

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

Amendment No. 1

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 30, 2023 (June 23, 2023)

Shutterstock, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

001-35669

(Commission
File Number)

80-0812659

(IRS Employer
Identification No.)

350 Fifth Avenue, 20th 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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Class	Trading symbol	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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- 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.

Item 2.01 Completion of Acquisition or Disposition of Assets.

As previously disclosed in the Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission (the "SEC") by Shutterstock, Inc. (the "Company") on June 23, 2023 (the "Form 8-K"), the Company entered into a Stock Purchase Agreement with Meta Platforms, Inc. ("Meta") dated May 22, 2023 (the "Purchase Agreement").

On June 23, 2023, the Company completed its previously announced acquisition of Giphy, Inc. ("Giphy") pursuant to the Purchase Agreement, whereby Meta has sold, and the Company has purchased, all of the issued and outstanding capital stock of Giphy. The consideration payable by the Company pursuant to the Purchase Agreement is \$53 million in net cash, in addition to cash acquired, assumed debt and other working capital adjustments.

This Form 8-K/A has been filed to amend and supplement the Form 8-K to provide the financial statements described in Item 9.01 below, which were not previously filed with the Form 8-K, and which are permitted to be filed by amendment no later than 71 calendar days after the date that the Form 8-K was required to be filed with the Securities and Exchange Commission.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired.*

Giphy's audited consolidated financial statements as of and for the years ended December 31, 2022 and 2021 and unaudited condensed consolidated financial statements for the quarterly periods ended March 31, 2023 and 2022 are attached as Exhibits 99.1 and 99.2, respectively, to this Form 8-K/A and incorporated herein by reference. Such financial statements of Giphy were prepared in accordance with U.S. generally accepted accounting principles as issued by the Financial Accounting Standards Board.

(b) *Unaudited Pro Forma Condensed Combined Financial Information.*

The unaudited pro forma condensed combined financial information as of and for the three months ended March 31, 2023, and for the year ended December 31, 2022, related to the Company's acquisition of Giphy are attached as Exhibit 99.3 to this Form 8-K/A and incorporated herein by reference.

(c) *Exhibits.*

<u>Exhibit Number</u>	<u>Description</u>
23.1	Consent of Ernst & Young LLP
99.1	Giphy, Inc. audited consolidated financial statements as of and for the years December 31, 2022 and 2021
99.2	Giphy, Inc. unaudited condensed consolidated financial statements for the quarterly periods ended March 31, 2023 and 2022
99.3	Unaudited pro forma condensed combined financial information as of and for the three months ended March 31, 2023 and for the year ended December 31, 2022
104	Cover Page for Interactive Data File

FORWARD-LOOKING STATEMENTS

This Form 8-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking. Examples of forward-looking statements include, but are not limited to, statements regarding guidance, industry prospects, future business, future results of operations or financial condition, new or planned features, products or services, management strategies and our competitive position. You can identify forward-looking statements by words such as "may," "will," "would," "should," "could," "expect," "aim," "anticipate,"

"believe," "estimate," "intend," "plan," "predict," "project," "seek," "potential," "opportunities" and other similar expressions and the negatives of such expressions. However, not all forward-looking statements contain these words. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed or implied by the forward-looking statements contained herein. Such risks and uncertainties include, among others, those discussed under the caption "Risk Factors" in our most recent Annual Report on Form 10-K, as well as in other documents that the Company may file from time to time with the SEC. Factors related to the transactions discussed in this document that could cause actual results to differ materially from those contemplated by the forward-looking statements include: potential litigation relating to the transaction that could be instituted; the effects of disruption to our or the target's respective businesses; our ability to achieve the benefits from the transaction, including monetization; our ability to effectively integrate the acquired operations into our operations; our ability to retain key target personnel; and the effects of any unknown liabilities. As a result of such risks, uncertainties and factors, the Company's actual results may differ materially from any future results, performance or achievements discussed in or implied by the forward-looking statements contained in this Form 8-K. The forward-looking statements contained in this Form 8-K are made only as of this date and the Company assumes no obligation to update the information included in this press release or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by law.

EXHIBIT INDEX

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104	Cover Page Interactive Data File - The cover page XBRL tags are embedded within the Inline XBRL document.

SIGNATURE

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 hereunto duly authorized.

