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, 2020

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	**80-0812659**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

350 Fifth Avenue, 21st Floor
New York, NY 10118
(Address of principal executive offices, including zip code)

(646) 710-3417
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	**SSTK**	**New York Stock Exchange**

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

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

As of July 24, 2020, 35,695,665 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

Shutterstock, Inc.
FORM 10-Q
Table of Contents
For the Quarterly Period Ended June 30, 2020

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, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, particularly in the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, are forward-looking. Examples of forward-looking statements include, but are not limited to, statements regarding future business, future results of operations or financial condition, future dividends, new or planned features, products or services, management strategies and the COVID-19 pandemic. You can identify many forward-looking statements by words such as "may," "will," "would," "should," "could," "expect," "aim," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. However, not all forward-looking statements contain these words. Forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in the 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 13, 2020, under the caption "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, which was filed with the SEC on April 28, 2020, and in our consolidated financial statements, related notes, and the other information appearing elsewhere in such Annual Report, this Quarterly Report on Form 10-Q and our other filings with the SEC. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. 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.

Unless the context otherwise indicates, references in this Quarterly Report on Form 10-Q to the terms "Shutterstock," "the Company," "we," "our" and "us" refer to Shutterstock, Inc. and its subsidiaries. "Shutterstock," "Offset," "Bigstock," "Rex Features," "PremiumBeat" and "Shutterstock Editor" and their logos are registered trademarks 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, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 311,157	$ 303,261
Accounts receivable, net of allowance of $3,608 and $3,579	48,744	47,016
Prepaid expenses and other current assets	26,590	26,703
Total current assets	386,491	376,980
Property and equipment, net	54,240	58,834
Right-of-use assets	42,097	45,453
Intangible assets, net	25,182	26,669
Goodwill	88,167	88,974
Deferred tax assets, net	13,727	14,387
Other assets	16,427	19,215
Total assets	$ 626,331	$ 630,512
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,504	$ 6,104
Accrued expenses	51,554	53,864
Contributor royalties payable	24,248	25,193
Deferred revenue	138,229	141,922
Other current liabilities	10,347	18,811
Total current liabilities	228,882	245,894
Lease liabilities	44,280	47,313
Other non-current liabilities	9,669	9,160
Total liabilities	282,831	302,367
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, $0.01 par value; 200,000 shares authorized; 38,245 and 38,055 shares issued and 35,687 and 35,497 shares outstanding as of June 30, 2020 and December 31, 2019, respectively	382	381
Treasury stock, at cost; 2,558 shares as of June 30, 2020 and December 31, 2019	(100,027)	(100,027)
Additional paid-in capital	319,412	312,824
Accumulated comprehensive loss	(8,414)	(6,220)
Retained earnings	132,147	121,187
Total stockholders' equity	343,500	328,145
Total liabilities and stockholders' equity	$ 626,331	$ 630,512

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,	
	2020	2019	2020	2019
Revenue	$ 159,230	$ 161,741	$ 320,515	$ 325,073
Operating expenses:				
Cost of revenue	63,811	68,526	132,934	137,744
Sales and marketing	35,557	44,488	78,217	88,934
Product development	12,485	13,594	25,554	28,580
General and administrative	24,832	32,063	55,484	58,646
Total operating expenses	136,685	158,671	292,189	313,904
Income from operations	22,545	3,070	28,326	11,169
Other income, net	149	584	662	1,480
Income before income taxes	22,694	3,654	28,988	12,649
Provision for income taxes	3,707	355	5,683	1,828
Net income	$ 18,987	$ 3,299	$ 23,305	$ 10,821
Earnings per share:				
Basic	$ 0.53	$ 0.09	$ 0.65	$ 0.31
Diluted	$ 0.53	$ 0.09	$ 0.65	$ 0.30
Weighted average shares outstanding:				
Basic	35,652	35,232	35,587	35,174
Diluted	35,906	35,504	35,894	35,499

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Net income	$ 18,987	$ 3,299	$ 23,305	$ 10,821
Foreign currency translation gain / (loss)	254	(1,027)	(2,194)	(982)
Other comprehensive gain / (loss)	254	(1,027)	(2,194)	(982)
Comprehensive income	$ 19,241	$ 2,272	$ 21,111	$ 9,839

See Notes to Unaudited Consolidated Financial Statements.

Shutterstock, Inc.
Consolidated Statements of Stockholders’ Equity
(In thousands)
(unaudited)

	Common Stock		Treasury Stock					
Three Months Ended June 30, 2020	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at March 31, 2020	38,119	$ 381	2,558	$ (100,027)	$ 316,823	$ (8,668)	$ 119,218	$ 327,727
Equity-based compensation	—	—	—	—	3,636	—	—	3,636
Issuance of common stock in connection with employee stock option exercises and RSU vesting	180	2	—	—	627	—	—	629
Common shares withheld for settlement of taxes in connection with equity-based compensation	(54)	(1)	—	—	(1,674)	—	—	(1,675)
Cash dividends paid	—	—	—	—	—	—	(6,058)	(6,058)
Other comprehensive loss	—	—	—	—	—	254	—	254
Net income	—	—	—	—	—	—	18,987	18,987
Balance at June 30, 2020	38,245	$ 382	2,558	$ (100,027)	$ 319,412	$ (8,414)	$ 132,147	$ 343,500
Three Months Ended June 30, 2019								
Balance at March 31, 2019	37,759	$ 378	2,558	$ (100,027)	$ 292,458	$ (6,426)	$ 108,601	$ 294,984
Equity-based compensation	—	—	—	—	7,751	—	—	7,751
Issuance of common stock in connection with employee stock option exercises and RSU vesting	83	1	—	—	4	—	—	5
Common shares withheld for settlement of taxes in connection with equity-based compensation	(26)	—	—	—	(1,091)	—	—	(1,091)
Other comprehensive income	—	—	—	—	—	(1,027)	—	(1,027)
Net income	—	—	—	—	—	—	3,299	3,299
Balance at June 30, 2019	37,816	$ 379	2,558	$ (100,027)	$ 299,122	$ (7,453)	$ 111,900	$ 303,921
Six Months Ended June 30, 2020								
Balance at December 31, 2019	38,055	$ 381	2,558	$ (100,027)	$ 312,824	$ (6,220)	$ 121,187	$ 328,145
Cumulative effect of accounting change (Note 1)	—	—	—	—	—	—	(247)	(247)
Balance at January 1, 2020	38,055	$ 381	2,558	$ (100,027)	$ 312,824	$ (6,220)	$ 120,940	$ 327,898
Equity-based compensation	—	—	—	—	9,396	—	—	9,396
Issuance of common stock in connection with employee stock option exercises and RSU vesting	289	3	—	—	626	—	—	629
Common shares withheld for settlement of taxes in connection with equity-based compensation	(99)	(2)	—	—	(3,434)	—	—	(3,436)
Cash dividends paid	—	—	—	—	—	—	(12,098)	(12,098)
Other comprehensive income	—	—	—	—	—	(2,194)	—	(2,194)
Net income	—	—	—	—	—	—	23,305	23,305
Balance at June 30, 2020	38,245	$ 382	2,558	$ (100,027)	$ 319,412	$ (8,414)	$ 132,147	$ 343,500
Six Months Ended June 30, 2019								
Balance at December 31, 2018	37,618	$ 376	2,558	$ (100,027)	$ 291,710	$ (6,471)	$ 101,079	$ 286,667
Equity-based compensation	—	—	—	—	12,375	—	—	12,375
Issuance of common stock in connection with employee stock option exercises and RSU vesting	312	4	—	—	218	—	—	222
Common shares withheld for settlement of taxes in connection with equity-based compensation	(114)	(1)	—	—	(5,181)	—	—	(5,182)
Other comprehensive income	—	—	—	—	—	(982)	—	(982)
Net income	—	—	—	—	—	—	10,821	10,821
Balance at June 30, 2019	37,816	$ 379	2,558	$ (100,027)	$ 299,122	$ (7,453)	$ 111,900	$ 303,921

See Notes to Unaudited Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 23,305	$ 10,821
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,370	25,319
Deferred taxes	693	(1,312)
Non-cash equity-based compensation	9,396	12,375
Bad debt expense	1,086	(635)
Changes in operating assets and liabilities:		
Accounts receivable	(3,279)	(2,746)
Prepaid expenses and other current and non-current assets	49	1,944
Accounts payable and other current and non-current liabilities	(4,045)	1,899
Long-term incentives related to acquisitions	(7,759)	—
Contributor royalties payable	(840)	1,059
Deferred revenue	(3,633)	(1,981)
Net cash provided by operating activities	$ 36,343	$ 46,743
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(13,966)	(13,726)
Proceeds from sale of Webdam, net	—	2,500
Acquisition of content	(1,577)	(1,277)
Security deposit release	105	25
Net cash used in investing activities	$ (15,438)	$ (12,478)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	629	218
Cash paid related to settlement of employee taxes related to RSU vesting	(3,436)	(5,181)
Payment of cash dividend	(12,098)	—
Net cash used in financing activities	$ (14,905)	$ (4,963)
Effect of foreign exchange rate changes on cash	(717)	(1,085)
Net increase in cash, cash equivalents and restricted cash	5,283	28,217
Cash, cash equivalents and restricted cash, beginning of period	305,874	233,465
Cash, cash equivalents and restricted cash, end of period	$ 311,157	$ 261,682
Supplemental Disclosure of Cash Information:		
Cash paid for income taxes	$ 927	$ 1,480

See Notes to Unaudited Consolidated Financial Statements.

(1) Summary of Operations and Significant Accounting Policies

Summary of Operations

Shutterstock (the “Company” or “Shutterstock”) is a global technology company offering a creative platform, which provides high-quality content, tools and services to creative professionals. The content licensed by the Company’s customers includes:

- Images - consisting of photographs, vectors and illustrations. Images are typically used in visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and other similar uses.
- Footage - consisting of video clips, premium footage filmed by industry experts and cinema grade video effects, available in HD and 4K formats. Footage is often integrated into websites, social media, marketing campaigns and cinematic productions.
- Music - consisting of high-quality music tracks and sound effects, which are often used to complement images and footage.

The Company licenses content to its customers. Contributors upload their content to the Company’s web properties in exchange for royalty payments based on customer download activity.

Basis of Presentation

The unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“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 GAAP for complete financial statements.

The interim Consolidated Balance Sheet as of June 30, 2020, and the Consolidated Statements of Operations, Comprehensive Income and Stockholders’ Equity for the three and six months ended June 30, 2020 and 2019, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019, are unaudited. The Consolidated Balance Sheet as of December 31, 2019, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures required by 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 all normal recurring adjustments necessary to fairly state the Company’s financial position as of June 30, 2020, and its consolidated results of operations, comprehensive income, stockholders’ equity for the three and six months ended June 30, 2020 and 2019, and its cash flows for the six months ended June 30, 2020 and 2019. 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 six months ended June 30, 2020 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2020 or for any other future annual or interim period.

These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K, which was filed with the SEC on February 13, 2020. 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 GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements. Actual results could differ from those estimates. Such estimates include, but are not limited to, the determination of the allowance for doubtful accounts, the volume of expected unused licenses for our subscription-based products, the assessment of recoverability of property and equipment, the fair value of acquired goodwill and intangible assets, the grant-date fair value of non-cash equity-based compensation, the assessment of recoverability of deferred tax assets, the measurement of income tax and contingent non-income tax liabilities and the determination of the incremental borrowing rate used to calculate the lease liability.

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

Cash, Cash Equivalents and Restricted Cash

The following represents the Company's cash and cash equivalents and restricted cash balances as of June 30, 2020 and December 31, 2019 (in thousands):

	As of June 30, 2020	As of December 31, 2019
Cash and cash equivalents	$ 311,157	$ 303,261
Restricted cash	—	2,613
Total cash, cash equivalents and restricted cash	$ 311,157	$ 305,874

The Company's cash and cash equivalents consist of cash on hand and bank deposits. These assets are stated at cost, which approximates fair value.

As of March 31, 2020, the Company was no longer required to provide cash collateral for its letter of credit for its New York City headquarters, and, accordingly, these funds are no longer restricted.

Allowance for Doubtful Accounts

The Company's accounts receivable consists 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.

