c) of the Plan.

(bb) “Performance Share” means an Award denominated in Shares which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(cc) “Performance Unit” means an Award which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(dd) “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(ee) “Plan” means this Amended and Restated 2012 Omnibus Equity Incentive Plan.

(ff) “Registration Date” means the effective date of the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company’s securities.

(gg) “Restricted Stock” means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan.

(hh) “Restricted Stock Unit” means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(ii) “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(jj) “Section 16(b)” means Section 16(b) of the Exchange Act.

(kk) “Service Provider” means an Employee, Director or Consultant.

(ll) “Share” means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(mm) “Stock Appreciation Right” means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.

(nn) “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

(oo) “Unvested Dividends” means, during the Period of Restriction, any dividends and other distributions (whether paid in cash, stock or property) declared and paid by the Company with respect to Shares of Restricted Stock.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is 6,750,000 Shares (the “Initial Share Reserve”). Approximately 1,750,000 of the Initial Share Reserve shall be used immediately following the Registration Date to grant Nonstatutory Stock Options in replacement of existing outstanding Value Appreciation Rights previously granted under the Shutterstock Images LLC Value Appreciation Plan. The Shares may be authorized, but unissued, or reacquired Common Stock. Notwithstanding the foregoing and, subject to adjustment as provided in Section 13, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in this Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Sections 3(b) and 3(c).

(b) Automatic Share Reserve Increase. Subject to the provisions of Section 13 of the Plan, the number of Shares available for issuance under the Plan will be increased on

the first day of each Fiscal Year beginning with the 2013 Fiscal Year, in an amount equal to the least of (i) 1,500,000 Shares, (ii) three percent (3%) of the outstanding Shares on the last day of the immediately preceding Fiscal Year or (iii) such number of Shares determined by the Board.

(c) Lapsed Awards. To the extent an Award expires, is surrendered pursuant to an Exchange Program or becomes unexercisable without having been exercised or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares), which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Notwithstanding the foregoing (and except with respect to Shares of Restricted Stock that are forfeited rather than vesting), Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan.

(d) Substitute Awards. In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Board may grant Awards in substitution for any options or other stock or stock-based awards granted by such entity or an affiliate thereof. Substitute Awards may be granted on such terms as the Board deems appropriate in the circumstances, notwithstanding any limitations on Awards contained in the Plan. Substitute Awards shall not count against the overall share limit set forth in Section 3 or any sublimits contained in the Plan, except as may be required by reason of Section 422 and related provisions of the Code.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, the Administrator will have the authority, in its discretion:

- (i) to determine the Fair Market Value;
- (ii) to select the Service Providers to whom Awards may be granted hereunder;
- (iii) to determine the number of Shares to be covered by each Award granted hereunder;
- (iv) to approve forms of Award Agreements for use under the Plan;
- (v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;
- (vi) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;
- (vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations established for the purpose of satisfying applicable foreign laws, for qualifying for favorable tax treatment under applicable foreign laws or facilitating compliance with foreign laws; sub-plans may be created for any of these purposes;
- (viii) to modify or amend each Award (subject to Section 19 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to Section 6(a) of the Plan and, with respect to Incentive Stock Options, Section 6(b) of the Plan);
- (ix) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 14 of the Plan;
- (x) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;
- (xi) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

(d) Exchange Program. Notwithstanding anything to the contrary in this Section 4, the Committee shall not implement an Exchange Program without the approval of the holders of a majority of the Shares that are present in person or by proxy and entitled to vote at any annual or special meeting of Company's shareholders.

(e) Delegation by the Board. Subject to any requirements of applicable law (including as applicable Sections 152 and 157(c) of the General Corporation Law of the State of Delaware), the Board may delegate to one or more officers of the Company the power to grant Awards (subject to any limitations under the Plan) to Employees of the Company and to exercise such other powers under the Plan as the Board may determine, provided that the Board shall fix the terms of Awards to be granted by such officers, the maximum number of shares subject to Awards that the officers may grant, and the time period in which such Awards may be granted; and provided further, that no officer shall be authorized to grant Awards to any "executive officer" of the Company (as defined by Rule 3b-7 under the Exchange Act) or to any Officer of the Company.

5. Award Eligibility and Limitations.

(a) Award Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

(b) Award Limitations. The following limits shall apply to the grant of any Award if, at the time of grant, the Company is a "publicly held corporation" within the meaning of Section 162(m) of the Code:

(i) Options and Stock Appreciation Rights. Subject to adjustment as provided in Section 13, no Employee shall be granted within any fiscal year of the Company one or more Options or Stock Appreciation Rights, which in the aggregate cover more than 500,000 Shares reserved for issuance under the Plan; provided, however, that in connection with an Employee's initial fiscal year of service as an Employee, an Employee may be granted Options or Stock Appreciation Rights, which in the aggregate cover up to an additional 1,000,000 Shares reserved for issuance under the Plan.