SHUTTERSTOCK, INC.

Dated: August 30, 2023

By: /s/ Jarrod Yahes
Jarrod Yahes
Chief Financial Officer

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statements (No. 333-184371, 333-184544, 333-202395 and 333-268480) on Form S-8 of Shutterstock, Inc. of our report dated August 24, 2023, relating to the consolidated financial statements of Giphy Inc. as of and for the years ended December 31, 2022 and 2021 appearing in this Current Report on Form 8-K/A of Shutterstock, Inc.

/s/ Ernst & Young LLP

San Mateo, California
August 30, 2023

Giphy, Inc.

Consolidated Financial Statements
Years ended December 31, 2022 and 2021
With Report of Independent Auditors



Giphy, Inc.
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Report of Independent Auditors

Opinion

We have audited the consolidated financial statements of Giphy, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in stockholder's equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

August 24, 2023

Giphy, Inc.
Consolidated Balance Sheets
(in thousands)

	December 31,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,944	\$ 5,533
Prepaid expenses and other current assets	1,607	1,392
Total current assets	10,551	6,925
Non-current assets:		
Operating lease right-of-use assets	2,541	4,925
Restricted cash	1,647	1,826
Property and equipment, net	138	144
Other non-current assets	-	50
Total non-current assets	4,326	6,945
Total assets	\$ 14,877	\$ 13,870
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable	\$ 3,113	\$ 1,327
Accrued expenses	1,073	1,063
Operating lease liabilities, current	1,230	2,310
Accrued compensation and benefits	7,435	5,733
Total current liabilities	12,851	10,433
Non-current liabilities:		
Operating lease liabilities, non-current	1,380	2,628
Total non-current liabilities	1,380	2,628
Total liabilities	14,231	13,061
Stockholder's equity		
Additional paid-in capital	405,673	311,463
Accumulated deficit	(405,027)	(310,654)
Total stockholder's equity	646	809
Total liabilities and stockholder's equity	\$ 14,877	\$ 13,870

See accompanying notes to consolidated financial statements.

Giphy, Inc.
Consolidated Statements of Operations
(in thousands)

	Year ended December 31,	
	2022	2021
Costs and expenses:		
General and administrative	\$ 22,263	\$ 22,024
Marketing and sales	20,462	17,910
Research and development	51,587	49,221
Total costs and expenses	94,312	89,155
Loss from operations	(94,312)	(89,155)
Interest expense	10	9
Other expense	50	-
Loss from operations before provision for income taxes	(94,372)	(89,164)
Provision / (benefit) from income taxes	1	1
Net loss	\$ (94,373)	\$ (89,165)

See accompanying notes to consolidated financial statements.

Giphy, Inc.
 Consolidated Statements of Changes in Stockholder's Equity
 (in thousands)

	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity
December 31, 2020	\$ 223,044	\$ (221,489)	\$ 1,556
Share-based compensation	30,797	-	30,797
Contribution from parent	57,622	-	57,621
Net loss	-	(89,165)	(89,165)
December 31, 2021	\$ 311,463	\$ (310,654)	\$ 809
Share-based compensation	34,476	-	34,476
Contribution from parent	59,734	-	59,734
Net loss	-	(94,373)	(94,373)
December 31, 2022	\$ 405,673	\$ (405,027)	\$ 646

See accompanying notes to consolidated financial statement

Giphy, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash flows from operating activities		
Net loss	\$ (94,373)	\$ (89,165)
Adjustments to reconcile net loss to net cash used by operating activities:		
Share-based compensation	34,476	30,797
Amortization of lease right-of-use assets	2,385	2,198
Depreciation and amortization	129	213
Impairment of investment	50	-
Changes in assets and liabilities:		
Operating lease liabilities	(2,328)	(2,195)
Accrued expenses and accrued compensation and benefits	1,980	1,319
Accounts payable	1,785	(27)
Prepaid expenses and other current assets	(215)	(247)
Accounts receivable	-	80
Net cash used in operating activities	<u>(56,111)</u>	<u>(57,027)</u>
Cash flows from investing activities		
Purchases of property and equipment	(123)	(48)
Net cash used in investing activities	<u>(123)</u>	<u>(48)</u>
Cash flows from financing activities		
Contribution from parent	59,466	57,824
Net cash provided by financing activities	<u>59,466</u>	<u>57,824</u>
Net increase in cash, cash equivalents, and restricted cash	3,232	749
Cash & cash equivalents, beginning of period	7,359	6,610
Cash & cash equivalents, end of period	<u>\$ 10,591</u>	<u>\$ 7,359</u>
Reconciliation of cash, cash equivalents, and restricted		
Cash and cash equivalents	\$ 8,944	\$ 5,533
Restricted cash	1,647	1,826
Total cash, cash equivalents, and restricted cash	<u>\$ 10,591</u>	<u>\$ 7,359</u>