Historically, the Company used an incurred loss model to calculate its allowance for doubtful accounts. Upon the adoption of ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments* ("ASU 2016-13") on January 1, 2020, the Company shifted to a current expected credit loss model.

During the six months ended June 30, 2020, the Company recorded bad debt expense of $1.1 million. As of June 30, 2020 and December 31, 2019, the Company's allowance for doubtful accounts was approximately $3.6 million. The allowance for doubtful accounts is included as a reduction of accounts receivable on the Consolidated Balance Sheets.

Chargeback and Sales Refund Allowance

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 June 30, 2020 and December 31, 2019, the Company's combined allowance for chargebacks and sales refunds was $0.4 million, which was included as a component of other current liabilities on the Consolidated Balance Sheets.

Revenue Recognition

The majority of the Company's revenue is earned from the license of content. Content licenses are generally purchased on a monthly or annual basis, whereby a customer pays for a predetermined quantity of content that may be downloaded over a specific period of time, or, on a transactional basis, whereby a customer pays for individual content licenses at the time of download.

The Company recognizes revenue upon the satisfaction of performance obligations, which generally occurs when content is downloaded by a customer. The Company recognizes revenue on both its subscription-based and transaction-based products when content is downloaded, at which time the license is provided. In addition, management estimates expected unused licenses for subscription-based products and recognizes the estimated revenue associated with the unused licenses as digital content is downloaded and licenses are obtained for such content by the customer during the subscription period. The estimate of unused licenses is based on historical download activity and future changes in the estimate could impact the timing of revenue recognition of the Company's subscription products. The Company expenses contract acquisition costs as incurred, to the extent that the amortization period would otherwise be one year or less.

Collectability is reasonably assured at the time the electronic order or contract is entered. The majority of the Company's customers purchase products by making an electronic payment with a credit card at the time of a transaction. Customer payments received in advance of revenue recognition are contract liabilities and are recorded as deferred revenue. Customers that do not pay in advance are invoiced and are required to make payments under standard credit terms. Collectability for customers who pay on credit terms allowing for payment beyond the date at which service commences is based on a credit evaluation for certain new customers and transaction history with existing customers.

The Company recognizes revenue gross of contributor royalties because the Company is the principal in the transaction as it is the party responsible for the performance obligation and it controls the product or service before transferring it to the customer. The Company also licenses content to customers through third-party resellers. Third-party resellers sell the Company’s products directly to customers as the principal in those transactions. Accordingly, the Company recognizes revenue net of costs paid to resellers.

Recently Adopted Accounting Standard Updates

In June 2016, the FASB issued ASU 2016-13, which as amended, replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. The ASU is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Adoption of this guidance was required, prospectively, for annual periods beginning after December 15, 2019, with early adoption permitted for annual periods beginning after December 15, 2018. The Company adopted ASU 2016-13, as amended, effective January 1, 2020 using the modified retrospective method and recorded a cumulative-effect adjustment of $0.2 million, net of tax, in retained earnings as of January 1, 2020.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements* (“ASU 2018-13”), which eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB’s disclosure framework project. Adoption of this guidance was required for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted ASU 2018-13, effective January 1, 2020. The impact of adoption of this standard on the consolidated financial statements, including accounting policies, processes and systems, was not material.

In August 2018, the FASB issued ASU 2018-15, *Customer’s Accounting For Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”), which aligns the requirements for capitalizing implementation costs in a cloud computing arrangement with the requirements for capitalizing implementation costs incurred for an internal-use software license. Adoption of this guidance was required for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years and early adoption is permitted. Entities are permitted to choose to adopt the new guidance (1) prospectively for eligible costs incurred on or after the date this guidance is first applied or (2) retrospectively. The Company adopted ASU 2018-15 on a prospective basis, effective January 1, 2020. The adoption of this standard is not expected to have a significant impact on our consolidated financial statements.

Recently Issued Accounting Standard Updates

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, *Simplifying the Accounting for Income Taxes* (“ASU-2019-12”). ASU 2019-12 eliminates certain exceptions to the guidance in Topic 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes, enacted changes in tax laws or rates and clarifies the accounting transactions that result in a step-up in the tax basis of goodwill. The guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. We are currently in the process of evaluating the effect that ASU 2019-12 will have on the Company's Consolidated Financial Statements.

(2) Fair Value Measurements and Other Long-term Investments

Fair Value Measurements

The Company had no assets or liabilities requiring fair value hierarchy disclosures as of June 30, 2020 or December 31, 2019.

Other Fair Value Measurements

The carrying amounts of cash, accounts receivable, restricted cash, accounts payable and accrued expenses 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 the Company is required to evaluate a non-financial asset for impairment, whether due to certain triggering events or because annual impairment testing is required, a resulting asset impairment would require that the non-financial asset be recorded at fair value.

Other Long-term Investments

Investment in ZCool Technologies Limited ("ZCool")

On January 4, 2018, the Company invested $15.0 million in convertible preferred shares issued by ZCool (the "Preferred Shares"), which is equivalent to a 25% fully diluted equity ownership interest. ZCool's primary business is the operation of an e-commerce platform in China whereby customers can pay to license content contributed by creative professionals. ZCool and its affiliates have been the exclusive distributor of Shutterstock creative content in China since 2014.

ZCool is a variable interest entity that is not consolidated because the Company is not the primary beneficiary. The Preferred Shares are not deemed to be in-substance common stock and are accounted for using the measurement alternative for equity investments with no readily determinable fair value. The Preferred Shares are reported at cost, adjusted for impairments or any observable price changes in orderly transactions for identical or similar investments issued by ZCool.

On a quarterly basis, the Company evaluates the carrying value of the Preferred Shares for impairment, which includes an assessment of ZCool's revenue growth, earnings performance, working capital and the general regional market conditions. As of June 30, 2020, no adjustments to the carrying value were identified as a result of this assessment. Changes in performance negatively impacting ZCool's operating results and cash flows could result in the Company recording an impairment charge on the Preferred Shares in future periods.

As of June 30, 2020 and December 31, 2019, the Company's total investment in ZCool is $15.0 million, which is reported within other assets on the Consolidated Balance Sheets.

(3) Property and Equipment

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

	As of June 30, 2020	As of December 31, 2019
Computer equipment and software	$ 179,580	$ 165,950
Furniture and fixtures	10,211	10,199
Leasehold improvements	19,260	19,203
Property and equipment	209,051	195,352
Less accumulated depreciation	(154,811)	(136,518)
Property and equipment, net	$ 54,240	$ 58,834

Depreciation expense related to property and equipment was $9.6 million and $10.5 million for the three months ended June 30, 2020 and 2019, respectively, and $18.9 million and $21.1 million for the six months ended June 30, 2020 and 2019, respectively. Cost of revenues includes depreciation expense of $8.6 million and $9.3 million for the three months ended June 30, 2020 and 2019, respectively, and $16.8 million and $18.6 million for the six months ended June 30, 2020 and 2019, respectively. General and administrative expense includes depreciation expense of $1.0 million and $1.2 million for the three months ended June 30, 2020 and 2019, respectively, and $2.1 million and $2.5 million for the six months ended June 30, 2020 and 2019, respectively.

Capitalized Internal-Use Software

The Company capitalized costs related to the development of internal-use software of $6.5 million and $5.8 million for the three months ended June 30, 2020 and 2019, respectively, and $13.1 million and $12.3 million for the six months ended June 30, 2020 and 2019, respectively. Capitalized amounts are included as a component of property and equipment under computer equipment and software on the Consolidated Balance Sheets.

The portion of total depreciation expense related to capitalized internal-use software was $7.8 million and $7.5 million for the three months ended June 30, 2020 and 2019, respectively, and $14.9 million and $14.8 million for the six months ended June 30, 2020 and 2019, respectively. Depreciation expense related to capitalized internal-use software is included in cost of revenue in the Consolidated Statements of Operations.

As of June 30, 2020 and December 31, 2019, the Company had capitalized internal-use software of $39.9 million and $41.8 million, respectively, net of accumulated depreciation, which was included in property and equipment, net.

(4) Goodwill and Intangible Assets

Goodwill

The Company's goodwill balance is attributable to its Content reporting unit and is tested for impairment annually on October 1 or upon a triggering event. No triggering events were identified during the six months ended June 30, 2020.

The following table summarizes the changes in the Company's goodwill balance during the six months ended June 30, 2020 (in thousands):

	Goodwill
Balance as of December 31, 2019	$ 88,974
Foreign currency translation adjustment	(807)
Balance as of June 30, 2020	$ 88,167

Intangible Assets

Intangible assets consisted of the following as of June 30, 2020 and December 31, 2019 (in thousands):

	As of June 30, 2020			As of December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life (Years)	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets:					
Customer relationships	$ 16,982	$ (9,648)	9	$ 17,729	$ (9,294)
Trade name	6,237	(5,778)	7	6,517	(5,941)
Developed technology	4,677	(4,368)	4	4,841	(4,226)
Contributor content	24,812	(7,883)	9	23,510	(6,626)
Patents	259	(108)	18	259	(100)
Total	$ 52,967	$ (27,785)		$ 52,856	$ (26,187)

Amortization expense was $1.2 million and $2.9 million for the three months ended June 30, 2020 and 2019, respectively, and $2.5 million and $4.2 million for the six months ended June 30, 2020 and 2019, respectively. Cost of revenue includes amortization expense of $0.7 million and $0.5 million for the three months ended June 30, 2020 and 2019, respectively, and $1.3 million and $0.9 million for the six months ended June 30, 2020 and 2019, respectively. General and administrative expense includes amortization expense of $0.5 million and $2.4 million for the three months ended June 30, 2020 and 2019, respectively, and $1.2 million and $3.3 million for the six months ended June 30, 2020 and 2019, respectively.

The Company determined that there was no indication of impairment of the intangible assets for any period presented. Estimated amortization expense is: $2.9 million for the remaining six months of 2020, $5.1 million in 2021, $4.8 million in 2022, $4.1 million in 2023, $3.2 million in 2024, $1.9 million in 2025 and $3.2 million thereafter.

(5) Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	As of June 30, 2020	As of December 31, 2019
Compensation	$ 18,902	$ 20,776
Non-income taxes	16,316	15,332
Website hosting and marketing fees	8,343	8,657
Other expenses	7,993	9,099
Total accrued expenses	$ 51,554	$ 53,864

(6) Stockholders' Equity and Equity-Based Compensation

Stockholders' Equity

Common Stock

The Company issued approximately 126,000 and 57,000 shares of common stock during the three months ended June 30, 2020 and 2019, respectively, and 190,000 and 198,000 for the six months ended June 30, 2020 and 2019, respectively, primarily related 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, authorizing the Company to purchase up to $100 million of its common stock. In February 2017, the Company's Board of Directors approved an increase to the share repurchase program, authorizing the Company to repurchase up to an additional $100 million of its outstanding common stock. During the six months ended June 30, 2020 and 2019, the Company did not repurchase any shares of its common stock under the share repurchase program. As of June 30, 2020, the Company had $100 million of remaining authorization for purchases under the share repurchase program.

The Company expects to fund future repurchases, if any, through a combination of cash on hand, cash generated by operations and future financing transactions, if appropriate. Accordingly, the share repurchase program is subject to the Company having available cash to fund repurchases. Under the share repurchase program, management is authorized to purchase shares of the Company's common stock 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.

Dividends

The Company declared and paid cash dividends of $0.17 and $0.34 per share of common stock, or $6.1 million and $12.1 million, during the three and six months ended June 30, 2020.

On July 20, 2020, the Company's Board of Directors declared a quarterly cash dividend of $0.17 per share of outstanding common stock payable on September 17, 2020 to stockholders of record at the close of business on September 3, 2020. Future declaration of dividends are subject to the final determination of the Board of Directors, and will depend on, among other things, the Company's future financial condition, results of operations, capital requirements, capital expenditure requirements, contractual restrictions, anticipated cash needs, business prospects, provisions of applicable law and other factors the Board of Directors may deem relevant.