(ii) Restricted Stock and Restricted Stock Units. Subject to adjustment as provided in Section 13, no Employee shall be granted within any fiscal year of the Company one or more awards of Restricted Stock or Restricted Stock Units, which in the aggregate cover more than 500,000 Shares reserved for issuance under the Plan; provided, however, that in

connection with an Employee's initial fiscal year of service as an Employee, an Employee may be granted Restricted Stock or Restricted Stock Units, which in the aggregate cover up to an additional 1,000,000 Shares reserved for issuance under the Plan.

(iii) Performance Units and Performance Shares. Subject to adjustment as provided in Section 13, no Employee shall be granted within any fiscal year of the Company one or more awards of Performance Units or Performance Shares having a grant date value (assuming maximum payout) greater than two million dollars (\$2 million) or covering more than 500,000 Shares, whichever is greater; provided, however, that in connection with an Employee's initial fiscal year of service as an Employee, an Employee may be granted Performance Units or Performance Shares having a grant date value (assuming maximum payout) of up to an additional amount equal five million dollars (\$5 million) or covering up to 1,000,000 Shares, whichever is greater. No Participant may be granted more than one award of Performance Units or Performance Shares for the same Performance Period.

(c) Limit on Awards to Outside Directors. The aggregate value of all compensation granted or paid, as applicable, to any individual for service as an Outside Director with respect to any fiscal year, including Awards granted and cash fees paid by the Company to such Outside Director, will not exceed seven hundred and fifty thousand dollars (\$750,000) in total value, calculating the value of any Awards based on the grant date fair value of such Awards for financial reporting purposes. The Board may make an exception to the applicable limit in this Section 5(c) for any Outside Director in extraordinary circumstances, as the Board may determine in its discretion, provided that any Outside Director who is granted or paid such additional compensation may not participate in the decision to grant or pay such additional compensation.

6. Stock Options.

(a) Limitations. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted. With respect to the Committee's authority in Section 4(b)(viii), if, at the time of any such extension, the exercise price per Share of the Option is less than the Fair Market Value of a Share, the extension shall, unless otherwise determined by the Committee, be limited to the earlier of (1) the maximum term of the Option as set by its original terms, or (2) ten (10) years from the grant date. Unless otherwise determined by the Committee, any extension of the term of an Option pursuant to this Section 4(b)(viii) shall comply with Code Section 409A to the extent necessary to avoid taxation thereunder.

(b) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the

date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration for both types of Options may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that (A) such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised, (B) such Shares are not subject to any repurchase, forfeiture, unfulfilled vesting or other similar

requirements, and (C) accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) for Nonstatutory Stock Options, by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is

vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the Option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be

released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. Unless otherwise provided in the applicable Award Agreement, Unvested Dividends with respect to a Service Provider's Shares of Restricted Stock shall be paid to the Service Provider only if and when such Shares become free from the restrictions on transferability and forfeitability that apply to such Shares. Each payment of Unvested Dividends will be made no later than the end of the calendar year in which the dividends are paid to stockholders of that class of stock or, if later, the 15th day of the third month following the lapsing of the restrictions on transferability and the forfeitability provisions applicable to the underlying Shares of Restricted Stock. No interest will be paid on Unvested Dividends.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

8. Restricted Stock Units.

(a) Grant. Subject to the terms and conditions of the Plan, Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions (if any) related to the grant, including the number of Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis (including the passage of time) determined by the Administrator in its discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Dividend Equivalents. The Award Agreement for Restricted Stock Units may provide a Participant with the right to receive an amount equal to any dividends or other distributions declared and paid on an equal number of outstanding Shares ("Dividend

Equivalents”). Dividend Equivalents may be settled in cash and/or Shares and shall be subject to the same restrictions on transfer and forfeitability as the Restricted Stock Units with respect to which paid, in each case to the extent provided in the Award Agreement. No interest will be paid on Dividend Equivalents.

(e) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made upon the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may only settle earned Restricted Stock Units in cash, Shares, or a combination of both.

(f) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

9. Stock Appreciation Rights.

(a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. Subject to the terms and conditions of the Plan, the Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.