See accompanying notes to consolidated financial statements.

Giphy, Inc.
Notes to Consolidated Financial Statements

1. Description of Business

Giphy, Inc. and its subsidiary (collectively, "Giphy", or the "Company"), are headquartered in New York City, New York. The Company is a Delaware corporation which was established on February 5, 2013 and is a wholly-owned subsidiary of Meta Platforms, Inc. ("Meta", or "Parent"). Giphy was acquired by Meta on May 15, 2020 ("Meta Acquisition Date").

Giphy is the parent company of Giphy Arts, LLC ("Giphy Arts"). Giphy designs and develops application software, and also operates a search engine that enables users to search, share, and discover animated graphics interchange formats ("GIFs") on the Internet.

Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

Liquidity

The Company has sustained operating losses since its inception in 2013. During the years ended December 31, 2022 and 2021, the Company sustained a net loss of \$94.4 million and \$89.2 million, respectively and incurred negative operating cash flows of approximately \$(56.1) million and \$(57.0) million, respectively. At December 31, 2022 and 2021, the Company had \$8.9 million and \$5.5 million, respectively, of cash and cash equivalents. Since the Meta Acquisition Date, Giphy did not have an ongoing source of external revenue. Meta has funded the operations of the Company through monthly capital contributions, payment of employee salaries by the Parent's centralized payroll function, and payment of office security and business insurance expenses.

Going Concern

Giphy ceased to generate external revenues in July 2020 after it was acquired by Meta. Beginning on the Meta Acquisition Date, Giphy relied on Meta as its primary source of financing and liquidity. Additionally, Meta provided \$27.0 million and \$24.9 million of cash contribution to fund Giphy's costs and expenses for the year ended December 31, 2022 and 2021, respectively. This funding is accounted for as a capital contribution on the consolidated balance sheets. Without funding from Meta, the Company's existing cash and cash equivalents will not be sufficient to meet Giphy's operating and liquidity needs for any meaningful period of time.

Given the Company's inability to sustain its operations on a standalone basis, and the history of losses and negative cash flows, management has concluded that substantial doubt exists regarding the Company's ability to continue as a going concern for 12 months from the date of issuance of these financial statements.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and payments of liabilities in the ordinary course of business. Accordingly, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the classification of liabilities that may result should the Company be unable to continue as a going concern.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared and presented on a carve-out basis from Meta's historical accounting records. The consolidated financial statements have been prepared using a legal entity approach and in accordance with accounting principles generally accepted in the United States ("GAAP").

All costs as well as assets and liabilities directly associated with the business activities of Giphy are included in the accompanying consolidated financial statements. The consolidated financial statements also include

Giphy, Inc.
Notes to Consolidated Financial Statements

certain allocated expenses from Meta for corporate and shared services. The Giphy related costs that were recorded at Parent entity level primarily include share-based compensation, payroll and other benefit expenses, bonuses, contingent worker expense, and limited compliance costs. The allocations have been determined based on specific identification of costs associated with Giphy, pro-rata allocation based on headcount, or other systematic measures. The impact of these allocated costs on the consolidated statement of operations was to increase costs and expenses by \$68.9 million and \$65.2 million for the years ended December 31, 2022 and 2021, respectively.

Giphy believes the assumptions underlying the accompanying consolidated financial statements, including the assumptions related to allocated expenses, reasonably reflect the utilization of services provided to, or the benefit received by Giphy during the periods presented. However, the consolidated financial statements may not include all of the actual expenses that would have been incurred by Giphy and may not reflect results of operations, financial position, and cash flows had Giphy operated as a stand-alone company during the periods presented. Actual costs that would have been incurred if Giphy had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions in various areas, including information technology and infrastructure.

