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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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**(Mark One)**

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

**For the quarterly period ended September 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**

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**SHUTTERSTOCK, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**80-0812659**

(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)

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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

Non-accelerated filer

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 October 23, 2020, 36,222,746 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

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**Shutterstock, Inc.**  
**FORM 10-Q**  
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## 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,” “Asset Assurance,” “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)

	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 383,127	\$ 303,261
Accounts receivable, net of allowance of \$4,051 and \$3,579	48,225	47,016
Prepaid expenses and other current assets	19,309	26,703
Total current assets	450,661	376,980
Property and equipment, net	52,686	58,834
Right-of-use assets	40,856	45,453
Intangible assets, net	24,459	26,669
Goodwill	88,727	88,974
Deferred tax assets, net	14,665	14,387
Other assets	16,228	19,215
Total assets	\$ 688,282	\$ 630,512
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,109	\$ 6,104
Accrued expenses	61,377	53,864
Contributor royalties payable	24,976	25,193
Deferred revenue	144,657	141,922
Other current liabilities	10,111	18,811
Total current liabilities	245,230	245,894
Lease liabilities	42,954	47,313
Other non-current liabilities	9,858	9,160
Total liabilities	298,042	302,367
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000 shares authorized; 38,776 and 38,055 shares issued and 36,218 and 35,497 shares outstanding as of September 30, 2020 and December 31, 2019, respectively	387	381
Treasury stock, at cost; 2,558 shares as of September 30, 2020 and December 31, 2019	(100,027)	(100,027)
Additional paid-in capital	350,428	312,824
Accumulated comprehensive loss	(9,128)	(6,220)
Retained earnings	148,580	121,187
Total stockholders' equity	390,240	328,145
Total liabilities and stockholders' equity	\$ 688,282	\$ 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 165,227	\$ 159,079	\$ 485,742	\$ 484,152
Operating expenses:				
Cost of revenue	60,331	68,635	193,265	206,379
Sales and marketing	36,655	45,614	114,872	134,548
Product development	10,617	13,533	36,171	42,113
General and administrative	28,277	28,114	83,761	86,760
Total operating expenses	135,880	155,896	428,069	469,800
Income from operations	29,347	3,183	57,673	14,352
Other (expense) / income, net	(1,168)	465	(506)	1,945
Income before income taxes	28,179	3,648	57,167	16,297
Provision / (Benefit) for income taxes	5,597	(1,286)	11,280	542
Net income	\$ 22,582	\$ 4,934	\$ 45,887	\$ 15,755
Earnings per share:				
Basic	\$ 0.63	\$ 0.14	\$ 1.28	\$ 0.45
Diluted	\$ 0.62	\$ 0.14	\$ 1.27	\$ 0.44
Weighted average shares outstanding:				
Basic	35,962	35,309	35,713	35,219
Diluted	36,494	35,541	36,095	35,512

*See Notes to Unaudited Consolidated Financial Statements.*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 22,582	\$ 4,934	\$ 45,887	\$ 15,755
Foreign currency translation loss	(714)	(1,296)	(2,908)	(2,278)
Other comprehensive loss	(714)	(1,296)	(2,908)	(2,278)
Comprehensive income	<u>\$ 21,868</u>	<u>\$ 3,638</u>	<u>\$ 42,979</u>	<u>\$ 13,477</u>

*See Notes to Unaudited Consolidated Financial Statements.*

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

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
<b>Three Months Ended September 30, 2020</b>								
Balance at June 30, 2020	38,245	\$ 382	2,558	\$ (100,027)	\$ 319,412	\$ (8,414)	\$ 132,147	\$ 343,500
Equity-based compensation	—	—	—	—	8,285	—	—	8,285
Issuance of common stock, net of issuance costs	516	5	—	—	23,148	—	—	23,153
Issuance of common stock in connection with employee stock option exercises and RSU vesting	25	—	—	—	—	—	—	—
Common shares withheld for settlement of taxes in connection with equity-based compensation	(10)	—	—	—	(417)	—	—	(417)
Cash dividends paid	—	—	—	—	—	—	(6,149)	(6,149)
Other comprehensive loss	—	—	—	—	—	(714)	—	(714)
Net income	—	—	—	—	—	—	22,582	22,582
Balance at September 30, 2020	<u>38,776</u>	<u>\$ 387</u>	<u>2,558</u>	<u>\$ (100,027)</u>	<u>\$ 350,428</u>	<u>\$ (9,128)</u>	<u>\$ 148,580</u>	<u>\$ 390,240</u>
<b>Three Months Ended September 30, 2019</b>								
Balance at June 30, 2019	37,816	\$ 379	2,558	\$ (100,027)	\$ 299,122	\$ (7,453)	\$ 111,900	\$ 303,921
Equity-based compensation	—	—	—	—	5,509	—	—	5,509
Issuance of common stock in connection with employee stock option exercises and RSU vesting	222	2	—	—	4,372	—	—	4,374
Common shares withheld for settlement of taxes in connection with equity-based compensation	(32)	(1)	—	—	(1,188)	—	—	(1,189)
Other comprehensive loss	—	—	—	—	—	(1,296)	—	(1,296)
Net income	—	—	—	—	—	—	4,934	4,934
Balance at September 30, 2019	<u>38,006</u>	<u>\$ 380</u>	<u>2,558</u>	<u>\$ (100,027)</u>	<u>\$ 307,815</u>	<u>\$ (8,749)</u>	<u>\$ 116,834</u>	<u>\$ 316,253</u>
<b>Nine Months Ended September 30, 2020</b>								
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	—	—	—	—	17,681	—	—	17,681
Issuance of common stock, net of issuance costs	516	5	—	—	23,148	—	—	23,153
Issuance of common stock in connection with employee stock option exercises and RSU vesting	314	3	—	—	626	—	—	629
Common shares withheld for settlement of taxes in connection with equity-based compensation	(109)	(2)	—	—	(3,851)	—	—	(3,853)
Cash dividends paid	—	—	—	—	—	—	(18,247)	(18,247)
Other comprehensive loss	—	—	—	—	—	(2,908)	—	(2,908)
Net income	—	—	—	—	—	—	45,887	45,887
Balance at September 30, 2020	<u>38,776</u>	<u>\$ 387</u>	<u>2,558</u>	<u>\$ (100,027)</u>	<u>\$ 350,428</u>	<u>\$ (9,128)</u>	<u>\$ 148,580</u>	<u>\$ 390,240</u>
<b>Nine Months Ended September 30, 2019</b>								
Balance at December 31, 2018	37,618	\$ 376	2,558	\$ (100,027)	\$ 291,710	\$ (6,471)	\$ 101,079	\$ 286,667
Equity-based compensation	—	—	—	—	17,884	—	—	17,884
Issuance of common stock in connection with employee stock option exercises and RSU vesting	534	6	—	—	4,590	—	—	4,596
Common shares withheld for settlement of taxes in connection with equity-based compensation	(146)	(2)	—	—	(6,369)	—	—	(6,371)
Other comprehensive loss	—	—	—	—	—	(2,278)	—	(2,278)
Net income	—	—	—	—	—	—	15,755	15,755
Balance at September 30, 2019	<u>38,006</u>	<u>\$ 380</u>	<u>2,558</u>	<u>\$ (100,027)</u>	<u>\$ 307,815</u>	<u>\$ (8,749)</u>	<u>\$ 116,834</u>	<u>\$ 316,253</u>