(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(b) relating to the maximum term and Section 6(d) relating to exercise also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price;

times

(ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Subject to the terms and conditions of the Plan, Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion and the Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

(b) Value of Performance Units/Shares. Subject to the terms and conditions of the Plan, each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant and each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set Performance Goals or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(d) Measurement of Performance Goals. Performance Goals shall be established by the Committee on the basis of targets to be attained with respect to one or more measures of business or financial performance (each, a "Performance Measure"), subject to the following:

(i) Performance Measures. For each Performance Period, the Committee shall establish and set forth in writing, within the time period prescribed by, and otherwise in compliance with the requirements of Code Section 162(m), the Performance Measures, if any, and any particulars, components and adjustments relating thereto, applicable to each Participant. The Performance Measures, if any, will be objectively measurable and will be based upon the achievement of a specified percentage or level in one or more objectively defined and non-discretionary factors preestablished by the Committee. Performance Measures may be one or more of the following, and may be determined pursuant to generally accepted accounting principles ("GAAP"), non-GAAP or other basis, in each case as determined by the Committee: (i) net sales; (ii) non-sales revenue; (iii) operating income; (iv) income or earnings including

operating income; (v) income or earnings before taxes, interest, depreciation and/or amortization; (vi) income or earnings from continuing operations; (vii) effective tax rates; (viii) cash taxes; (ix) net income; (x) pre-tax income or after-tax income; (xi) net income excluding amortization of intangible assets, depreciation and impairment of goodwill and intangible assets and/or excluding charges attributable to the adoption of new accounting pronouncements; (xii) financing or capital transactions; (xiii) project financing; (xiv) revenue backlog; (xv) gross margin; (xvi) operating margin or profit margin; (xvii) capital expenditures, cost targets, and expense management; (xviii) return on assets (gross or net), return on investment, return on capital, or return on shareholder equity; (xix) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (xx) performance warranty and/or guarantee claims; (xxi) stock price or total stockholder return; (xxii) earnings or book value per share (basic or diluted); (xxiii) economic value created; (xxiv) pre-tax profit or after-tax profit; (xxv) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration or market share, geographic business expansion, objective customer satisfaction or information technology goals; (xxvi) objective goals relating to divestitures, joint ventures, mergers, acquisitions and similar transactions; (xxvii) construction projects consisting of one or more objectives based upon meeting project completion timing milestones, project budget, site acquisition, site development, or site equipment functionality; (xxviii) objective goals relating to staff management, results from staff attitude and/or opinion surveys, staff satisfaction scores, staff safety, staff accident and/or injury rates, headcount, performance management, completion of critical staff training initiatives; (xxix) objective goals relating to projects, including project completion timing milestones, project budget; (xxx) key regulatory objectives; and (xxxi) enterprise resource planning. The Committee may specify that such Performance Measures shall be adjusted to exclude any one or more of (i) extraordinary items, (ii) gains or losses on the dispositions of discontinued operations, (iii) the cumulative effects of changes in accounting principles, (iv) the writedown of any asset, (v) fluctuation in foreign currency exchange rates, (vi) charges for restructuring and rationalization programs, and (vii) unusual and/or infrequent events impacting Company performance.

(ii) Committee Discretion on Performance Measures. As determined in the discretion of the Committee, the Performance Measures for any Performance Period may (a) differ from Participant to Participant and from Award to Award, (b) be based on the performance of the Company as a whole or the performance of a specific Participant or one or more subsidiaries, divisions, departments, regions, stores, segments, products, functions or business units of the Company or individual project company, (c) be measured on a per share, per capita, per unit, per square foot, per employee, per store basis, and/or other objective basis (d) be measured on a pre-tax or after-tax basis, and (e) be measured on an absolute basis or in relative terms (including, but not limited to, the passage of time and/or against other companies, financial metrics and/or an index). Without limiting the foregoing, the Committee shall adjust any performance criteria, Performance Measures or other feature of an Award that relates to or is wholly or partially based on the number of, or the value of, any stock of the Company, to reflect any stock dividend or split, repurchase, recapitalization, combination, or exchange of shares or other similar changes in such stock. Awards that are not intended by the Company to comply

with the performance-based compensation exception under Code Section 162(m) may take into account other factors (including subjective factors).

(e) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Goals or other vesting provisions have been achieved. Notwithstanding any provision of the Plan, with respect to any Performance Unit or Performance Share that is intended to qualify as performance-based compensation under Code Section 162(m), the Committee may adjust downwards, but not upwards, the cash or number of Shares payable pursuant to such Award, and the Committee may not waive the achievement of the applicable Performance Measures except in the case of the death or disability of the Participant or a change in control of the Company.