Giphy is subject to taxation in the U.S. federal and state jurisdictions and is included in Meta's combined U.S. and state and local tax returns, where applicable. The income tax provision included in these financial statements was calculated using the separate return basis, as if Giphy filed separate tax returns. The calculation of income taxes on a hypothetical separate return basis requires judgment and use of both estimates and allocations. Accordingly, the tax treatment of certain items reflected in the financial statements of Giphy may not be reflected in the consolidated financial statements and tax returns of Parent, such as net operating losses and valuation allowances.

All contributions from Meta since the Meta Acquisition Date have been accounted for as capital contributions. The balances between Giphy and Meta are not intended to be cash settled and are reflected as adjustments within Meta's additional paid-in capital on the consolidated balance sheets.

3. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Giphy, Inc. and its wholly-owned subsidiary, Giphy Arts, LLC. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

Conformity with GAAP requires the use of estimates and judgments that affect the reported amounts in the consolidated financial statements and accompanying notes. These estimates form the basis for judgments Giphy makes about the carrying values of Giphy's assets and liabilities, which are not readily apparent from other sources. Giphy bases its estimates and judgments on historical information and on various other assumptions that it believes are reasonable under the circumstances. GAAP requires companies to make estimates and judgments in several areas, including, but not limited to, those related to the allocation of expenses to the carve-out business, income taxes, Right-of-Use ("ROU") assets and liabilities, regulatory matters, valuation of long-lived assets, and their associated estimated useful lives. These estimates are based on management's knowledge about current events and expectations about actions Giphy may undertake in the future. Actual results could differ materially from those estimates.

Related Party Transactions

Giphy entered into several intercompany arrangements. The arrangements include a monthly cash contribution from Parent, payment of employee salaries and share-based compensation by Parent's centralized payroll function, and payment of office security and business insurance expenses. All activities

Giphy, Inc.
Notes to Consolidated Financial Statements

between Giphy and Parent, including expenses Giphy has incurred, and any payables due to related parties under these agreements, are considered related party transactions.

As a result of these related party transactions, the accompanying consolidated financial statements may not reflect the financial position, results of operations, or cash flows that would have been achieved had Giphy operated independently from Giphy's immediate or ultimate Parent.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments purchased with original maturities of three months or less.

Restricted Cash

Restricted cash consists of amounts held at a financial institution to secure a letter of credit, and cash held as a security deposit, both of which are used as security for a long-term lease (see Note 7). As of both December 31, 2022 and 2021, Giphy had a letter of credit in the amount of \$1,561 thousand included in non-current assets. As of December 31, 2022 and 2021, Giphy had cash held as a security deposit totaling \$86 thousand and \$265 thousand, respectively, included in non-current assets.

Concentration of Credit Risk

Financial instruments owned by Giphy that are potentially subject to concentrations of credit risk consist primarily of cash and restricted cash. Cash consists of cash on deposit with banks. Cash on deposit with financial institutions may, at times, exceed federally insured limits. Significant adverse events in these financial institutions could adversely affect Giphy's liquidity. See Note 1 for additional information related to Giphy's liquidity.

Research and Development

Costs incurred for research and product development, which consist primarily of salaries, payroll tax and benefits, including share-based compensation, and subcontractor costs, are expensed as incurred.

General and Administrative Expenses

General and administrative expenses consist of legal-related costs and other professional services, and salaries, benefits, and share-based compensation for Giphy employees.

Marketing and Sales Expenses

Marketing and sales expenses consist of salaries, benefits, and share-based compensation for Giphy employees and subcontractors engaged in marketing and brand partnership functions.

Share-based Compensation

Giphy employees participate in the equity incentive plans of Meta and have been issued restricted stock units (RSUs) in Meta. Giphy accounts for employee share-based compensation plans under the fair value recognition and measurement provisions of GAAP. Those provisions require all share-based payments to employees, including grants of RSUs, to be measured based on the grant-date fair value of the awards, with the resulting expense recognized in Giphy's accompanying consolidated statements of operations on a straight-line basis over the period during which the employee is required to perform service in exchange for the award. See Note 8 for additional information related to share-based compensation.