*See Notes to Unaudited Consolidated Financial Statements.*

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

	Nine Months Ended September 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 45,887	\$ 15,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,120	37,311
Deferred taxes	(206)	(1,480)
Non-cash equity-based compensation	17,681	17,884
Bad debt expense	1,586	(486)
Changes in operating assets and liabilities:		
Accounts receivable	(3,135)	(5,598)
Prepaid expenses and other current and non-current assets	7,184	(655)
Accounts payable and other current and non-current liabilities	5,297	13,284
Long-term incentives related to acquisitions	(7,759)	—
Contributor royalties payable	(183)	2,348
Deferred revenue	2,753	(1,343)
Net cash provided by operating activities	<u>\$ 100,225</u>	<u>\$ 77,020</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(20,277)	(19,547)
Proceeds from sale of Webdam, net	—	2,500
Acquisition of content	(2,107)	(1,896)
Security deposit release	296	—
Net cash used in investing activities	<u>\$ (22,088)</u>	<u>\$ (18,943)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from issuance of common stock	23,153	—
Proceeds from exercise of stock options	629	4,596
Cash paid related to settlement of employee taxes related to RSU vesting	(3,861)	(6,371)
Payment of cash dividend	(18,247)	—
Net cash provided by / (used in) financing activities	<u>\$ 1,674</u>	<u>\$ (1,775)</u>
Effect of foreign exchange rate changes on cash	(2,558)	(1,758)
Net increase in cash, cash equivalents and restricted cash	77,253	54,544
Cash, cash equivalents and restricted cash, beginning of period	305,874	233,465
Cash, cash equivalents and restricted cash, end of period	<u>\$ 383,127</u>	<u>\$ 288,009</u>
<b>Supplemental Disclosure of Cash Information:</b>		
Cash paid for income taxes	\$ 2,767	\$ 1,487

*See Notes to Unaudited Consolidated Financial Statements.*



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

**(1) Summary of Operations and Significant Accounting Policies**

***Summary of Operations***

Shutterstock, Inc. (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 September 30, 2020, and the Consolidated Statements of Operations, Comprehensive Income and Stockholders’ Equity for the three and nine months ended September 30, 2020 and 2019, and the Consolidated Statements of Cash Flows for the nine months ended September 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 September 30, 2020, and its consolidated results of operations, comprehensive income and stockholders’ equity for the three and nine months ended September 30, 2020 and 2019, and its cash flows for the nine months ended September 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 nine months ended September 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 amount 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 September 30, 2020 and December 31, 2019 (in thousands):

	<u>As of September 30, 2020</u>	<u>As of December 31, 2019</u>
Cash and cash equivalents	\$ 383,127	\$ 303,261
Restricted cash	—	2,613
Total cash, cash equivalents and restricted cash	<u>\$ 383,127</u>	<u>\$ 305,874</u>

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

Effective February 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 nine months ended September 30, 2020, the Company recorded bad debt expense of \$1.6 million. As of September 30, 2020 and December 31, 2019, the Company's allowance for doubtful accounts was approximately \$4.1 million and \$3.6 million, respectively. 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 September 30, 2020 and December 31, 2019, the Company's combined allowance for chargebacks and sales refunds was \$0.4 million and \$0.3 million, respectively, 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

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

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 September 30, 2020 or December 31, 2019.