Equity-Based Compensation

The Company recognizes stock-based compensation expense for all equity-based payment awards, including employee stock options and RSUs granted under the Company's Amended and Restated 2012 Omnibus Equity Incentive Plan (the "2012 Plan"), based on the fair value of each award 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, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of revenue	$ 99	$ 105	$ 150	$ 190
Sales and marketing	374	675	834	1,257
Product development	1,068	1,252	2,193	2,427
General and administrative	2,095	5,719	6,219	8,501
Total	$ 3,636	$ 7,751	$ 9,396	$ 12,375

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, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Stock options	$ 414	$ 2,176	$ 1,730	$ 3,067
RSUs	3,222	5,575	7,666	9,308
Total	$ 3,636	$ 7,751	$ 9,396	$ 12,375

Stock Option Awards

During the six months ended June 30, 2020, the Company granted 53,000 options to purchase shares of its common stock with a weighted average exercise price of $42.96. As of June 30, 2020, there were approximately 338,000 options vested and exercisable with a weighted average exercise price of $34.59. As of June 30, 2020, the total unrecognized compensation charge related to non-vested options was approximately $2.0 million, which is expected to be recognized through 2023.

Restricted Stock Unit Awards

During the six months ended June 30, 2020, the Company had RSU grants, net of forfeitures, of approximately 292,000. As of June 30, 2020, there are approximately 1,139,000 non-vested RSUs (including performance-based restricted stock units, or PRSUs) outstanding with a weighted average grant-date fair value of $39.83. As of June 30, 2020, the total unrecognized non-cash equity-based compensation charge related to the non-vested RSUs was approximately $26.6 million, which is expected to be recognized through 2023.

During the six months ended June 30, 2020, shares of common stock with an aggregate value of $3.4 million were withheld upon vesting of RSUs and paid in connection with related remittance of employee withholding taxes to taxing authorities.

On July 20, 2020, the Company granted approximately 332,000 PRSUs with a grant date fair value of $12.7 million.

(7) Revenue

The Company distributes its content offerings through two primary channels:

E-commerce: The majority of the Company's customers license content directly through the Company's self-service web properties. E-commerce customers have the flexibility to purchase a subscription plan that is paid on a monthly or annual basis or to license content on a transactional basis. These customers generally license content under the Company's standard or enhanced licenses, with additional licensing options available to meet customers' individual needs. E-commerce customers typically pay the full amount of the purchase price in advance or at the time of license, generally with a credit card.

Enterprise: The Company also has a base of customers with unique content, licensing and workflow needs. These customers benefit from communication with dedicated sales professionals, service and research teams which provide a number of tailored enhancements to their creative workflows including non-standard licensing rights, multi-seat access, ability to pay on credit terms, multi-brand licensing packages, increased indemnification protection and content licensed for use-cases outside of those available on the E-commerce platform.

The Company’s revenues by distribution channel for the three and six months ended June 30, 2020 and 2019 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
E-commerce	$ 98,164	$ 96,993	$ 197,900	$ 195,106
Enterprise	61,066	64,748	122,615	129,967
Total Revenues	$ 159,230	$ 161,741	$ 320,515	$ 325,073

The June 30, 2020 deferred revenue balance will be earned as content is downloaded or upon the expiration of subscription-based products, and nearly all is expected to be earned within the next twelve months. $91.0 million of total revenue recognized for the six months ended June 30, 2020 was reflected in deferred revenue as of December 31, 2019.

(8) Other Income, 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, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Foreign currency gain / (loss)	$ 132	$ (569)	$ (466)	$ (730)
Interest income	17	1,153	1,128	2,210
Total other income	$ 149	$ 584	$ 662	$ 1,480

(9) Income Taxes

The Company’s effective tax rates yielded a net expense of 16.3% and 9.7% for the three months ended June 30, 2020 and 2019, respectively, and a net expense of 19.6% and 14.5% for the six months ended June 30, 2020 and 2019, respectively.

During the three months ended June 30, 2020, the net effect of discrete items decreased the effective tax rate by 0.3%. For the six months ended June 30, 2020, the effective tax rate increased by 1.6% as a result of a loss jurisdiction with no tax benefit. Discrete items further increased the effective tax rate by 1.4%. Excluding the discrete items, our effective tax rate would have been 16.6% for the three and six months ended June 30, 2020. In the three and six months ended June 30, 2019, the impact of discrete tax items decreased the effective tax rate by 3.4% and 1.8%, respectively.

The Company has computed the provision for income taxes based on the estimated annual effective tax rate excluding a loss jurisdiction with no tax benefit and the application of discrete items, if any, in the applicable period. The estimated annual effective tax rate differs from the statutory tax rate due primarily to the effect of the foreign-derived intangible income deduction and the U.S. Research and Development tax credit.

During the three and six months ended June 30, 2020 and during the three months ended June 30, 2019, uncertain tax positions recorded by the Company were not significant. During the six months ended June 30, 2019, uncertain tax positions recorded by the Company resulted in an expense of $1.0 million. To the extent the remaining uncertain tax positions are ultimately recognized, the Company’s effective tax rate may be impacted in future periods.

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 significant for the three and six months ended June 30, 2020 and 2019.

During the six months ended June 30, 2020 and 2019, the Company paid net cash taxes of $0.9 million and $1.5 million, respectively.

(10) Net Income Per Share

Basic net income per share is computed using the weighted average number of shares of common stock outstanding for the period, excluding unvested RSUs and stock options. Diluted net income per share is based upon the weighted average shares of common stock outstanding for the period plus dilutive potential shares of common stock, including unvested RSUs and stock options using the treasury stock method.

The following table sets forth the computation of basic and diluted net income per share for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	$ 18,987	$ 3,299	$ 23,305	$ 10,821
Shares used to compute basic net income per share	35,652	35,232	35,587	35,174
Dilutive potential common shares				
Stock options	39	102	53	104
Unvested restricted stock awards	215	170	254	221
Shares used to compute diluted net income per share	35,906	35,504	35,894	35,499
Basic net income per share	$ 0.53	$ 0.09	$ 0.65	$ 0.31
Diluted net income per share	$ 0.53	$ 0.09	$ 0.65	$ 0.30
Dilutive shares included in the calculation	1,304	1,005	1,080	992
Anti-dilutive shares excluded from the calculation	1,152	1,206	1,148	1,171

(11) 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,	
	2020	2019	2020	2019
North America	$ 56,211	$ 57,657	$ 113,229	$ 115,171
Europe	52,207	53,647	106,003	109,132
Rest of the world	50,812	50,437	101,283	100,770
Total revenue	$ 159,230	$ 161,741	$ 320,515	$ 325,073

The United States, included in North America in the above table, accounted for 32% of consolidated revenue for the six months ended June 30, 2020 and 2019. No other country accounts for more than 10% of the Company’s revenue in any period presented.

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

	As of June 30, 2020	As of December 31, 2019
North America	$ 47,361	$ 51,954
Europe	6,557	6,541
Rest of the world	322	339
Total long-lived tangible assets	$ 54,240	$ 58,834

The United States, included in North America in the above table, accounted for 77% and 79% of total long-lived tangible assets as of June 30, 2020 and December 31, 2019, respectively. No other country accounts for more than 10% of the Company’s long-lived tangible assets in any period presented.

(12) Commitments and Contingencies

As of June 30, 2020, the Company had total non-lease obligations in the amount of approximately $39.2 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, 2020, the Company’s non-lease obligations for the remainder of 2020 and for the years ending December 31, 2021 and 2022 were approximately $18.2 million, $16.5 million and $4.4 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, accordingly, no material reserves related to litigation.

Indemnification and Employment Agreements

In the ordinary course of business, the Company enters into contractual arrangements 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 content is used. The standard maximum aggregate obligation and liability to any one customer for any single claim is generally limited to ten thousand dollars but can range to $250,000, with certain exceptions for which our indemnification obligation are uncapped. As of June 30, 2020, the Company had recorded no material liabilities related to indemnification obligations for loss contingencies. Additionally, the Company believes that it has the appropriate insurance coverage in place to adequately cover such indemnification obligations, if necessary.

Pursuant to the Company’s charter documents and separate written indemnification agreements, the Company has certain indemnification obligations to its executive officers, certain employees and directors, as well as certain former officers and directors.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis 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, 2019 filed with the SEC on February 13, 2020.

In addition to historical consolidated financial information, this discussion contains forward-looking statements including statements about our plans, estimates and beliefs. These statements involve risks and uncertainties and our actual results could differ materially from those expressed or implied in forward-looking statements. See "Forward Looking Statements" above. See also the "Risk Factors" disclosures contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which was filed with the SEC on February 13, 2020, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, which was filed with the SEC on April 28, 2020 for additional discussion of the risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements.

For a discussion as to how COVID-19 has affected our business, see "COVID-19 Update" below.

Overview and Recent Developments

Shutterstock is a global technology company offering a creative platform, which provides high-quality content, tools and services to creative professionals. Our platform brings together users and contributors of content by providing readily-searchable content that our customers pay to license and by compensating contributors as their content is licensed.

The content licensed by our customers include:

- Images - consisting of photographs, vectors and illustrations. Images are typically used in visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and other similar uses.
- Footage - consisting of video clips, premium footage filmed by industry experts and cinema grade video effects, available in HD and 4K formats. Footage is often integrated into websites, social media, marketing campaigns and cinematic productions.
- Music - consisting of high-quality music tracks and sound effects, which are often used to complement images and footage.

Our platform brings together users and contributors of content by providing readily-searchable content that our customers pay to license and by compensating contributors as their content is licensed. For customers seeking specialized content that goes beyond our library of stock content, our platform also connects customers with contributors who can produce custom branded content.

Over 1.9 million active, paying customers contributed to our revenue for the twelve-month period ended June 30, 2020. As of June 30, 2020, more than 1.4 million approved contributors made their images, footage and music tracks available in our collection, which has grown to more than 340 million images and more than 19 million footage clips. This makes our collection of content one of the largest of its kind, and we delivered approximately 90.8 million paid downloads to our customers across all of our brands during the six months ended June 30, 2020.

Through our platform, we generate revenue by licensing content to our customers. During the six months ended June 30, 2020, 62% of our revenue and the majority of our content licenses came from our E-commerce sales channel.

E-commerce customers have the flexibility of choosing content plans that provide a large volume of content for their creative process. We also offer simple, affordable, smaller plans and other products where customers have an option to pay for individual content licenses at the time of delivery. Customers in our Enterprise sales channel generally have unique content, licensing and workflow needs. Our dedicated Enterprise sales, service, client success and research teams are able to provide a number of enhancements to their creative workflows including non-standard licensing rights, multi-seat access, multi-brand licensing packages and content licensed for use-cases outside of those available for license on our E-commerce platform. Our Enterprise sales channel provided approximately 38% of our revenue during the six months ended June 30, 2020.

Each time an image, footage clip or music track is delivered to a customer for use, we record a royalty expense for the amount due to the associated contributor. Depending on the content licensed by our customers, royalties are calculated using either a fixed dollar amount or a fixed percentage of the price per asset downloaded and are typically paid to contributors on a monthly basis, subject to certain payout minimums. Royalties represent the largest component of our operating expenses, are reported within cost of revenue, tend to fluctuate proportionately with revenue and paid downloads and may be impacted by the mix of products sold.

An important driver of our growth is customer acquisition, which we achieve primarily through online marketing efforts and directly through our sales force. Online marketing includes paid search, organic search, online display advertising, brand marketing, email marketing, affiliate marketing, social media and strategic partnerships. Over the past several years, our investments in marketing have represented a significant percentage of revenue. This spend considers, among other things, the blended average customer lifetime value across our various purchase options so we can manage customer acquisition costs and aim to achieve targeted returns.

We believe that another important driver of growth is the quality of the user experience we provide on our websites, especially the efficiency and speed with which our search interfaces and algorithms help customers find and download the content that they need, the degree to which our websites have been localized for our global user base, the degree to which we make use of the large quantity of data we collect about image, footage and music and search patterns, and the security of user information on our platform. To this end, we have invested aggressively in product development and cloud-based hosting infrastructure, and we intend to continue to invest in these areas, to the extent that we can improve the customer experience and increase the efficiency with which we deploy new products and features.