Giphy, Inc.
Notes to Consolidated Financial Statements

Leases

Giphy has operating leases consisting of office space. The Company determines if an arrangement is a lease at inception. Most of the Company's leases contain lease and non-lease components. Non-lease components include fixed payments for maintenance, utilities, and real estate taxes. Giphy combines fixed lease and non-lease components and accounts for them as a single lease component for all classes of underlying assets. The Company's lease agreements may contain variable costs such as contingent rent escalations, common area maintenance, insurance, real estate taxes, or other costs. Such variable lease costs are expensed as incurred on the consolidated statements of operations.

Giphy does not record leases with an initial term of 12 months or less on the balance sheet for all classes of underlying assets and recognizes lease expense for these leases on a straight-line basis. For leases with a lease term greater than 12 months, ROU assets and lease liabilities are recognized on the consolidated balance sheets at the commencement date based on the present value of the remaining fixed lease payments and includes only payments that are fixed and determinable at the time of commencement.

Giphy's lease terms may include options to extend or terminate the lease when it is reasonably certain that Giphy will exercise such options. When determining the probability of exercising such options, the Company considers contract-based, asset-based, and market-based factors.

The Company uses an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments if the rate implicit in the lease is not readily determinable. The incremental borrowing rate is an estimate of the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

Operating leases are included in operating lease right-of-use assets, operating lease liabilities, current, and operating lease liabilities, non-current on Giphy's consolidated balance sheets. Operating lease costs are recognized on a straight-line basis over the lease terms.

Fair Value

ASC Topic 280, Fair Value Measurements ("ASC 280"), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lower priority to unobservable inputs (level 3 measurements).

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Prepaid expenses, accounts payable, and accrued expenses are financial assets and liabilities, respectively, with carrying values that approximate fair value, because of the short maturity of these instruments.

Income Taxes

Valuation allowances are recognized to reduce deferred tax assets to the amount that will more likely than not be realized. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies and actions. Management has considered available evidence and concluded that due to cumulative losses it is more likely than not that the U.S. deferred tax assets will not be realizable.

Giphy, Inc.
Notes to Consolidated Financial Statements

The Company recognizes tax benefits from uncertain tax positions only if it believes that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Giphy currently has unrecognized tax benefits with respect to federal R&D tax credit carryforwards, which are presented in the financial statements as reduction to the underlying deferred tax asset. The Company has not accrued for any interest or penalties associated with unrecognized tax benefits in the 2022 or 2021 financial statements.

4. Other Financial Statement Line Items

The components of accrued expenses are outlined in the table below (in thousands):

	December 31, 2022	December 31, 2021
Deferred rent	\$ 59	\$ 117
Hosting	491	419
Professional Services	62	44
Other	461	483
Total accrued expenses	\$ 1,073	\$ 1,063

The components of accrued compensation and benefits are outlined in the table below (in thousands):

	December 31, 2022	December 31, 2021
Payroll liabilities	\$ 3,734	\$ 3,005
Performance bonus liabilities	2,981	2,262
Retention bonus liabilities	720	466
Accrued compensation and benefits	\$ 7,435	\$ 5,733

5. Related Party Transactions

Related Party Transactions

Our related party agreements consist of the following:

Service agreement with Meta

Effective March 9, 2015, Giphy entered into a services agreement with Meta, under which the Company provides Meta access to Giphy GIF content from the Company's app directly.

Effective June 8, 2017, Giphy entered into a Professional Services Agreement with Meta, under which the Company develops 20 custom GIFS that feature some of the internet's most recognizable faces. Each GIF functions both as a unique piece of net art and a shareable morsel of human expression for internet users everywhere.

Effective August 21, 2018, Giphy entered into a Materials Release Agreement with Meta, under which the Company granted to Meta a license to use, reproduce, distribute, publicly perform and display the GIPHY Materials.

There were no transactions under either of these agreements during the years ended December 31, 2022 and 2021. Meta pays the salary expense and share-based compensation for Giphy employees as part of its centralized payroll function. Additionally, Meta provided \$27.0 million and \$24.9 million of cash

Giphy, Inc.
Notes to Consolidated Financial Statements

contribution to fund Giphy's costs and expenses for the year ended December 31, 2022 and 2021, respectively.