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

*Other Fair Value Measurements*

The carrying amounts of cash and cash equivalents, accounts receivable, 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 September 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 September 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):

	<u>As of September 30, 2020</u>	<u>As of December 31, 2019</u>
Computer equipment and software	\$ 186,364	\$ 165,950
Furniture and fixtures	10,223	10,199
Leasehold improvements	19,310	19,203
Property and equipment	215,897	195,352
Less accumulated depreciation	(163,211)	(136,518)
Property and equipment, net	<u>\$ 52,686</u>	<u>\$ 58,834</u>

Depreciation expense related to property and equipment was \$8.4 million and \$10.8 million for the three months ended September 30, 2020 and 2019, respectively, and \$27.3 million and \$31.9 million for the nine months ended September 30, 2020 and 2019, respectively. Cost of revenues includes depreciation expense of \$7.5 million and \$9.6 million for the three months ended September 30, 2020 and 2019, respectively, and \$24.3 million and \$28.2 million for the nine months ended September 30, 2020 and 2019, respectively. General and administrative expense includes depreciation expense of \$0.9 million and \$1.2 million for the three months ended September 30, 2020 and 2019, respectively, and \$3.0 million and \$3.7 million for the nine months ended September 30, 2020 and 2019, respectively.

*Capitalized Internal-Use Software*

The Company capitalized costs related to the development of internal-use software of \$6.1 million and \$5.6 million for the three months ended September 30, 2020 and 2019, respectively, and \$19.3 million and \$17.8 million for the nine months ended September 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 \$7.1 million and \$7.7 million for the three months ended September 30, 2020 and 2019, respectively, and \$22.0 million and \$22.5 million for the nine months ended September 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 September 30, 2020 and December 31, 2019, the Company had capitalized internal-use software of \$39.0 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 nine months ended September 30, 2020.

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

	<b>Goodwill</b>	
Balance as of December 31, 2019	\$	88,974
Foreign currency translation adjustment		(247)
Balance as of September 30, 2020	\$	88,727

##### *Intangible Assets*

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

	<u>As of September 30, 2020</u>		<b>Weighted Average Life (Years)</b>	<u>As of December 31, 2019</u>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>		<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
<b>Amortizing intangible assets:</b>					
Customer relationships	\$ 17,499	\$ (10,293)	9	\$ 17,729	\$ (9,294)
Trade name	6,432	(6,031)	7	6,517	(5,941)
Developed technology	4,791	(4,636)	4	4,841	(4,226)
Contributor content	25,548	(8,998)	9	23,510	(6,626)
Patents	259	(112)	18	259	(100)
<b>Total</b>	<b>\$ 54,529</b>	<b>\$ (30,070)</b>		<b>\$ 52,856</b>	<b>\$ (26,187)</b>

Amortization expense was \$1.3 million and \$1.2 million for the three months ended September 30, 2020 and 2019, respectively, and \$3.8 million and \$5.4 million for the nine months ended September 30, 2020 and 2019, respectively. Cost of revenue includes amortization expense of \$0.7 million and \$0.5 million for the three months ended September 30, 2020 and 2019, respectively, and \$2.0 million and \$1.4 million for the nine months ended September 30, 2020 and 2019, respectively. General and administrative expense includes amortization expense of \$0.6 million and \$0.7 million for the three months ended September 30, 2020 and 2019, respectively, and \$1.8 million and \$4.0 million for the nine months ended September 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: \$1.5 million for the remaining three months of 2020, \$5.0 million in 2021, \$4.7 million in 2022, \$4.3 million in 2023, \$3.4 million in 2024, \$2.0 million in 2025 and \$3.6 million thereafter.

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**(unaudited)**

**(5) Accrued Expenses**

Accrued expenses consisted of the following (in thousands):

	As of September 30, 2020	As of December 31, 2019
Compensation	\$ 26,613	\$ 20,776
Non-income taxes	17,168	15,332
Website hosting and marketing fees	9,566	8,657
Other expenses	8,030	9,099
Total accrued expenses	<u>\$ 61,377</u>	<u>\$ 53,864</u>

**(6) Stockholders' Equity and Equity-Based Compensation*****Stockholders' Equity******Stock Offering***

On August 14, 2020, the Company completed an offering (the "Stock Offering"), whereby 2,580,000 shares of its common stock were sold to the public at a price to the public of \$48.50 per share. The Company sold 516,000 shares of common stock in the Stock Offering and the Company's Founder and Executive Chairman of the Board sold 2,064,000 shares of common stock in the Stock Offering. The Company received net proceeds from the shares it sold, after deducting underwriting discounts and commissions and offering expenses payable by the Company, of approximately \$23.2 million. The Company did not receive any proceeds from the shares sold by the Company's Founder and Executive Chairman of the Board.

***Common Stock***

During the three and nine months ended September 30, 2020, the Company issued 516,000 shares of common stock in connection with the Stock Offering. Additionally, the Company issued approximately 15,000 and 191,000 shares of common stock during the three months ended September 30, 2020 and 2019, respectively, and 206,000 and 389,000 for the nine months ended September 30, 2020 and 2019, respectively, related to the exercise of stock options and the vesting of Restricted Stock Units.

***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 nine months ended September 30, 2020 and 2019, the Company did not repurchase any shares of its common stock under the share repurchase program. As of September 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 \$0.51 per share of common stock, or \$6.1 million and \$18.2 million, during the three and nine months ended September 30, 2020.