(f) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made upon the time set forth in the applicable Award Agreement. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(g) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

11. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence unless contrary to Applicable Law. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Participant's employer or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Participant's employer is not so guaranteed, then six (6) months following the first (1st) day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event of a stock split, reverse stock split, stock dividend, combination, consolidation, recapitalization (including a recapitalization through a large nonrecurring cash dividend) or reclassification of the Shares, subdivision of the Shares, a rights offering, a reorganization, merger, spin-off, split-up, repurchase, or exchange of Common Stock or other securities of the Company or other significant corporate transaction, or other change affecting the Common Stock occurs, the Administrator, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will, in such manner as it may deem equitable, adjust the number, kind and class of securities that may be delivered under the Plan and/or the number, class, kind and price of securities covered by each outstanding Award, the numerical Share limits and Share counting provisions in Section 3 of the Plan and the numerical sublimits in Section 4 of the Plan. Notwithstanding the forgoing, all adjustments under this Section 13 shall be made in a manner that does not result in taxation under Code Section 409A.

(b) Dissolution or Liquidation. In the event of the proposed winding up, dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. Except as set forth in an Award Agreement, to the extent the successor corporation in a merger or Change in Control does not assume or substitute for outstanding Awards under the Plan, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all Performance Goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration

to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more Performance Goals will not be considered assumed if the Company or its successor modifies any of such Performance Goals without the Participant's consent; provided, however, a modification to such Performance Goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

14. Tax.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof) or prior to any time the Award or Shares are subject to taxation, the Company and/or the Participant's employer will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation or social insurance contributions) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld (to the extent required to avoid adverse accounting consequences), or (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld to the extent required to avoid adverse accounting consequences or Shares having a Fair Market Value in excess of such amount that have been held for such period required to avoid adverse accounting consequences. Except as otherwise determined by the Administrator, the Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

(c) Compliance With Code Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A (or an exemption therefrom) and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A (or an exemption therefrom), such that the grant, payment, settlement or

deferral will not be subject to the additional tax or interest applicable under Code Section 409A. Except as provided in an individual Award Agreement initially or by amendment, if and to the extent (i) any portion of any payment, compensation or other benefit provided to a Participant pursuant to the Plan in connection with his or her employment termination constitutes “nonqualified deferred compensation” within the meaning of Code Section 409A and (ii) the Participant is a specified employee as defined in Code Section 409A(a)(2)(B)(i), in each case as determined by the Company in accordance with its procedures, by which determinations the Participant (through accepting the Award) agrees that he or she is bound, such portion of the payment, compensation or other benefit shall not be paid before the day that is six months plus one day after the date of “separation from service” (as determined under Code Section 409A) (the “New Payment Date”), except as Code Section 409A may then permit. The aggregate of any payments that otherwise would have been paid to the Participant during the period between the date of separation from service and the New Payment Date shall be paid to the Participant in a lump sum on such New Payment Date, and any remaining payments will be paid on their original schedule. In no event will the Company be responsible for or reimburse a Participant for any taxes or other penalties incurred as a result of applicable of Code Section 409A.

15. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant’s relationship as a Service Provider with the Company, or (if different) the Participant’s employer, nor will they interfere in any way with the Participant’s right or the Participant’s employer’s right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

16. Clawback Policy. In accepting an award granted under the Plan after June 7, 2016, a Participant shall agree to be bound by any clawback policy the Company may adopt on or after such date.

17. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

18. Term of Plan. The Original Plan became effective the Effective Date and the Plan will continue in effect for a term of ten (10) years from the Effective Date, unless terminated earlier under Section 19 of the Plan.

19. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Committee may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually

agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

20. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

21. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

22. Governing Law. The Plan and all Awards hereunder shall be construed in accordance with and governed by the laws of the State of New York, but without regard to its conflict of law provisions.

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Jonathan Oringer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shutterstock, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2016

By: /s/ Jonathan Oringer

Jonathan Oringer

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven Berns, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shutterstock, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2016

By: /s/ Steven Berns

Steven Berns

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Shutterstock, Inc., for the quarterly period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathan Oringer, as Chief Executive Officer of Shutterstock, Inc., hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shutterstock, Inc.

Date: August 4, 2016

By: /s/ Jonathan Oringer

Jonathan Oringer

Chief Executive Officer

(Principal Executive Officer)

In connection with the Quarterly Report on Form 10-Q of Shutterstock, Inc., for the quarterly period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven Berns, as Chief Financial Officer of Shutterstock, Inc., hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shutterstock, Inc.

Date: August 4, 2016

By: /s/ Steven Berns

Steven Berns

Chief Financial Officer

(Principal Financial and Accounting Officer)