6. Property and Equipment, Net

Property and equipment are depreciated and stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Property and equipment, net consisted of the following as of December 31:

	2022	2021
Office Furniture	\$ 582	\$ 530
Computers and Equipment	1,220	1,149
Leasehold Improvements	3,675	3,675
	5,477	5,354
Less: Accumulated Depreciation	(5,339)	(5,210)
	\$ 138	\$ 144

Depreciation expense was \$129 thousand and \$213 thousand for the years ended December 31, 2022 and 2021, respectively, which is included in general and administrative expenses.

7. Lease Obligations

Giphy has entered into various non-cancelable operating lease agreements for the Company's offices. Giphy's leases have original lease periods expiring between 2024 and 2025. All leases include the option to renew. The Company does not assume renewals in Giphy's determination of the lease term unless the renewals are deemed to be reasonably assured. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Supplemental balance sheet information related to leases is as follows:

	December 31, 2022	December 31, 2021
Weighted-average remaining lease term:		
Operating leases	2.2	2.7
Weighted-average discount rate:		
Operating leases	11.8%	15.4%

The following is a schedule, by years, of maturities of lease liabilities as of December 31, 2022 (in thousands):

	Operating Leases
2023	1,497
2024	811
2025	757
Thereafter	-
Total undiscounted cash flows	3,065
Less: Imputed interest	(455)
Present value of lease liabilities	2,610

Giphy, Inc.
Notes to Consolidated Financial Statements

Lease liabilities, current	1,230
Lease liabilities, non-current	1,380
Present value of lease liabilities	2,610

The components of lease costs are as follows (in thousands):

	2022	2021
Operating lease cost	\$ 2,561	\$ 2,530
Variable lease cost, net	163	158
Short-term lease cost	60	60
	\$ 2,784	\$ 2,748

8. Stockholder's Equity

Common Stock

As of both December 31, 2022 and 2021, the authorized capital stock of the Company consists of 1,000,000 shares of common stock, par value \$0.0001. Each share of common stock is entitled to one vote.

As of both December 31, 2022 and 2021, there were 1,000,000 shares of common stock issued and outstanding.

Share-Based Compensation Plan

Meta maintains an equity incentive awards plan under which Meta may issue, among other awards, incentive and non-statutory stock options, restricted stock awards, stock appreciation rights, RSUs, performance shares, and stock bonuses to qualified Giphy employees, directors, and contractors.

Giphy employees participate in Meta's equity incentive plans and have been issued RSUs in Meta. Employees vest in the RSUs of Meta over the corresponding service term, which is generally over four years. Giphy records the share-based compensation expense related to these awards in the consolidated financial statements, and accounts for forfeitures as they occur.

The following table summarizes the unvested RSU activities for the year ended December 31, 2022:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Shares
Unvested at December 31, 2020	442	\$ 239.2
Granted	24	\$ 293.5
Vested	(127)	\$ 199.0
Forfeited	(9)	\$ 242.0
Unvested at December 31, 2021	330	\$ 242.4
Granted	82	\$ 204.4
Vested	(145)	\$ 218.2
Forfeited	(6)	\$ 237.2
Unvested at December 31, 2021	261	\$ 234.4

Giphy, Inc.
Notes to Consolidated Financial Statements

As of December 31, 2022, there was \$56.9 million of unrecognized share-based compensation expense related to RSU awards. This unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately three years based on vesting under the award service conditions.

The weighted average grant date fair value of RSUs granted during the years ended December 31, 2022 and 2021, was \$204 and \$294, respectively. The fair value as of the respective vesting dates of RSUs that vested during the years ended December 31, 2022 and 2021 was \$25.5 million and \$41.1 million, respectively.

Giphy recognized \$34.5 million and \$30.8 million of share-based compensation expense during the years ended December 31, 2022 and 2021, respectively.

9. Income Taxes

The components of income (loss) before provision for income taxes are as follows (in thousands):

	December 31, 2022	December 31, 2021
U.S.	\$ (94,372)	\$ (89,164)

The provisions for income taxes during the years ended December 31, 2022 and 2021 are each \$1 thousand, from current state taxes.