COVID-19 Update

In December 2019, a novel coronavirus disease ("COVID-19") was initially reported and on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. Our operations have been impacted by office closures globally and restrictions on employee travel and in-person meetings, however, we have generally been able to deliver our services remotely. The economic uncertainty caused by COVID-19 has had an impact on our customers and their ability to spend marketing budgets on our products, which has resulted in an unfavorable impact, to varying degrees geographically, on our revenue growth for the six months ended June 30, 2020. See Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, which was filed with the SEC on April 28, 2020, for further discussion of the possible impact of the COVID-19 pandemic on our business.

Key Operating 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, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Subscribers (end of period)	223,000	173,000	223,000	173,000
Subscriber revenue (in millions)	$ 62.7	$ 57.9	$ 126.6	$ 115.8
Average revenue per customer (trailing twelve months)	$ 326	$ 325	$ 326	$ 325
Paid downloads (in millions)	44.0	46.6	90.8	93.8
Revenue per download	$ 3.61	$ 3.44	$ 3.51	$ 3.43
Content in our collection (end of period, in millions):				
Images	340	280	340	280
Footage clips	19	15	19	15

Subscribers

We define subscribers as those customers who purchase one or more of our monthly recurring products for a continuous period of at least three months, measured as of the end of the reporting period. We believe the number of subscribers is an important metric that provides insight into our monthly recurring business and its growth. We believe that an increase in our number of subscribers is an indicator of engagement in our platform and potential for future growth.

Subscriber Revenue

We define subscriber revenue as the revenue generated from subscribers during the period. We believe subscriber revenue, together with our number of subscribers, provide insight into the portion of our business and growth driven by our monthly recurring products.

Average Revenue Per Customer

Average revenue per customer is calculated by dividing total revenue for the trailing twelve month period by customers. We define customers as total active, paying customers that contributed to total revenue over the trailing twelve month period. Changes in our average revenue per customer will be driven by changes in the mix of our subscription-based products and the pricing in our transactional business.

Paid Downloads

We define paid downloads as the number of downloads that our customers make in a given period of our content. Paid downloads exclude custom content and downloads of content that are offered to customers for no charge, including our free image of the week. Measuring the number of paid downloads that our customers make in a given period is important because they are the primary method of delivering licensed content, which drives a significant portion of the Company's revenue and contributor royalties.

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 revenue from custom content and revenue that is not derived from or associated with content licenses. This metric captures any changes in our pricing, including changes resulting from the impact of competitive pressures, as well as the mix of licensing options that our customers choose, some of which generate more revenue per download than others, and the impact that changes in foreign currency rates have on our pricing. Changes in revenue per download are primarily driven by the introduction of new product offerings, changes in product mix and the customer utilization of our products.

Content in our Collection

We define content in our collection as the total number of approved images (photographs, vectors and illustrations) and footage (in number of clips) in our library on shutterstock.com at the end of the period. We exclude content from this collection metric that is not uploaded directly to our site but is available for license by our customers through an application program interface, custom content and certain content that may be licensed for editorial use only. We believe that our large selection of high-quality content enables us to attract and retain customers and drives our network effect.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of the consolidated financial statements in conformity with 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, the volume of expected unused licenses for our subscription-based products, equity-based compensation and income tax provisions. 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, equity-based compensation and accounting for income taxes 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, 2019 that was filed with the SEC on February 13, 2020 (our "2019 Form 10-K"), under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates."

See Note 1 to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a full description of the impact of the adoption of new accounting standards on our financial statements. There have been no material changes to our critical accounting policies and estimates as compared to our critical accounting policies and estimates included in our 2019 Form 10-K.

Key Components of Our Results of Operations

Revenue

We distribute our content offerings through two primary channels:

E-commerce: The majority of our customers license content directly through our self-service web properties. E-commerce customers have the flexibility to purchase a subscription-based plan that is paid on a monthly or annual basis or to license content on a transactional basis. These customers generally license content under our standard or enhanced licenses, with additional licensing options available to meet customers' individual needs. E-commerce customers typically pay the full amount of the purchase price in advance or at the time of license, generally with a credit card.

Enterprise: We also have a base of customers with unique content, licensing and workflow needs. These customers benefit from communication with our dedicated sales professionals, service and research teams which provide a number of tailored enhancements to their creative workflows including non-standard licensing rights, multi-seat access, ability to pay on credit terms, multi-brand licensing packages, increased indemnification protection and content licensed for use-cases outside of those available on the E-commerce platform.

The Company's revenues by distribution channel for the three and six months ended June 30, 2020 and 2019 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
E-commerce	$ 98,164	$ 96,993	$ 197,900	$ 195,106
Enterprise	61,066	64,748	122,615	129,967
Total Revenues	$ 159,230	$ 161,741	$ 320,515	$ 325,073

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, infrastructure and hosting costs related to maintaining our creative platform and cloud-based software platform, depreciation and amortization of capitalized internal-use software, content and technology intangible assets, allocated facility costs and other supporting overhead costs. Cost of revenue also includes employee compensation, including non-cash equity-based compensation, bonuses and benefits, associated with the maintenance of our creative platform and cloud-based software platform.

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.

Product Development. Product development expenses consist of employee compensation, including non-cash equity-based compensation, bonuses and benefits, and expenses related to vendors 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.

General and Administrative. General and administrative expenses include employee compensation, including non-cash equity-based compensation, bonuses and benefits for executive, finance, accounting, legal, human resources, internal information technology, internet security, 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, other supporting overhead costs and depreciation and amortization expense.

Other Income, Net. Other income, net consists of non-operating costs such as foreign currency transaction gains and losses in addition to interest income.

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.

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,	
	2020	2019	2020	2019
	(in thousands)			
Consolidated Statements of Operations:				
Revenue	$ 159,230	$ 161,741	$ 320,515	$ 325,073
Operating expenses:				
Cost of revenue	63,811	68,526	132,934	137,744
Sales and marketing	35,557	44,488	78,217	88,934
Product development	12,485	13,594	25,554	28,580
General and administrative	24,832	32,063	55,484	58,646
Total operating expenses	136,685	158,671	292,189	313,904
Income from operations	22,545	3,070	28,326	11,169
Other income, net	149	584	662	1,480
Income before income taxes	22,694	3,654	28,988	12,649
Provision for income taxes	3,707	355	5,683	1,828
Net income	$ 18,987	$ 3,299	$ 23,305	$ 10,821

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,	
	2020	2019	2020	2019
Consolidated Statements of Operations:				
Revenue	100 %	100 %	100 %	100 %
Operating expenses:				
Cost of revenue	40 %	42 %	41 %	42 %
Sales and marketing	22 %	28 %	24 %	27 %
Product development	8 %	8 %	8 %	9 %
General and administrative	16 %	20 %	17 %	18 %
Total operating expenses	86 %	98 %	91 %	97 %
Income from operations	14 %	2 %	9 %	3 %
Other income, net	— %	— %	— %	— %
Income before income taxes	14 %	2 %	9 %	4 %
Provision for income taxes	2 %	— %	2 %	1 %
Net income	12 %	2 %	7 %	3 %

Note: Due to rounding, percentages may not sum to totals.

Comparison of the Three Months Ended June 30, 2020 and 2019

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

	Three Months Ended June 30,			
	2020	2019	$ Change	% Change
	(in thousands)			
Consolidated Statements of Operations:				
Revenue	$ 159,230	$ 161,741	$ (2,511)	(2) %
Operating expenses:				
Cost of revenue	63,811	68,526	(4,715)	(7)
Sales and marketing	35,557	44,488	(8,931)	(20)
Product development	12,485	13,594	(1,109)	(8)
General and administrative	24,832	32,063	(7,231)	(23)
Total operating expenses	136,685	158,671	(21,986)	(14)
Income from operations	22,545	3,070	19,475	634
Other income, net	149	584	(435)	(74)
Income before income taxes	22,694	3,654	19,040	521
Provision for income taxes	3,707	355	3,352	*
Net income	$ 18,987	$ 3,299	$ 15,688	476 %

* Percentage change is not meaningful

Revenue

Revenue decreased by $2.5 million, or 2%, to $159.2 million in the three months ended June 30, 2020 compared to the same period in 2019. On a constant currency basis, revenue decreased approximately 1%, in the three months ended June 30, 2020, compared to the same period in 2019.

The Company’s E-commerce revenues increased by 1%, to $98.2 million in the three months ended June 30, 2020, compared to the same period in 2019. On a constant currency basis, the Company’s E-commerce revenues increased by 2% in the three months ended June 30, 2020, compared to the same period in 2019. During the three months ended June 30, 2020, growth in our E-commerce sales channel was driven by shifting resources to more efficient performance marketing channels.

The Company’s Enterprise revenues decreased by 6%, to $61.1 million in the three months ended June 30, 2020, compared to the same period in 2019. On a constant currency basis, the Company’s Enterprise revenues decreased by 5% in the three months ended June 30, 2020, compared to the same period in 2019. We continue to face headwinds in our Enterprise sales channel, and are in the midst of implementing changes to improve performance, including optimizing the sales organization, updating product offerings and making further platform investments, which we believe will improve our Enterprise sales channel operations.

Revenue growth for the three months ended June 30, 2020 was also unfavorably affected by the global COVID-19 pandemic and its impact on our customers and their ability to spend marketing budgets on our products. We expect COVID-19 to continue to have an unfavorable impact on our 2020 revenues.

In the three months ended June 30, 2020 and 2019, we delivered 44.0 million and 46.6 million paid downloads, respectively, and our revenue per download was $3.61 and $3.44 for the three months ended June 30, 2020 and 2019, respectively. During the three months ended June 30, 2020, the 6% decrease in the number of paid downloads compared to the same period in 2019, is due to lower customer utilization of our products. We believe that COVID-19 is a leading driver of the decline in usage during the quarter.

Changes in our revenue by region were as follows: revenue from North America decreased by $1.4 million, or 3%, to $56.2 million, revenue from Europe decreased by $1.4 million, or 3%, to $52.2 million and revenue from outside Europe and North America increased by $0.4 million, or 1%, to $50.8 million, in the three months ended June 30, 2020 compared to the same period in 2019.

Costs and Expenses

Cost of Revenue. Cost of revenue decreased by $4.7 million, or 7% to $63.8 million in the three months ended June 30, 2020 compared to the same period in 2019, due to lower royalty expense, content procurement costs and depreciation and amortization expense, partially offset by higher costs associated with website hosting, hardware and software licenses as well as increased credit card fees. The reduction in royalty expenses was driven by the 6% decline in paid downloads due to the impact of COVID-19 as well as a change in the way we remunerate contributors. We expect that our cost of revenue will fluctuate in line with changes in revenue and paid downloads.

Sales and Marketing. Sales and marketing expenses decreased by $8.9 million, or 20%, to $35.6 million in the three months ended June 30, 2020 compared to the same period in 2019. As a percent of revenue, sales and marketing expenses decreased to 22% for the three months ended June 30, 2020, from 28% for the same period in 2019. This decrease was primarily driven by a $9.7 million decline in marketing spend as we focused resources on more efficient customer acquisition and improved marketing return on investment. In addition, travel and related expense costs declined by $0.7 million due to travel restrictions resulting from COVID-19. These declines were partially offset by severance charges of approximately $1.5 million incurred during the three months ended June 30, 2020. We expect sales and marketing expenses to fluctuate as we optimize our sales channels and invest in new customer acquisition, products and geographies.

Product Development. Product development expenses decreased by $1.1 million, or 8%, to $12.5 million in the three months ended June 30, 2020 compared to the same period in 2019. This decrease was primarily driven by a reduction in software and other IT-related costs for the three months ended June 30, 2020, as compared to the same period in the prior year. We expect product development expenses, of which a portion will be capitalized, to continue in the foreseeable future, as we pursue opportunities to invest in developing new products and internal tools and enhance the functionality of our existing products and technologies.