On October 19, 2020, the Company's Board of Directors declared a quarterly cash dividend of \$0.17 per share of outstanding common stock payable on December 16, 2020 to stockholders of record at the close of business on December 3, 2020. Future declarations 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

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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 Restricted Stock Units and Performance-based Restricted Stock Units (“PRSUs” and, collectively with Restricted Stock Units, “RSUs”) and stock options 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 nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	\$ 125	\$ 55	\$ 275	\$ 245
Sales and marketing	467	366	1,301	1,623
Product development	1,263	1,395	3,456	3,822
General and administrative	6,430	3,693	12,649	12,194
<b>Total</b>	<b>\$ 8,285</b>	<b>\$ 5,509</b>	<b>\$ 17,681</b>	<b>\$ 17,884</b>

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 nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Stock options	\$ 179	\$ 1,327	\$ 1,909	\$ 4,394
RSUs	8,106	4,182	15,772	13,490
<b>Total</b>	<b>\$ 8,285</b>	<b>\$ 5,509</b>	<b>\$ 17,681</b>	<b>\$ 17,884</b>

*Stock Option Awards*

During the nine months ended September 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 September 30, 2020, there were approximately 346,000 options vested and exercisable with a weighted average exercise price of \$34.49. As of September 30, 2020, the total unrecognized compensation charge related to non-vested options was approximately \$1.8 million, which is expected to be recognized through 2023.

*Restricted Stock Unit Awards*

During the nine months ended September 30, 2020, the Company had RSU grants, net of forfeitures, of approximately 603,000. As of September 30, 2020, there are approximately 1,425,000 non-vested RSUs outstanding with a weighted average grant-date fair value of \$39.61. As of September 30, 2020, the total unrecognized non-cash equity-based compensation charge related to the non-vested RSUs was approximately \$35.8 million, which is expected to be recognized through 2023.

During the nine months ended September 30, 2020, shares of common stock with an aggregate value of \$3.9 million were withheld upon vesting of RSUs and paid in connection with related remittance of employee withholding taxes to taxing authorities.

**(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

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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 nine months ended September 30, 2020 and 2019 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
E-commerce	\$ 102,816	\$ 96,233	\$ 300,716	\$ 291,339
Enterprise	62,411	62,846	185,026	192,813
Total Revenues	\$ 165,227	\$ 159,079	\$ 485,742	\$ 484,152

The September 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. \$114.2 million of total revenue recognized for the nine months ended September 30, 2020 was reflected in deferred revenue as of December 31, 2019.

#### **(8) Other (Expense) / 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 nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Foreign currency loss	\$ (1,170)	\$ (626)	\$ (1,636)	\$ (1,356)
Interest income, net	2	1,091	1,130	3,301
Total other (expense) / income	\$ (1,168)	\$ 465	\$ (506)	\$ 1,945

#### **(9) Income Taxes**

The Company's effective tax rates yielded a net expense of 19.9% for the three months ended September 30, 2020 and a net benefit of 35.3% for the three months ended September 30, 2019. The Company's effective tax rates yielded a net expense of 19.7% and 3.3% for the nine months ended September 30, 2020 and 2019, respectively.

During the three months ended September 30, 2020, the net effect of discrete items increased the effective tax rate by 2.9%. For the nine months ended September 30, 2020, the effective tax rate increased by 0.9% as a result of a loss jurisdiction with no tax benefit. Discrete items further increased the effective tax rate by 1.8%. Excluding the discrete items, our effective tax rate would have been 17.0% for the three and nine months ended September 30, 2020.

In the three and nine months ended September 30, 2019, the impact of discrete tax items decreased the effective tax rate by 51.6% and 13.0%, respectively. In the three and nine months ended September 30, 2019, the Company incurred a discrete tax benefit related primarily to the release of reserves for uncertain tax positions due to a lapse in the statute of limitations and the effect of the foreign-derived intangible income deduction claimed on the Company's 2018 tax return, which was substantially completed in the third quarter of 2019.

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 nine months ended September 30, 2020 and during the three months ended September 30, 2019, uncertain tax positions recorded by the Company were not significant. During the nine months ended September 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 nine months ended September 30, 2020 and 2019.

During the nine months ended September 30, 2020 and 2019, the Company paid net cash taxes of \$2.8 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 nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 22,582	\$ 4,934	\$ 45,887	\$ 15,755
Shares used to compute basic net income per share	35,962	35,309	35,713	35,219
Dilutive potential common shares				
Stock options	104	65	70	91
Unvested restricted stock awards	428	167	312	202
Shares used to compute diluted net income per share	36,494	35,541	36,095	35,512
Basic net income per share	\$ 0.63	\$ 0.14	\$ 1.28	\$ 0.45
Diluted net income per share	\$ 0.62	\$ 0.14	\$ 1.27	\$ 0.44
Dilutive shares included in the calculation	1,385	844	1,182	942
Anti-dilutive shares excluded from the calculation	778	1,322	1,024	1,222

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**(11) Geographic Information**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
North America	\$ 59,252	\$ 56,151	\$ 172,481	\$ 171,322
Europe	53,291	51,683	159,294	160,815
Rest of the world	52,684	51,245	153,967	152,015
Total revenue	<u>\$ 165,227</u>	<u>\$ 159,079</u>	<u>\$ 485,742</u>	<u>\$ 484,152</u>

The United States, included in North America in the above table, accounted for 32% of consolidated revenue for the nine months ended September 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 September 30, 2020	As of December 31, 2019
North America	\$ 45,435	\$ 51,954
Europe	6,942	6,541
Rest of the world	309	339
Total long-lived tangible assets	<u>\$ 52,686</u>	<u>\$ 58,834</u>

The United States, included in North America in the above table, accounted for 76% and 79% of total long-lived tangible assets as of September 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 September 30, 2020, the Company had total non-lease obligations in the amount of approximately \$35.5 million, which consisted primarily of minimum royalty guarantees and unconditional purchase obligations related to contracts for infrastructure and other business services. As of September 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 \$12.9 million, \$18.2 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.