General and Administrative. General and administrative expenses decreased by $7.2 million, or 23%, to $24.8 million in the three months ended June 30, 2020 compared to the same period in 2019. This decrease was primarily driven by: (i) lower non-cash compensation expense of $3.6 million, resulting from the Company recognizing non-cash compensation expense for the acceleration of equity awards associated with the departure of an executive officer in the three months ended June 30, 2019, three months of expense recognized in the second quarter of 2019 for certain performance-based stock awards compared to only one month of expense in the same period in 2020 since these awards became fully expensed in April 2020, and the recognition of forfeitures, reducing the non-cash compensation expense in three months ended June 30, 2020; (ii) lower depreciation and amortization expense of $2.1 million, driven by the recognition of $1.5 million of accelerated amortization expense in the second quarter of 2019 in conjunction with the Company's re-branding of its Editorial product; (iii) lower professional and consulting fees of $1.1 million, during the three months ended June 30, 2020, compared to the same period in 2019; and (iv) a reduction in expense of $0.9 million, associated with the 2019 accrual of long-term incentives, related to our 2017 acquisition of Flashstock Technology, Inc. ("Flashstock"). These declines were partially offset by higher employee-related costs, excluding non-cash compensation, of $1.0 million and an increase in bad debt expense of $0.4 million. Employee-related costs included $0.7 million of severance expense during the three months ended June 30, 2020, compared to $2.0 million in the same period in 2019.

Other Income, Net. In the three months ended June 30, 2020, other income substantially consisted of $0.1 million of unfavorable foreign currency fluctuations.

During the three months ended June 30, 2019, approximately $1.2 million of other income consisted of interest income which was partially offset by $0.6 million of unfavorable foreign currency fluctuations. As we increase the volume of business transacted in foreign currencies resulting from international expansion and as currency rates fluctuate, we expect foreign currency gains and losses to continue to fluctuate.

Income Taxes. Income tax expense increased by $3.4 million for the three months ended June 30, 2020 as compared to the same period in 2019. Our effective tax rates yielded a net expense of 16.3% and 9.7% for the three months ended June 30, 2020 and 2019, respectively.

For the three months ended June 30, 2020, the net effect of discrete items decreased the effective tax rate by 0.3%. Excluding these items, our effective tax rate would have been 16.6% for the three months ended June 30, 2020. For the three months ended June 30, 2019, the net effect of discrete items decreased the effective tax rate by 3.4%.

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.

Comparison of the Six Months Ended June 30, 2020 and 2019

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

	Six Months Ended June 30,			
	2020	2019	$ Change	% Change
	(in thousands)			
Consolidated Statements of Operations Data:				
Revenue	$ 320,515	$ 325,073	$ (4,558)	(1) %
Operating expenses:				
Cost of revenue	132,934	137,744	(4,810)	(3) %
Sales and marketing	78,217	88,934	(10,717)	(12) %
Product development	25,554	28,580	(3,026)	(11) %
General and administrative	55,484	58,646	(3,162)	(5) %
Total operating expenses	292,189	313,904	(21,715)	(7) %
Income from operations	28,326	11,169	17,157	154 %
Other income, net	662	1,480	(818)	*
Income before income taxes	28,988	12,649	16,339	129 %
Provision for income taxes	5,683	1,828	3,855	*
Net income	$ 23,305	$ 10,821	$ 12,484	115 %

* Not meaningful

Revenue

Revenue decreased by $4.6 million, or 1%, to $320.5 million in the six months ended June 30, 2020 compared to the same period in 2019. On a constant currency basis, revenue decreased approximately 1% in the six months ended June 30, 2020, compared to the same period in 2019.

The Company’s E-Commerce revenues increased by 1%, to $197.9 million in the six months ended June 30, 2020, compared to the same period in 2019. On a constant currency basis, the Company’s E-commerce revenues increased 2% in the six months ended June 30, 2020, compared to the same period in 2019. During the six months ended June 30, 2020, growth in our E-commerce sales channel was driven by shifting resources to more efficient performance marketing channels.

The Company’s Enterprise revenues decreased by 6%, to $122.6 million in the six months ended June 30, 2020, compared to the same period in 2019. On a constant currency basis, the Company’s Enterprise revenues decreased by 5% in the six months ended June 30, 2020, compared to the same period in 2019. We continue to face headwinds in our Enterprise sales channel, and are in the midst of implementing changes to improve performance, including optimizing the sales organization, updating product offerings and making further platform investments, which we believe will improve our Enterprise sales channel operations.

Revenue growth for the six months ended June 30, 2020 was also unfavorably affected by the global COVID-19 pandemic and its impact on our customers and their ability to spend marketing budgets on our products. We expect COVID-19 to continue to have an unfavorable impact on our 2020 revenues.

In the six months ended June 30, 2020 and 2019, we delivered 90.8 million and 93.8 million paid downloads, respectively, and our revenue per download increased to $3.51 for the six months ended June 30, 2020, from $3.43 for the six months ended June 30, 2019. During the six months ended June 30, 2020, the 3% decrease in the number of paid downloads compared to the same period in 2019, is due to lower customer utilization of our products. We believe that COVID-19 is a leading driver of the decline in usage during the quarter.

Changes in our revenue by region were as follows: revenue from North America decreased by $1.9 million, or 2%, to $113.2 million, revenue from Europe decreased by $3.1 million, or 3%, to $106.0 million and revenue from outside Europe and North America increased by $0.5 million, or 1%, to $101.3 million, in the six months ended June 30, 2020 compared to the same period in 2019.

Costs and Expenses

Cost of Revenue. Cost of revenue decreased by $4.8 million, or 3%, to $132.9 million in the six months ended June 30, 2020 compared to the same period in 2019, due to lower royalty expense, content procurement costs and depreciation and amortization expense, partially offset by higher costs associated with website hosting, hardware and software licenses as well as increased credit card fees. In addition, severance charges of $1.2 million were recorded during the six months ended June 30, 2020. The reduction in royalty expenses was driven by the 3% decline in paid downloads due to the impact of COVID-19 as well as a change in the way we remunerate contributors. We expect that our cost of revenue will fluctuate in line with changes in revenue and paid downloads.

Sales and Marketing. Sales and marketing expenses decreased by $10.7 million, or 12%, to $78.2 million in the six months ended June 30, 2020 compared to the same period in 2019. As a percent of revenue, sales and marketing expenses decreased to 24% for the three months ended June 30, 2020, from 27% for the same period in 2019. This decrease was primarily driven by a $11.2 million decline in marketing spend as we focused resources on more efficient customer acquisition and improved marketing return on investment. In addition, travel and related expense costs declined by $1.0 million due to travel restrictions resulting from COVID-19. These declines were partially offset by $1.8 million in higher employee-related costs, substantially consisting of severance charges. We expect sales and marketing expenses to fluctuate as we optimize our sales channels and invest in new customer acquisition, products and geographies.

Product Development. Product development expenses decreased by $3.0 million, or 11%, to $25.6 million in the six months ended June 30, 2020 as compared to $28.6 million for the same period in 2019. This decrease was primarily driven by a$3.7 million reduction in software and other IT-related costs for the six months ended June 30, 2020, as compared to the same period in the prior year, partially offset by $1.4 million of higher employee-related costs, including severance charges. We expect product development expenses, of which a portion will be capitalized, to continue in the foreseeable future, as we pursue opportunities to invest in developing new products and internal tools and enhance the functionality of our existing products and technologies.

General and Administrative. General and administrative expenses decreased by $3.2 million, or 5%, to $55.5 million in the six months ended June 30, 2020 compared to the same period in 2019. This decrease was primarily driven by: (i) lower depreciation and amortization expense of $2.5 million, driven by recognition of $1.5 million of accelerated amortization expense in the second quarter of 2019 in conjunction with the Company's re-branding of its Editorial product; (ii) lower non-cash compensation expense of $2.2 million, resulting from the Company recognizing non-cash compensation expense for the acceleration of equity awards associated with the departure of an executive officer in the six months ended June 30, 2019, and six months of expense recognized in the six months ended June 30, 2019 for certain performance-based stock awards compared to only four months of expense in the same period in 2020 since these awards became fully expensed in April 2020; (iii) a reduction in expense of $1.8 million, associated with the 2019 accrual of long-term incentives, related to our 2017 acquisition of Flashstock; and (iv) lower professional and consulting fees of $1.8 million for the six months ended June 30, 2020, compared to the same period in 2019. These declines were partially offset by (i) higher employee-related costs of $3.9 million, primarily associated with increased headcount related to ensuring the stability and security of the Company's technology infrastructure and (ii) a year over year increase of $1.7 million in bad debt expense, driven by $1.1 million of bad debt expense recorded for the six months ended June 30, 2020 and a benefit of $0.6 million recorded in the same period in 2019. We expect to continue to incur general and administrative expenses to support our global operational growth and enhancements to support our reporting and planning functions.

Other Income, Net. During the six months ended June 30, 2020, approximately $1.1 million of other income consisted of interest income which was partially offset by $0.5 million of unfavorable foreign currency fluctuations.

During the six months ended June 30, 2019, approximately $2.2 million of other income consisted of interest income which was partially offset by $0.7 million of unfavorable foreign currency fluctuations. As we increase the volume of business transacted in foreign currencies resulting from international expansion and as currency rates fluctuate, we expect foreign currency gains and losses to continue to fluctuate.

Income Taxes. Income tax expense increased by $3.9 million for the six months ended June 30, 2020 as compared to the same period in 2019. Our effective tax rates for the six months ended June 30, 2020 and 2019 were 19.6% and 14.5%, respectively.

For the six months ended June 30, 2020, the effective tax rate increased by 1.6% as a result of a loss jurisdiction with no tax benefit. Discrete items further increased the effective tax rate by 1.4%. Excluding the discrete items, our effective tax rate would have been 16.6% for the six months ended June 30, 2020. For the six months ended June 30, 2019, the impact of discrete tax items decreased the effective tax rate by 1.8%.

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.

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 third quarter of each calendar year and may increase in the fourth quarter of each calendar year as demand is generally higher to support marketing campaigns in advance of the fourth quarter holiday season. While we believe seasonal trends have affected and will continue to affect our quarterly results, our growth trajectory may have overshadowed these effects to date.

In addition, customers' expenditure on content tends to be discretionary in nature and has been impacted by COVID-19. We cannot estimate when a recovery will occur and therefore, the results of any prior quarterly or annual period should not be relied upon as indicators of our future operating performance.

See Part II, Item 1A Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, which was filed with the SEC on April 28, 2020, for further discussion of the possible impact of the COVID-19 pandemic on our business.

Liquidity and Capital Resources

As of June 30, 2020, we had cash and cash equivalents totaling $311.2 million which primarily consisted of bank balances. Since inception, we have financed our operations primarily through cash flows generated from operations.

Historically, our principal uses of cash have included funding our operations, capital expenditures, content acquisitions, business combinations that enhance our strategic position, cash dividend payments 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.

Dividends

We declared and paid cash dividends of $0.34 per share of common stock, or $12.1 million during the six months ended June 30, 2020.

On July 20, 2020, our Board of Directors declared a quarterly cash dividend of $0.17 per share of outstanding common stock payable on September 17, 2020 to stockholders of record at the close of business on September 3, 2020. Future declaration of dividends are subject to the final determination of our Board of Directors, and will depend on, among other things, our future financial condition, results of operations, capital requirements, capital expenditure requirements, contractual restrictions, anticipated cash needs, business prospects, provisions of applicable law and other factors our Board of Directors may deem relevant.

Share Repurchase Program

In October 2015, our Board of Directors approved a share repurchase program, authorizing us to repurchase up to $100 million of our common stock, and in February 2017, our Board of Directors approved an increase to the share repurchase program, authorizing us to repurchase up to an additional $100 million of our outstanding common stock. We expect to fund future repurchases, if any, 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 the share repurchase program, management is authorized to purchase shares of our common stock 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, 2020, we have repurchased approximately 2,558,000 shares of our common stock under the share repurchase program at an average per-share cost of $39.09. During the six months ended June 30, 2020, we did not repurchase any shares of our common stock under the share repurchase program. As of June 30, 2020, we had $100 million of remaining authorization for share repurchases under the share repurchase program.

Equity-Based Compensation

Upon the vesting of restricted stock units ("RSUs"), the Company has a practice of net share settlement, to cover any required withholding taxes by retaining the number of shares with a value equal to the amount of the tax and remitting an equal amount of cash to the appropriate taxing authorities, rather than requiring employees to sell a portion of the shares that they receive upon vesting to fund the required withholding taxes ("sell-to-cover"). The net share settlement approach has increased our cash outflows compared to the cash outflows under the sell-to-cover approach. In addition, as compared to the sell-to-cover approach, net share settlement has resulted in fewer shares being issued into the market as employees' RSUs vest, thereby reducing the dilutive impact of our equity-based compensation programs on stockholders.

During the six months ended June 30, 2020, shares with an aggregate value of $3.4 million were withheld upon vesting of RSUs and paid in connection with related remittance to taxing authorities.

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. Future capital expenditures could relate to building enhancements to the functionality of our current platform, the acquisition of additional storage, servers, network connectivity hardware, security apparatus and software, leasehold improvements and furniture and fixtures related to office expansion and relocation, content and general corporate infrastructure. See Note 12 to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding our existing capital commitments as of June 30, 2020.

Cash Flows

The following table summarizes our cash flow data for the six months ended June 30, 2020 and 2019 (in thousands).

	Six Months Ended June 30,	
	2020	2019
Net cash provided by operating activities	$ 36,343	$ 46,743
Net cash used in investing activities	$ (15,438)	$ (12,478)
Net cash used in financing activities	$ (14,905)	$ (4,963)

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 the payment of royalties to content contributors, employee-related expenditures and the payment of other operating expenses incurred in the ordinary course of business.

Net cash provided by operating activities was $36.3 million for the six months ended June 30, 2020, compared to $46.7 million for the six months ended June 30, 2019. In the six months ended June 30, 2020, operating cash flows were unfavorably impacted by $7.8 million of one-time payments associated with long-term incentives related to our 2017 acquisition of Flashstock. Operating cash flows were also unfavorably impacted by the reduction in revenues and other changes in the timing of payments pertaining to operating expenses, which can cause operating cash flow to fluctuate from period to period.

In addition, the Company paid net cash taxes of $0.9 million and $1.5 million, for the six months ended June 30, 2020 and 2019, respectively.

Investing Activities

Cash used in investing activities for the six months ended June 30, 2020 was $15.4 million, consisting primarily of capital expenditures of $14.0 million for internal-use software and website development costs and purchases of software and equipment and $1.6 million paid to acquire the rights to distribute certain digital content in perpetuity.

Cash used in investing activities in the six months ended June 30, 2019 was $12.5 million, consisting primarily of capital expenditures of $13.7 million for internal-use software and website development costs and purchases of software and equipment, and $1.3 million paid to acquire the rights to distribute certain digital content into perpetuity, partially offset by $2.5 million of cash received during the six months ended June 30, 2019 from escrowed funds related to the sale of Webdam, our former digital asset management business, which was sold in February 2018.

Financing Activities

Cash used in financing activities in the six months ended June 30, 2020 was $14.9 million, consisting primarily of $12.1 million related to the payment of the quarterly cash dividend and $3.4 million, which was paid in settlement of tax withholding obligations related to employee stock-based compensation awards. These amounts were partially offset by proceeds of approximately $0.6 million from the issuance of common stock in connection with the exercise of stock options.

Cash used in financing activities in the six months ended June 30, 2019 was $5.0 million, consisting primarily of $5.2 million, which was paid in settlement of tax withholding obligations related to employee stock-based compensation awards. These amounts were partially offset by proceeds of approximately $0.2 million from the issuance of common stock in connection with the exercise of stock options.

Contractual Obligations and Commitments

We lease real estate under operating lease agreements that expire on various dates during the period from 2020 through 2029. We do not have any material finance lease obligations and our property, equipment and software have been purchased primarily with cash. We do not anticipate any difficulties in renewing those leases and co-location agreements that expire within the next several years and that we currently plan to renew, or in leasing other space or hosting facilities, if required.

On March 21, 2013, we entered into an operating lease agreement to lease our headquarters in New York City, which was amended in 2016. The aggregate undiscounted future minimum lease payments under the lease, as amended, are approximately $59.2 million. We are also party to a letter of credit as a security deposit for this leased facility, which was reduced from $2.6 million to $1.7 million in February 2020. As of March 31, 2020, the Company is no longer required to provide cash collateral for its letter of credit, and, accordingly, these funds are no longer restricted.

Additionally, as of June 30, 2020, aggregate undiscounted future minimum lease payments under other operating leases are approximately $9.2 million.

We enter into unconditional purchase obligations related to contracts for cloud-based services, infrastructure and other business services as well as minimum royalty guarantees in connection with certain content licenses. As of June 30, 2020, our guaranteed royalty payments and unconditional purchase obligations for the remainder of 2020 and for the fiscal years ending December 31, 2021 and 2022 were approximately $18.2 million, $16.5 million and $4.4 million, respectively.

Non-GAAP Financial Measures

To supplement our consolidated financial statements presented in accordance with the accounting principles generally accepted in the United States, or GAAP, our management considers certain financial measures that are not prepared in accordance with GAAP, collectively referred to as non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted net income per diluted common share, revenue growth (including by distribution channel) on a constant currency basis (expressed as a percentage), and free cash flow. These non-GAAP financial measures are included solely to provide investors with additional information regarding our financial results and are not based on any standardized methodology prescribed by GAAP and are not necessarily comparable to similarly-titled measures presented by other companies.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Non-GAAP Financial Measures:	(in thousands)			
Adjusted EBITDA	$ 37,032	$ 25,106	$ 59,092	$ 50,648
Adjusted net income	22,162	11,785	31,321	24,189
Free cash flow	$ 22,383	$ 19,829	$ 28,559	$ 31,740
Revenue growth on a constant currency basis	(1)%	5 %	(1)%	7 %

These non-GAAP financial measures have not been calculated in accordance with GAAP, should be considered only in addition to results prepared in accordance with GAAP and should not be considered as a substitute for, or superior to, GAAP measures. In addition, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted net income per diluted common share, revenue growth (including by distribution channel) on a constant currency basis and free cash flow should not be construed as indicators of our operating performance, liquidity or cash flows generated by operating, investing and financing activities, as there may be significant factors or trends that they fail to address. We caution investors that non-GAAP financial information, by its nature, departs from traditional accounting conventions; accordingly, its use can make it difficult to compare our current results with our results from other reporting periods and with the results of other companies.

Our management uses these non-GAAP financial measures, in conjunction with GAAP financial measures, as an integral part of managing the business and to, among other things: (i) monitor and evaluate the performance of our business operations, financial performance and overall liquidity; (ii) facilitate management's internal comparisons of the historical operating performance of its business operations; (iii) facilitate management's external comparisons of the results of its overall business to the historical operating performance of other companies that may have different capital structures and debt levels; (iv) review and assess the operating performance of our management team and, together with other operational objectives, as a measure in evaluating employee compensation and bonuses; (v) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and (vi) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments.

Management believes that adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted net income per diluted common share and revenue growth (including by distribution channel) on a constant currency basis are useful to investors because these measures enable investors to analyze our operating results on the same basis as that used by management. Additionally, management believes that adjusted EBITDA, adjusted EBITDA margin, adjusted net income and adjusted net income per diluted common share provide useful information to investors about the performance of the Company's overall business because such measures eliminate the effects of unusual or other infrequent charges that are not directly attributable to our underlying operating performance; and that revenue growth (including by distribution channel) on a constant currency basis, provides useful information to investors by eliminating the effect of foreign currency fluctuations that are not directly attributable to our business. Management also believes that providing these non-GAAP financial measures enhances the comparability for investors in assessing our financial reporting. Management believes that free cash flow is useful for investors because it provides them with an important perspective on the cash available for strategic measures, after making necessary capital investments in property and equipment to support the Company's ongoing business operations and after excluding the impact of nonrecurring payments associated with long-term incentives related to our 2017 acquisition of Flashstock, and provides them with the same measures that management uses as the basis for making resource allocation decisions.

Our use of non-GAAP financial measures has limitations as an analytical tool, and these measures should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP, as the excluded items may have significant effects on our operating results and financial condition. When evaluating our performance, these non-GAAP financial measures should be considered in addition to other financial performance measures, including various cash flow metrics, net income and our other GAAP results.

Our method for calculating adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted net income per diluted common share, revenue growth (including by distribution channel) on a constant currency basis and free cash flow, as well as a reconciliation of the differences between adjusted EBITDA, adjusted net income, revenue growth (including by distribution channel) on a constant currency basis and free cash flow, and the most comparable financial measures calculated and presented in accordance with GAAP, are presented below.

Adjusted EBITDA

We define adjusted EBITDA as net income adjusted for depreciation and amortization, non-cash equity-based compensation, foreign currency transaction gains and losses, expenses related to long-term incentives and contingent consideration related to acquisitions, interest income and expense and income taxes. We define adjusted EBITDA margin as the ratio of adjusted EBITDA to revenue.

The following is a reconciliation of net income to adjusted EBITDA for each of the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Net income	$ 18,987	$ 3,299	$ 23,305	$ 10,821
Add / (less) Non-GAAP adjustments:				
Depreciation and amortization	10,851	13,403	21,370	25,319
Non-cash equity-based compensation	3,636	7,751	9,396	12,375
Other adjustments, net[1]	(149)	298	(662)	305
Provision for income taxes	3,707	355	5,683	1,828
Adjusted EBITDA	$ 37,032	$ 25,106	$ 59,092	$ 50,648
Adjusted EBITDA margin	23.3 %	15.5 %	18.4 %	15.6 %

(1) Included in other adjustments, net is foreign currency transaction gains and losses, expenses related to long-term incentives and contingent consideration related to acquisitions, and interest income and expense.

Adjusted Net Income

We define adjusted net income as net income adjusted for the impact of non-cash equity-based compensation, the amortization of acquisition-related intangible assets, expenses related to long-term incentives and contingent consideration related to acquisitions and the estimated tax impact of such adjustments. We define adjusted net income per diluted common share as adjusted net income divided by weighted average diluted shares.

The following is a reconciliation of net income to adjusted net income for each of the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Net income	$ 18,987	$ 3,299	$ 23,305	$ 10,821
Add / (less) Non-GAAP adjustments:				
Non-cash equity-based compensation	3,636	7,751	9,396	12,375
Tax effect of non-cash equity-based compensation	(854)	(1,822)	(2,208)	(2,909)
Acquisition-related amortization expense	514	2,407	1,082	3,297
Tax effect of acquisition-related amortization expense	(121)	(498)	(254)	(707)
Acquisition-related long-term incentives and contingent consideration(1)	—	882	—	1,786
Tax effect of acquisition-related long-term incentives and contingent consideration	—	(234)	—	(474)
Adjusted net income	$ 22,162	$ 11,785	$ 31,321	$ 24,189
Adjusted net income per diluted common share	$ 0.62	$ 0.33	$ 0.87	$ 0.68

(1) Represents expenses related to long-term incentives and contingent consideration related to our 2017 acquisition of Flashstock.

Revenue Growth (including by distribution channel) on a Constant Currency Basis

We define revenue growth (including by distribution channel) on a constant currency basis (expressed as a percentage) as the increase in current period revenues over prior period revenues, utilizing fixed exchange rates for translating foreign currency revenues for all periods in the comparison.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(in thousands)			
Reported revenue (in thousands)	$ 159,230	$ 161,741	$ 320,515	$ 325,073
Revenue growth	*(2)%*	*3 %*	*(1)%*	*5 %*
Revenue growth on a constant currency basis	*(1)%*	*5 %*	*(1)%*	*7 %*
E-commerce reported revenue (in thousands)	$ 98,164	$ 96,993	$ 197,900	$ 195,106
E-commerce revenue growth	*1 %*	*6 %*	*1 %*	*8 %*
E-commerce revenue growth on a constant currency basis	*2 %*	*7 %*	*2 %*	*10 %*
Enterprise reported revenue (in thousands)	$ 61,066	$ 64,748	$ 122,615	$ 129,967
Enterprise revenue growth	*(6)%*	*— %*	*(6)%*	*4 %*
Enterprise revenue growth on a constant currency basis	*(5)%*	*2 %*	*(5)%*	*6 %*

Free Cash Flow

We define free cash flow as our cash provided by operating activities, adjusted for capital expenditures and content acquisition, and, with respect to the three months ended March 31, 2020, a payment associated with long-term incentives related to our 2017 acquisition of Flashstock.