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***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 obligations are uncapped. As of September 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 September 30, 2020. As of September 30, 2020, more than 1.5 million approved contributors made their images, footage and music tracks available in our collection, which has grown to more than 350 million images and more than 20 million footage clips. This makes our collection of content one of the largest of its kind, and we delivered approximately 134.2 million paid downloads to our customers across all of our brands during the nine months ended September 30, 2020.

Through our platform, we generate revenue by licensing content to our customers. During the nine months ended September 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 nine months ended September 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 and number of paid downloads for the nine months ended September 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 nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Subscribers (end of period)	255,000	184,000	255,000	184,000
Subscriber revenue (in millions)	\$ 67.6	\$ 60.1	\$ 194.2	\$ 176.0
Average revenue per customer (trailing twelve months)	\$ 328	\$ 327	\$ 328	\$ 327
Paid downloads (in millions)	43.4	46.3	134.2	140.1
Revenue per download	\$ 3.79	\$ 3.40	\$ 3.60	\$ 3.42
Content in our collection (end of period, in millions):				
Images	350	297	350	297
Footage clips	20	16	20	16

### ***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 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 nine months ended September 30, 2020 and 2019 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
E-commerce	\$ 102,816	\$ 96,233	\$ 300,716	\$ 291,339
Enterprise	62,411	62,846	185,026	192,813
Total Revenues	\$ 165,227	\$ 159,079	\$ 485,742	\$ 484,152

### 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 (Expense) / Income, Net.* Other (expense) / 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(in thousands)				
<b>Consolidated Statements of Operations:</b>				
Revenue	\$ 165,227	\$ 159,079	\$ 485,742	\$ 484,152
Operating expenses:				
Cost of revenue	60,331	68,635	193,265	206,379
Sales and marketing	36,655	45,614	114,872	134,548
Product development	10,617	13,533	36,171	42,113
General and administrative	28,277	28,114	83,761	86,760
Total operating expenses	135,880	155,896	428,069	469,800
Income from operations	29,347	3,183	57,673	14,352
Other (expense) / income, net	(1,168)	465	(506)	1,945
Income before income taxes	28,179	3,648	57,167	16,297
Provision / (Benefit) for income taxes	5,597	(1,286)	11,280	542
Net income	\$ 22,582	\$ 4,934	\$ 45,887	\$ 15,755

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Consolidated Statements of Operations:</b>				
Revenue	100 %	100 %	100 %	100 %
Operating expenses:				
Cost of revenue	37 %	43 %	40 %	43 %
Sales and marketing	22 %	29 %	24 %	28 %
Product development	6 %	9 %	7 %	9 %
General and administrative	17 %	18 %	17 %	18 %
Total operating expenses	82 %	98 %	88 %	97 %
Income from operations	18 %	2 %	12 %	3 %
Other (expense) / income, net	(1) %	— %	— %	— %
Income before income taxes	17 %	2 %	12 %	3 %
Provision / (Benefit) for income taxes	3 %	(1) %	2 %	— %
Net income	14 %	3 %	9 %	3 %

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

## Comparison of the Three Months Ended September 30, 2020 and 2019

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

	Three Months Ended September 30,			
	2020	2019	\$ Change	% Change
	(in thousands)			
<b>Consolidated Statements of Operations:</b>				
Revenue	\$ 165,227	\$ 159,079	\$ 6,148	4 %
Operating expenses:				
Cost of revenue	60,331	68,635	(8,304)	(12)
Sales and marketing	36,655	45,614	(8,959)	(20)
Product development	10,617	13,533	(2,916)	(22)
General and administrative	28,277	28,114	163	1
Total operating expenses	135,880	155,896	(20,016)	(13)
Income from operations	29,347	3,183	26,164	822
Other (expense) / income, net	(1,168)	465	(1,633)	*
Income before income taxes	28,179	3,648	24,531	672
Provision / (Benefit) for income taxes	5,597	(1,286)	6,883	*
Net income	\$ 22,582	\$ 4,934	\$ 17,648	358 %

\* Percentage change is not meaningful

### Revenue

Revenue increased by \$6.1 million, or 4%, to \$165.2 million in the three months ended September 30, 2020 compared to the same period in 2019. On a constant currency basis, revenue increased approximately 3%, in the three months ended September 30, 2020, compared to the same period in 2019.

The Company's E-commerce revenues increased by 7%, to \$102.8 million in the three months ended September 30, 2020, compared to the same period in 2019. On a constant currency basis, the Company's E-commerce revenues increased by 6% in the three months ended September 30, 2020, compared to the same period in 2019. During the three months ended September 30, 2020, growth in our E-commerce sales channel was primarily driven by increased subscriber revenue.

The Company's Enterprise revenues decreased by 1%, to \$62.4 million in the three months ended September 30, 2020, compared to the same period in 2019. Foreign currency fluctuations did not have a significant impact on Enterprise revenues in the three months ended September 30, 2020, compared to the same period in 2019. We 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 September 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 September 30, 2020 and 2019, we delivered 43.4 million and 46.3 million paid downloads, respectively, and our revenue per download was \$3.79 and \$3.40 for the three months ended September 30, 2020 and 2019, respectively. During the three months ended September 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 the decline in usage during the quarter is partially attributable to COVID-19.

Changes in our revenue by region were as follows: revenue from North America increased by \$3.1 million, or 6%, to \$59.3 million, revenue from Europe increased by \$1.6 million, or 3%, to \$53.3 million and revenue from outside Europe and North America increased by \$1.4 million, or 3%, to \$52.7 million, in the three months ended September 30, 2020 compared to the same period in 2019.