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

	Six Months Ended June 30,	
	2020	2019
	(in thousands)	
Net cash provided by operating activities	$ 36,343	$ 46,743
Capital expenditures	(13,966)	(13,726)
Content acquisitions	(1,577)	(1,277)
Payments related to long-term incentives related to acquisitions	7,759	—
Free Cash Flow	$ 28,559	$ 31,740

Off-Balance Sheet Arrangements

As of June 30, 2020, 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 expenditures 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 foreign currency exchange rate fluctuation, interest rate fluctuation and inflation.

Foreign Currency Exchange Risk

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 35% for the six months ended June 30, 2020 and 2019. Changes in exchange rates will affect our revenue and certain operating expenses to the extent that our revenue is generated and expenses are incurred in currencies other than the U.S. dollar. Royalties earned by and paid to contributors are denominated in the U.S. dollar and will not be affected by changes in exchange rates. Based on our foreign currency denominated revenue for the six months ended June 30, 2020, 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.

We have established foreign subsidiaries in various countries and have concluded that the functional currency of these entities is generally the local currency. Business transacted in currencies other than each entity's functional currency results in transactional gains and losses. Translation adjustments resulting from converting the foreign subsidiaries' financial statements into U.S. dollars are recorded as a component of accumulated other comprehensive loss in stockholders' equity. 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.

Our historical revenue by currency is as follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	U.S. Dollars	Originating Currency	U.S. Dollars	Originating Currency	U.S. Dollars	Originating Currency	U.S. Dollars	Originating Currency
Euro	$ 32,756	€ 29,717	$ 33,460	€ 29,467	$ 66,448	€ 60,095	$ 66,535	€ 58,138
British pounds	11,274	£ 9,039	11,918	£ 9,191	23,477	£ 18,509	24,032	£ 18,447
All other non-U.S. currencies(1)	11,408		11,752		23,203		23,514	
Total foreign currency	55,438		57,130		113,128		114,081	
U.S. dollar	103,792		104,611		207,387		210,992	
Total revenue	$ 159,230		$ 161,741		$ 320,515		$ 325,073	

(1) Includes no single currency which exceeded 5% of total revenue for any of the periods presented.

Interest Rate Fluctuation Risk

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. The fair value of our cash and cash equivalents is not particularly sensitive to interest rate changes.

We did not have any long-term borrowings as of June 30, 2020.

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, 2020. 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. However, any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objective.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in 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, employment matters,' 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 2019 Form 10-K, and Part II, "Item 1. Risk Factors" in our first quarter 2020 Form 10-Q, which could materially affect our business, financial condition or future results. During the three months ended June 30, 2020, there were no material changes to these risk factors as described in our 2019 Form 10-K and first quarter 2020 Form 10-Q.

Item 6. Exhibits.

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

EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1#	Offer Letter, dated February 11, 2020, between the Company and Abraham Muchnick
10.2#	Employment Agreement, dated November 4, 2019, between the Company and Pietro Silvio
10.3	Mutual Separation Agreement and General Release, dated March 23, 2020, between the Company and Lou Weiss (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 15, 2020 (File No. 001-35699))
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Filed herewith.

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: July 28, 2020	By:	/s/ Jarrod Yahes
		Jarrod Yahes *Chief Financial Officer* *(Principal Financial Officer)*
Dated: July 28, 2020	By:	/s/ Steven Ciardiello
		Steven Ciardiello *Chief Accounting Officer* *(Principal Accounting Officer)*

shutterstock

Shutterstock, Inc.
Empire State Building
350 Fifth Avenue, 21st Floor
New York, NY 10118
1-866-663-3954 (US)
1-646-419-4452 (Int'l)

February 11, 2020

Dear Avi,

We're happy to extend an offer of employment for the position of Chief Product Officer at Shutterstock Inc. ("Shutterstock" or "Company"). Congratulations!

You will be based in our New York, New York office at 350 Fifth Avenue, 21st Floor , New York, New York 10118 and your start date will be March 9, 2020 unless a different start date is selected and agreed to by you and the Company. This offer is contingent upon your written consent to, and the satisfactory completion of a background check and verification of your employment eligibility to work in the United States and your execution of Shutterstock's Employee Confidentiality Agreement.

Your employment will be "at-will", meaning that Shutterstock and you each have the right to end the employment relationship at any time, without reason or notice. You will be required to comply with and consent to all policies and procedures applicable to Shutterstock employees.

The job responsibilities will be as described in our interview process but are subject to change as necessary, and as directed.

Your pre-tax annual salary (Base Salary) will be $400,000.00 per year, paid bi-weekly at a rate of $15,384.62 minus appropriate withholding taxes and deductions. There are 26 pay periods annually.

For 2020 (and for each year thereafter that you remain employed by Company), you will be eligible to be considered for an annual discretionary cash bonus of 0% to 50% of your Base Salary (less all applicable taxes and deductions). Bonus payments will be prorated in an amount proportional to the length of time you are employed by Shutterstock during the applicable calendar year. The determination of bonus payments will be based on the achievement of certain objective or subjective criteria established by, and in the sole discretion of the Company. Further, payment of any bonus is subject to you (i) being employed by Shutterstock at the time of payment and (ii) not having submitted a resignation or received notification of termination of employment on or prior to the date that such bonus is paid.

Subject to the approval of the Board of Directors (the "Board") or the Compensation Committee of the Board (the "Committee"), as applicable, the Company shall grant you restricted stock units of the Company's common stock in an amount equal to the fair market value of $400,000 (the "RSU Award"). The number of RSUs granted to you will be determined by dividing the fair market value of the RSU Award by the average of the Company's closing price for a share of our common stock during the 30-day period ending on the date immediately prior to the Grant Date (as defined below), rounded down to the nearest whole number of shares. The RSU Award shall be granted on or after, but in all events by no later than the first business day of the calendar month next following, the Start Date, at the discretion of the Board, the Committee or a delegate (the "Grant Date"), and shall be settled in shares of Company common stock. The RSU Award will be subject to the terms, definitions and provisions of the Company's Amended and Restated 2012 Omnibus Equity Incentive Plan (the "Equity Plan") and the restricted stock unit agreement by and between you and the Company (the "RSU Agreement"), both of which documents are incorporated herein by reference.

Shutterstock, Inc.
Empire State Building
350 Fifth Avenue, 21st Floor
New York, NY 10118
1-866-663-3954 (US)
1-646-419-4452 (Int'l)

Except as otherwise expressly provided in this Agreement, the RSU Award shall vest and become payable as to thirty-three percent (33%) of the shares subject to the RSU Award on each of the first two (2) anniversaries of the first of the month in which the RSU Award was granted ("Vest From Date") and thirty-four (34%) on the third anniversary of the Vest From Date, in each case subject to you continuing to provide Services (as defined in the Equity Plan) to the Company through the relevant vesting dates. You will be eligible for future awards under the Equity Plan, as determined in the sole discretion of the Company and/or the Committee, which award will be subject to the terms and conditions, including any vesting conditions, as set forth in the applicable award agreement.

Subject to the approval of the Board or the Committee, as applicable, the Company shall grant you performance restricted stock units ("PSUs") of the Company's common stock as set forth herein in an amount equal to the fair market value of $400,000 (the "PSU Award"). The number of PSUs granted to you will be determined by dividing the fair market value of the PSU Award by the average of the Company's closing price for a share of our common stock during the 30-day period ending on the date immediately prior to the Grant Date, rounded down to the nearest whole number of shares. The PSUs will vest, if at all, over a three-year performance and service period based on the achievement of targets and completion of service requirements, consistent with those performance targets and service requirements applicable to other similar PSU awards being granted contemporaneously to other employees of the Company to be established and approved by the Company's Board, Committee or a delegate, as applicable in its sole discretion, prior to March 31, 2020. Any vested PSUs will be settled in shares of Company common stock. The PSU Award will be subject to the terms, definitions and provisions of the Equity Plan and the performance restricted stock unit agreement ("PSU Award Agreement") by and between you and the Company and, vesting shall be subject to you continuing to provide Services (as defined in the Equity Plan) to the Company through the relevant target achievement dates and any applicable service requirements.

If the Company terminates your employment for any reason other than for Cause during the period that you serve as Chief Product Officer, you will receive continuing payments of severance pay at a rate equal to your Base Salary, as then in effect, for a period of six (6) months, less all required tax withholdings and other applicable deductions (the "Severance Payment"), which will be paid in accordance with the Company's regular payroll procedures; provided, however, that any Severance Payment made hereunder is subject to you signing and not revoking a separation agreement and release of claims in a form acceptable to the Company.

You will be eligible for 21 days of paid time off per year (accruing at 1.75 days per month), in addition to company paid holidays. Your use of paid time off shall at all times be subject to the Company's applicable policies, which will be provided to you at the start of your employment, and applicable law.

You and your qualifying dependents will be eligible to participate in the employee benefit plans offered by Shutterstock and generally made available to similarly situated employees of the Company. The Company reserves the right to cancel or change the employee benefit plans and programs it offers to its employees at any time.

This letter agreement is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, to the extent applicable. To the extent that any provision in this letter is

Shutterstock, Inc.
Empire State Building
350 Fifth Avenue, 21st Floor
New York, NY 10118
1-866-663-3954 (US)
1-646-419-4452 (Int'l)

ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder will comply with Section 409A, to the extent Section 409A applies.
We look forward to welcoming you to Shutterstock, Avi!

Please indicate your consent to the foregoing terms of employment by electronically signing below.

CONSENTED TO AND AGREED:

_/s/ Abraham Muchnick___________________	__February 11, 2020__________
Avi Muchnick	Date

SHUTTERSTOCK, INC.

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

Pietro Silvio
****
****

Re: <u>EMPLOYMENT AGREEMENT</u>

Dear Peter:

This Employment Agreement (the "***Agreement***") between you (referred to hereinafter as the "***Executive***") and Shutterstock, Inc., a Delaware corporation, including all direct and indirect subsidiaries and affiliated entities (collectively, 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. **<u>Duties and Scope of Employment</u>.**

(a) **<u>At-Will Employment</u>**. Executive commenced full-time Employment with the Company effective as of June 19, 2017 (the "***Effective Start Date***") and 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). Furthermore, although 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) **<u>Position and Responsibilities</u>.** During the Employment Period, the Company agrees to employ Executive in the position of Chief Technology Officer. Executive will report to the Company's President & Chief Operating Officer, or to such other person as the Company subsequently may determine (your "***Supervisor***"). Executive's employment will be located at the Company's principal office in New York City, New York. Executive will perform the duties and responsibilities and authority customarily performed and held by an employee in Executive's position or as otherwise may be assigned or delegated to Executive by Executive's Supervisor, from time to time.

(c) **<u>Obligations to the Company</u>.** 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. Notwithstanding the foregoing, Executive will be permitted to (a) with the prior written approval of Executive's Supervisor (which approval shall not be unreasonably withheld), act or serve as a director, trustee, or committee member of any non-profit, civic, or charitable organization, as long as such activities are disclosed in writing to the Company's General Counsel in accordance with the Company's policies and rules, with a copy of such notice to the Board of Directors, (b) purchase or own less than five percent (5%) of the publicly traded securities of any corporation; provided that, such ownership represents a passive investment and that the Executive is not a controlling person of, or a member of a group that controls, such corporation; and (c) deliver lectures, fulfill speaking engagements, teach at educational institution or manage personal investments; 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 may serve on the board of directors of unaffiliated companies that are not competitive with the business of the Company to the extent such service or participation does not interfere with Executive's employment or duties under this Agreement and that Executive has advised Executive's Supervisor and the Board at least thirty (30) days prior to commencing service, and the Executive's Supervisor and the Board have consented (which consent shall not be unreasonably withheld) to, such additional corporate board service. Executive shall comply with the Company's policies, procedures and rules, as they may be in effect from time to time during Executive's Employment.

(d) **Confidentiality.** All information learned or developed by the Executive during the course of the Executive's employment by the Company or any subsidiary thereof will be deemed "Confidential Information" under the terms of this Agreement. The Executive will not disclose to any person at any time or use in any way, except as directed by the Company, either during or after the employment of the Executive by the Company, any Confidential Information. The foregoing restrictions shall not apply to information which is or becomes part of the public domain though no act or failure to act by the Executive. In addition to the foregoing, in the process of the Executive's employment with the Company, or thereafter, under no condition is the Executive to use or disclose to the Company, or incorporate or use in any of Executive's work for the Company, any confidential information imparted to the Executive or with which Executive may have come into contact while in the employ of Executive's former employer(s).