## **Costs and Expenses**

*Cost of Revenue.* Cost of revenue decreased by \$8.3 million, or 12% to \$60.3 million in the three months ended September 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 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 as well as a modification in the way we compensate 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 \$9.0 million, or 20%, to \$36.7 million in the three months ended September 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 September 30, 2020, from 29% for the same period in 2019. This decrease was primarily driven by a \$7.7 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 \$0.5 million due to travel restrictions resulting from COVID-19. 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 \$2.9 million, or 22%, to \$10.6 million in the three months ended September 30, 2020 compared to the same period in 2019. This decrease was driven by (i) a reduction in software and other IT-related costs and (ii) lower employee and third-party contractor related costs, net of capitalized labor, for the three months ended September 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 increased by \$0.2 million, to \$28.3 million in the three months ended September 30, 2020 compared to the same period in 2019. This increase was primarily driven by higher non-cash compensation expense of \$2.6 million, attributable to certain performance-based awards, and an increase in bad debt expense of \$0.4 million. These increases were partially offset by: (i) lower professional and consulting fees of \$1.0 million, during the three months ended September 30, 2020, compared to the same period in 2019; (ii) 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”), and (iii) lower depreciation and amortization expense of \$0.4 million.

*Other (Expense) / Income, Net.* In the three months ended September 30, 2020, other (expense) / income, net substantially consisted of \$1.2 million of unfavorable foreign currency fluctuations.

During the three months ended September 30, 2019, approximately \$1.1 million of other (expense) / income, net 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 \$6.9 million for the three months ended September 30, 2020 as compared to the same period in 2019. Our effective tax rates yielded a net expense of 19.9% and a net benefit of 35.3% for the three months ended September 30, 2020 and 2019, respectively.

For the three months ended September 30, 2020, the net effect of discrete items increased the effective tax rate by 2.9%. Excluding these items, our effective tax rate would have been 17.0% for the three months ended September 30, 2020.

For the three months ended September 30, 2019, the net effect of discrete items decreased the effective tax rate by 51.6%. For the three months ended September 30, 2019, we incurred a discrete tax benefit related primarily to the release of reserves for uncertain tax positions due to a lapse in the statute of limitations and the effect of the foreign-derived intangible income deduction claimed on the Company’s 2018 tax return, which was substantially completed in the third quarter of 2019. Excluding the discrete items, our effective tax rate would have been 16.3% for the three months ended September 30, 2019.

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 Nine Months Ended September 30, 2020 and 2019

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

	Nine Months Ended September 30,			
	2020	2019	\$ Change	% Change
(in thousands)				
<b>Consolidated Statements of Operations Data:</b>				
Revenue	\$ 485,742	\$ 484,152	\$ 1,590	— %
Operating expenses:				
Cost of revenue	193,265	206,379	(13,114)	(6) %
Sales and marketing	114,872	134,548	(19,676)	(15) %
Product development	36,171	42,113	(5,942)	(14) %
General and administrative	83,761	86,760	(2,999)	(3) %
Total operating expenses	428,069	469,800	(41,731)	(9) %
Income from operations	57,673	14,352	43,321	302 %
Other (expense) / income, net	(506)	1,945	(2,451)	*
Income before income taxes	57,167	16,297	40,870	251 %
Provision for income taxes	11,280	542	10,738	1,981 %
Net income	\$ 45,887	\$ 15,755	\$ 30,132	191 %

\* Not meaningful

### Revenue

Revenue increased by \$1.6 million, or 0.3%, to \$485.7 million in the nine months ended September 30, 2020 compared to the same period in 2019. On a constant currency basis, revenue increased approximately 1% in the nine months ended September 30, 2020, compared to the same period in 2019.

The Company's E-commerce revenues increased by 3%, to \$300.7 million in the nine months ended September 30, 2020, compared to the same period in 2019. Foreign currency fluctuations did not have a significant impact on E-commerce revenues in the nine months ended September 30, 2020, compared to the same period in 2019. During the nine months ended September 30, 2020, growth in our E-commerce sales channel was primarily driven by increased subscriber revenue.

The Company's Enterprise revenues decreased by 4%, to \$185.0 million in the nine months ended September 30, 2020, compared to the same period in 2019. Foreign currency fluctuations did not have a significant impact on Enterprise revenues in the nine months ended September 30, 2020, compared to the same period in 2019. We 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 nine months ended September 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 nine months ended September 30, 2020 and 2019, we delivered 134.2 million and 140.1 million paid downloads, respectively, and our revenue per download increased to \$3.60 for the nine months ended September 30, 2020, from \$3.42 for the nine months ended September 30, 2019. During the nine months ended September 30, 2020, the 4% 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 the decline in usage during the nine months ended September 30, 2020, compared to the same period in 2019, is partially attributable to COVID-19.

Changes in our revenue by region were as follows: revenue from North America increased by \$1.2 million, or 1%, to \$172.5 million, revenue from Europe decreased by \$1.5 million, or 1%, to \$159.3 million and revenue from outside Europe and North America increased by \$2.0 million, or 1%, to \$154.0 million, in the nine months ended September 30, 2020 compared to the same period in 2019.