(i)Pursuant to 18 U.S.C. § 1833(b), Executive acknowledges that Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret if he/she (i) makes such disclosure in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and such disclosure is made solely for the purpose of reporting or investigating a suspected violation of law; or (ii) such disclosure was made in a complaint or other document filed in a lawsuit or other proceeding if such filing is made under seal. Executive understands that if Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to Executive's attorney and use the trade secret information in the court proceeding if Executive (x) files any document containing the trade secret under seal, and (y) does not disclose the trade secret, except pursuant to court order. Nothing in this Agreement, or any other agreement that Executive has with the Company, is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by such section. Further, nothing in this Agreement or any other agreement that Executive has with the

Company shall prohibit or restrict Executive from making any voluntary disclosure of information or documents concerning possible violations of law to any governmental agency or legislative body, or any self-regulatory organization, in each case, without advance notice to the Company.

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, less all required tax withholdings and other applicable deductions, in accordance with the Company's standard payroll procedures. Executive's Base Salary will be subject to review and adjustments by the Compensation Committee of the Board (the "***Committee***"), in its sole discretion, upon recommendation of Executive's Supervisor and in connection with the Company's normal performance review process. The annual compensation specified in this subsection (a), together with any modifications to such compensation made from time to time, is referred to in this Agreement as the "***Base Salary***."

(b) **Cash Incentive Bonus.** Executive will be eligible to earn an annual cash incentive bonus (the "***Cash Bonus***"), less all required tax withholdings and other applicable deductions, each calendar year during the Employment Period based upon the achievement of objective or subjective criteria (collectively, the "***Performance Goals***") established by the Company in connection with the Company's annual short term incentive compensation plan and approved by 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 in its sole discretion. The initial target amount for any such Cash Bonus will be 50% of Executive's Base Salary (the "***Target Bonus Percentage***"). Executive's Target Bonus Percentage for any subsequent year may be adjusted, as recommended by Executive's Supervisor and determined in the sole discretion of the Board, the Committee or the Delegate, as applicable. 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. Executive's Cash Bonus for the first calendar year of service will be pro-rated for a partial year of service.

(c) **Restricted Stock Units**. Subject to the approval of the Board or the Committee, as applicable, the Company shall grant Executive restricted stock units of the Company's common stock in an amount equal to the fair market value of $500,000 (the "***RSU Award***"). The number of RSUs granted to Executive will be determined by dividing the fair market value of the RSU Award by the average of the Company's closing price for a share of our common stock during the 30-day period ending on the date immediately prior to the Grant Date (as defined below), rounded down to the nearest whole number of shares. The RSU Award shall be granted on or after, but in all events by no later than the first business day of the calendar month next following, the Start Date, at the discretion of the Board, the Committee or a Delegate (the "***Grant Date***"), and shall be settled in shares of Company common stock. The RSU Award will be subject to the terms, definitions and provisions of the Company's Amended and Restated 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. Except as otherwise expressly provided in this Agreement, the RSU Award shall vest and become payable as to thirty-three percent (33%) of the shares subject to the RSU Award on each of the first two (2) anniversaries of the Grant Date and thirty-four (34%) on the third anniversary of the Grant Date, in each case subject to Executive continuing to provide Services (as defined in the Equity Plan) to the Company through the relevant vesting dates. Executive will be eligible for future awards under the Equity Plan, as determined in the sole discretion of the Committee, which award will be subject to the terms and conditions, including any vesting conditions, as set forth in the applicable award agreement.

3. **Recoupment**. The incentive compensation payable to Executive pursuant to this Agreement shall be subject to reduction, cancellation, forfeiture or recoupment as and to the extent required by the applicable provisions of any law (including without limitation Section 10D of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder), government regulation or stock exchange listing requirement, or clawback policy or provision implemented by the Company pursuant to such law, regulation or listing requirement from time to time.

4. **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.

5. **Business Expenses.** The Company will reimburse Executive for necessary and reasonable business expenses incurred in connection with Executive's duties hereunder. In order to receive any such reimbursement, the Executive must comply with generally applicable policies, practices and procedures of the Company with respect to reimbursement for, and submission of expense reports, receipts or similar documentation of, such expenses.

6. **Rights Upon Termination.** Except as expressly provided in Section 7, upon the termination of Executive's Employment for any reason, Executive shall only be entitled to (i) the benefits accrued or earned in accordance with any applicable Company-provided plans, policies, and arrangements for the period immediately preceding the effective date of the termination of Employment and (ii) such other compensation or benefits from the Company as may be required by law (collectively, the "***Accrued Benefits***").

7. **Termination Benefits.**

(a) **Termination without Cause not in Connection with a Change in Control**. If the Company terminates Executive's employment with the Company for a reason other than for Cause, Executive becoming Disabled or Executive's death at any time other than during the twelve (12)-month period immediately following a Change in Control, then, subject to Section 8, Executive will receive the following severance benefits from the Company:

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

(ii)Severance Payment. Commencing on the sixtieth day after the date of the Executive's termination of employment, the Company shall continue to pay the Executive the Executive's Base Salary, at the rate in effect immediately prior to such termination of employment, for the Severance Period, less all required tax withholdings and other applicable deductions, which will be paid in accordance with the Company's regular payroll procedures; provided, however, that any such salary otherwise payable during the 60-day period immediately following the date of such termination of employment shall be paid to the Executive in the first payroll cycle following the sixtieth day following Executive's termination of employment.

(iii)Continued Employee Benefits. If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("***COBRA***") for Executive and Executive's eligible dependents, within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination) until the earlier of (A) the end of the Severance Period, or (B) the date upon which Executive and/or 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. If the Executive's termination date is at least twelve (12) months following the Effective Start Date, 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, if any, *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 at the same time of, or 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 for Good Reason, then, subject to Section 8, Executive will receive the following severance benefits from the Company in lieu of the benefits described in Section 7(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 twelve (12) months' of Executive's Base Salary, at the rate in effect immediately prior to such termination of employment, less all required tax withholdings and other applicable deductions, which will be paid in the first payroll cycle following the sixtieth day following Executive's termination of employment.

(iii) Continued Employee Benefits. If Executive elects continuation coverage pursuant to COBRA for Executive and Executive's eligible dependents, within the time period prescribed pursuant to COBRA, the Company will reimburse Executive for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Executive's termination or resignation) until the earlier of (A) a period of twelve (12) months from the last date of employment of Executive with the Company, or (B) the date upon which Executive and/or 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. Unless otherwise set forth in a performance restricted stock unit award agreement, all of Executive's unvested and outstanding equity awards shall immediately vest and become exercisable as of the date Executive's Release (as defined in Section 8 herein) actually becomes effective.

(v) Target Bonus Payment. Executive will receive a lump sum severance payment equal to one hundred percent (100%) of Executive's full target bonus amount for the fiscal year in effect at the date of such termination of employment (or, if greater, as in effect for the fiscal year in which the Change in Control occurs), less all required tax withholdings and other applicable deductions.

(c) **Disability; Death; Voluntary Resignation; 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 at the time of or during the twelve (12) month period immediately following a Change of Control), 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 7(c).

(d) **Exclusive Remedy**. In the event of a termination of Executive's employment with the Company, the provisions of this Section 7 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, including, without limitation, any severance payments and/or benefits provided in the Employment Agreement, other than those benefits expressly set forth in Section 7 of this Agreement or pursuant to written equity award agreements with the Company.

(e) **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.

8. **Conditions to Receipt of Severance**.

(a) **Release of Claims Agreement**. The receipt of any severance payments or benefits pursuant to Section 7 of this Agreement, other than, for the avoidance of doubt, the Accrued Benefits, is subject to Executive signing and not revoking a 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 8(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 7, (ii) the date the Release becomes effective, or (iii) Section 8(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**. As a condition to employment and to Executive's receipt of any payments or benefits under Section 7 will be subject to Executive's continued compliance with the requirements set for in the Non-Disclosure Agreement (as defined in Section 11(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. 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 7(a) and 7(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.

9. **Cooperation**. Following the Employment Period, regardless of the reason for the termination of Executive's Employment, the Executive shall give the Executive's assistance and cooperation willingly, upon reasonable advance notice, in any matter relating to the Executive's position with the Company, or the Executive's expertise or experience as the Company may reasonably request, including but not limited to the Executive's assistance in transitioning the Executive's duties and responsibilities, the Executive's provision of information regarding any Company matters relevant to the Executive's role, and the Executive's attendance and truthful testimony where deemed appropriate by the Company, with respect to any investigation or the Company's defense or prosecution of any existing or future claims or litigations or other proceedings relating to matters in which the Executive was involved or potentially had knowledge by virtue of the Executive's employment with the Company. When making a request for assistance and/or cooperation in accordance with this Section 9, the Company shall make reasonable efforts to give due consideration to the Executive's other business or personal commitments and to not materially interfere with the Executive's services to a subsequent employer.

10. **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 contendre 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 (other than as explicitly set forth in this Agreement) 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 his or 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 Amended and Restated 2012 Omnibus Equity Incentive Plan, provided that any such event constitutes a "change in control event" under Treasury Regulation Section 1.409A-3(i)(5)(i).

(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 the occurrence, without Executive's consent, of one or more of the following:

(i)A material reduction in Executive's duties, authorities or responsibilities, relative to Executive's duties, authorities or responsibilities in effect immediately prior to such reduction; provided, however, that not being named the Chief Technology Officer of the acquiring corporation following a Change in Control of the Company 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;

in each case, only if Executive provides notice in accordance with Section 14(c) to the Company of the existence of the applicable condition described in Section 10(e), specifically identifying the acts or omissions, within thirty (30) days of the Executive's knowledge of the initial existence of the condition, the Company fails to remedy the condition within thirty (30) days thereafter, and within the (30) day period immediately following such failure to remedy, you elect to terminate your Employment.

(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 twelve (12) months.

11. **Pre-Employment Conditions.**

(a) **Non-Disclosure Agreement**. Executive's acceptance of this offer and Employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company's non-disclosure agreement (the "***Non-Disclosure Agreement***"), prior to or on Executive's Effective Start Date.

(b) **Right to Work**. For purposes of federal immigration law, you will be required, if you have not 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 the Effective 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.

12. **Arbitration**.

(a) **Arbitration**. In consideration of your Employment with the Company, its promise to arbitrate all employment-related disputes, and your receipt of any 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 determine the scope of any necessary discovery and to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication, motions to dismiss and demurrers, 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 apply substantive New York law to any dispute or claim, without reference to the rules of conflict of law. 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.

13. **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.

14. **Miscellaneous Provisions.**

(a) **Indemnification.** The Company shall indemnify Executive to the maximum extent permitted by applicable law and the Company's Certificate of Incorporation and 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 14(c)(i) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon and will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated. 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. This Agreement and the Non-Disclosure Agreement 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.** 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.

(h) **Severability.** 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.

(i) **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.

(j) **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.

(k) **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.

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/ Lisa Nadler

(Signature)

Name: Lisa Nadler

Title: Chief Human Resources Officer

ACCEPTED AND AGREED:

Pietro Silvio

/s/ Pietro Silvio

(Signature)

November 14, 2019
Date

EXHIBIT 31.1

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, Stan Pavlovsky, 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: July 28, 2020	By:	/s/ Stan Pavlovsky
		Stan Pavlovsky
		Chief Executive Officer
		(Principal Executive Officer)

EXHIBIT 31.2

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, Jarrod Yahes, 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: July 28, 2020	By:	/s/ Jarrod Yahes
		Jarrod Yahes
		Chief Financial Officer
		(Principal Financial Officer)

EXHIBIT 32

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, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stan Pavlovsky, 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: July 28, 2020	By:	/s/ Stan Pavlovsky
		Stan Pavlovsky
		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, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jarrod Yahes, 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: July 28, 2020	By:	/s/ Jarrod Yahes
		Jarrod Yahes
		Chief Financial Officer
		(Principal Financial Officer)