## Costs and Expenses

*Cost of Revenue.* Cost of revenue decreased by \$13.1 million, or 6%, to \$193.3 million in the nine months ended September 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 nine months ended September 30, 2020. The reduction in royalty expenses was driven by the 4% decline in paid downloads as well as a modification in the way we compensate 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 \$19.7 million, or 15%, to \$114.9 million in the nine months ended September 30, 2020 compared to the same period in 2019. As a percent of revenue, sales and marketing expenses decreased to 24% for the nine months ended September 30, 2020, from 28% for the same period in 2019. This decrease was primarily driven by a \$18.9 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 \$1.6 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 \$5.9 million, or 14%, to \$36.2 million in the nine months ended September 30, 2020 as compared to \$42.1 million for the same period in 2019. This decrease was primarily driven by a \$4.7 million reduction in software and other IT-related costs for the nine months ended September 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 \$3.0 million, or 3%, to \$83.8 million in the nine months ended September 30, 2020 compared to the same period in 2019. This decrease was primarily driven by: (i) lower depreciation and amortization expense of \$2.9 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 professional and consulting fees of \$2.8 million for the nine months ended September 30, 2020, compared to the same period in 2019; and (iii) a reduction in expense of \$2.7 million, associated with the 2019 accrual of long-term incentives, related to our 2017 acquisition of Flashstock. These declines were partially offset by (i) higher employee-related costs of \$4.4 million for the nine months ended September 30, 2020 as compared to the same period in 2019; and (ii) a year over year increase of \$2.1 million in bad debt expense, driven by \$1.6 million of bad debt expense recorded for the nine months ended September 30, 2020 and a benefit of \$0.5 million recorded in the same period in 2019.

*Other (Expense) / Income, Net.* During the nine months ended September 30, 2020, approximately \$1.1 million of other (expense) / income, net consisted of interest income and \$1.6 million of unfavorable foreign currency fluctuations.

During the nine months ended September 30, 2019, approximately \$3.3 million of other (expense) / income, net consisted of interest income which was partially offset by \$1.4 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 \$10.7 million for the nine months ended September 30, 2020 as compared to the same period in 2019. Our effective tax rates for the nine months ended September 30, 2020 and 2019 were 19.7% and 3.3%, respectively.

For the nine months ended September 30, 2020, the effective tax rate increased by 0.9% as a result of a loss jurisdiction with no tax benefit. Discrete items further increased the effective tax rate by 1.8%. Excluding the discrete items, our effective tax rate would have been 17.0% for the nine months ended September 30, 2020.

For the nine months ended September 30, 2019, the impact of discrete tax items decreased the effective tax rate by 13.0%. For the nine months ended September 30, 2019, we incurred a discrete tax benefit related primarily to the release of reserves for uncertain tax positions due to a lapse in the statute of limitations and the effect of the foreign-derived intangible income deduction claimed on the Company's 2018 tax return, which was substantially completed in the third quarter of 2019. Excluding the discrete items, our effective tax rate would have been 16.3% for the nine months ended September 30, 2019.

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 September 30, 2020, we had cash and cash equivalents totaling \$383.1 million which primarily consisted of bank balances and money market funds. 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.

#### *Stock Offering*

On August 14, 2020, we completed the Stock Offering, whereby 2,580,000 shares of our common stock were sold to the public at a price to the public of \$48.50 per share. We sold 516,000 shares of common stock in the Stock Offering and our Founder and Executive Chairman of the Board sold 2,064,000 shares of common stock in the Stock Offering. We received net proceeds from the shares sold, of approximately \$23.2 million, after deducting underwriting discounts and commissions and offering expenses payable. We did not receive any proceeds from the shares sold by the Company's Founder and Executive Chairman of the Board.

#### *Dividends*

We declared and paid cash dividends of \$0.51 per share of common stock, or \$18.2 million during the nine months ended September 30, 2020.

On October 19, 2020, our Board of Directors declared a quarterly cash dividend of \$0.17 per share of outstanding common stock payable on December 16, 2020 to stockholders of record at the close of business on December 3, 2020. Future declarations 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 September 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 nine months ended September 30, 2020, we did not repurchase any shares of our common stock under the share repurchase program. As of September 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 nine months ended September 30, 2020, shares with an aggregate value of \$3.9 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 September 30, 2020.

### *Cash Flows*

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

	Nine Months Ended September 30,	
	2020	2019
Net cash provided by operating activities	\$ 100,225	\$ 77,020
Net cash used in investing activities	\$ (22,088)	\$ (18,943)
Net cash provided by / (used in) financing activities	\$ 1,674	\$ (1,775)

### *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 \$100.2 million for the nine months ended September 30, 2020, compared to \$77.0 million for the nine months ended September 30, 2019. In the nine months ended September 30, 2020, operating cash flows were favorably impacted from our increased operating income, partially offset by \$7.8 million in one-time payments associated with long-term incentives related to our 2017 acquisition of Flashstock, and 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 \$2.8 million and \$1.5 million, for the nine months ended September 30, 2020 and 2019, respectively.

### *Investing Activities*

Cash used in investing activities for the nine months ended September 30, 2020 was \$22.1 million, consisting primarily of capital expenditures of \$20.3 million for internal-use software and website development costs and purchases of software and equipment and \$2.1 million paid to acquire the rights to distribute certain digital content in perpetuity.

Cash used in investing activities in the nine months ended September 30, 2019 was \$18.9 million, consisting primarily of capital expenditures of \$19.5 million for internal-use software and website development costs and purchases of software and equipment, and \$1.9 million paid to acquire the rights to distribute certain digital content into perpetuity, partially offset by \$2.5 million of cash received during the nine months ended September 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 provided by financing activities in the nine months ended September 30, 2020 was \$1.7 million, consisting primarily of \$23.2 million of proceeds from our Stock Offering, after deducting underwriting discounts, commissions and offering expenses paid and approximately \$0.6 million received from the issuance of common stock in connection with the exercise of stock options. These amounts were partially offset by \$18.2 million, related to the payment of the quarterly cash dividend, and \$3.9 million, paid in settlement of tax withholding obligations related to employee stock-based compensation awards.

Cash used in financing activities in the nine months ended September 30, 2019 was \$1.8 million, consisting primarily of \$6.4 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 \$4.6 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 \$57.8 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 September 30, 2020, aggregate undiscounted future minimum lease payments under other operating leases are approximately \$8.6 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 September 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 \$12.9 million, \$18.2 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(in thousands)				
Non-GAAP Financial Measures:				
Adjusted EBITDA	\$ 47,382	\$ 21,566	\$ 106,474	\$ 72,214
Adjusted net income	29,326	10,324	60,647	34,513
Free cash flow	\$ 57,041	\$ 23,837	\$ 85,600	\$ 55,577
Revenue growth on a constant currency basis	3 %	6 %	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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net income	\$ 22,582	\$ 4,934	\$ 45,887	\$ 15,755
Add / (less) Non-GAAP adjustments:				
Depreciation and amortization	9,750	11,992	31,120	37,311
Non-cash equity-based compensation	8,285	5,509	17,681	17,884
Other adjustments, net <sup>(1)</sup>	1,168	417	506	722
Provision / (Benefit) for income taxes	5,597	(1,286)	11,280	542
Adjusted EBITDA	\$ 47,382	\$ 21,566	\$ 106,474	\$ 72,214
Adjusted EBITDA margin	28.7 %	13.6 %	21.9 %	14.9 %

(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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net income	\$ 22,582	\$ 4,934	\$ 45,887	\$ 15,755
Add / (less) Non-GAAP adjustments:				
Non-cash equity-based compensation	8,285	5,509	17,681	17,884
Tax effect of non-cash equity-based compensation <sup>(2)</sup>	(1,947)	(1,295)	(4,155)	(4,204)
Acquisition-related amortization expense	531	690	1,613	3,987
Tax effect of acquisition-related amortization expense <sup>(2)</sup>	(125)	(162)	(379)	(869)
Acquisition-related long-term incentives and contingent consideration <sup>(1)</sup>	—	882	—	2,668
Tax effect of acquisition-related long-term incentives and contingent consideration <sup>(2)</sup>	—	(234)	—	(708)
Adjusted net income	\$ 29,326	\$ 10,324	\$ 60,647	\$ 34,513
Adjusted net income per diluted common share	\$ 0.80	\$ 0.29	\$ 1.68	\$ 0.97

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

(2) Tax effect reflects the estimated impact of the adjustment on the provision for income taxes.

### 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Reported revenue (in thousands)	\$ 165,227	\$ 159,079	\$ 485,742	\$ 484,152
Revenue growth	4 %	5 %	— %	5 %
Revenue growth on a constant currency basis	3 %	6 %	1 %	7 %
E-commerce reported revenue (in thousands)	\$ 102,816	\$ 96,233	\$ 300,716	\$ 291,339
E-commerce revenue growth	7 %	8 %	3 %	8 %
E-commerce revenue growth on a constant currency basis	6 %	10 %	3 %	10 %
Enterprise reported revenue (in thousands)	\$ 62,411	\$ 62,846	\$ 185,026	\$ 192,813
Enterprise revenue growth	(1) %	— %	(4) %	2 %
Enterprise revenue growth on a constant currency basis	(1) %	1 %	(4) %	4 %

### 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 nine months ended September 30, 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net cash provided by operating activities	\$ 63,882	\$ 30,277	\$ 100,225	\$ 77,020
Capital expenditures	(6,311)	(5,821)	(20,277)	(19,547)
Content acquisitions	(530)	(619)	(2,107)	(1,896)
Payments related to long-term incentives related to acquisitions	—	—	7,759	—
Free Cash Flow	\$ 57,041	\$ 23,837	\$ 85,600	\$ 55,577

### Off-Balance Sheet Arrangements

As of September 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 nine months ended September 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 nine months ended September 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 September 30,				Nine Months Ended September 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	\$ 32,949	€ 28,940	\$ 31,716	€ 28,190	\$ 99,397	€ 60,095	\$ 98,251	€ 86,328
British pounds	12,439	£ 9,743	11,933	£ 9,549	35,916	£ 18,509	35,965	£ 27,996
All other non-U.S. currencies <sup>(1)</sup>	12,567		11,620		35,770		35,133	
Total foreign currency	57,955		55,269		171,083		169,349	
U.S. dollar	107,272		103,810		314,659		314,803	
Total revenue	\$ 165,227		\$ 159,079		\$ 485,742		\$ 484,152	

(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 September 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 September 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 September 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 September 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**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1#	<a href="#">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</a>
31.2#	<a href="#">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</a>
32#	<a href="#">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</a>
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)

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# 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: October 27, 2020

By: /s/ Jarrod Yahes

Jarrod Yahes

*Chief Financial Officer*

*(Principal Financial Officer)*

Dated: October 27, 2020

By: /s/ Steven Ciardiello

Steven Ciardiello

*Chief Accounting Officer*

*(Principal Accounting Officer)*



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

I, 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: October 27, 2020

By: /s/ Stan Pavlovsky

Stan Pavlovsky

Chief Executive Officer

*(Principal Executive Officer)*

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

I, 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: October 27, 2020

By: /s/ Jarrod Yahes

Jarrod Yahes

Chief Financial Officer

*(Principal Financial Officer)*

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

In connection with the Quarterly Report on Form 10-Q of Shutterstock, Inc., for the quarterly period ended September 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: October 27, 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 September 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: October 27, 2020

By: /s/ Jarrod Yahes

Jarrod Yahes

Chief Financial Officer

*(Principal Financial Officer)*