The reconciliation of income tax (benefit) at the federal statutory rate compared to the income tax (benefit) at the actual effective income tax rate is as follows (in thousands):

	December 31, 2022	December 31, 2021
Description		
US federal statutory tax rate	\$ (19,818)	\$ (18,724)
State taxes, net	1	1
Share-based Compensation	1,785	(2,193)
Other	8	3
Valuation Allowance	18,025	20,914
Tax provision / (benefit)	\$ 1	\$ 1

Giphy, Inc.
Notes to Consolidated Financial Statements

Temporary differences and carry forward items that result in deferred income tax balances as of December 31, 2022 are as follows (in thousands):

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Share-based compensation	\$ 914	\$ 817
Accrued compensation	1,380	1,009
Net operating loss	95,110	77,519
Lease liability	620	1,137
Other	674	666
Deferred tax assets	98,698	81,148
Valuation allowance	(97,785)	(79,751)
Net deferred tax assets	913	1,397
Deferred tax liabilities:		
Right of Use Assets	(605)	(1,135)
Other	(308)	(262)
Deferred tax liabilities:	(913)	(1,397)
Net deferred tax assets (liabilities)	\$ -	\$ -

Deferred tax assets are reduced by a valuation allowance if, based upon available evidence, it is more likely than not that some, or all, of the deferred tax assets will not be realized. As of December 31, 2022, a full valuation allowance is recorded on net deferred tax assets.

On a separate return basis, the Company had a U.S. federal net operating loss and federal tax credit carryforwards of approximately \$412.7 million and \$727 thousand, respectively, as of December 31, 2022. The federal net operating losses and tax credits will begin to expire in 2034 if not utilized. In addition, as of December 31, 2022, the Company had state net operating loss carryforwards of approximately \$117.4 million on a separate return basis. The state net operating loss carryforwards will begin to expire in 2035 if not utilized. The amounts reported on a separate return basis differ from the amounts that carry forward on the Parent's income tax returns as Meta has generally utilized Giphy losses on combined tax return filings.

Utilization of our net operating loss and tax credit carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of the net operating loss and tax credit carryforwards before their utilization. The events that may cause ownership changes include, but are not limited to, a cumulative stock ownership change of greater than 50% over a three-year period.

Tax benefits are recognized if it is more likely than not that the tax position will be sustained upon examination by a tax authority based upon the technical merits of the tax position. Unrecognized tax benefits with respect to federal R&D tax credit carryforwards are presented in the financial statements as reduction to the underlying deferred tax asset.

10. Defined Contribution Plan

Meta maintains a retirement savings plan in which eligible U.S. employees may defer compensation for income tax purposes under Section 401(k) of the Internal Revenue Code (the Meta 401k Plan). Giphy's

Giphy, Inc.
Notes to Consolidated Financial Statements

total matching contribution expense for Giphy employees under the Meta 401k Plan was \$984 thousand and \$712 thousand for the years ended December 31, 2022 and 2021, respectively.

11. Subsequent Events

The Company has evaluated subsequent events through August 24, 2023, which is the date the consolidated financial statements were available to be issued. Except as noted below, the Company has concluded that no events or transactions have occurred that may require disclosure in the accompanying financial statements.

Silicon Valley Bank

On March 10, 2023, Silicon Valley Bank (“SVB”) was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation (“FDIC”) as receiver. SVB’s deposits are insured by the FDIC in amounts up to \$250,000 for each deposit account. Giphy held net deposits of 8,213 thousand as of March 10, 2023 when SVB entered receivership. Breakdown of the amounts the Company held with SVB on March 10, 2023 is as follows:

	<u>Amounts (in thousands)</u>
SVB deposit account	6,751
Restricted cash: letter of credit	1,561
SVB credit card account	(99)
Net cash deposit at SVB as at March 10, 2023	<u>8,213</u>

Substantially all of the Company’s cash and cash equivalents are held in SVB deposit accounts and substantially all of which was not insured by the FDIC (the “uninsured amount”). On March 12, 2023, the U.S. Treasury, Federal Reserve, and FDIC announced that SVB depositors will have access to all of their money, including the uninsured amount, starting March 13, 2023. The Company currently has full control of the Company’s cash and cash equivalents balance.

Acquisition by Shutterstock, Inc.

On June 23, 2023, Shutterstock, Inc. completed its acquisition of all of the outstanding shares of the Company from Meta.

Giphy, Inc.

**Condensed Consolidated Financial Statements
For the Quarterly Periods Ended March 31, 2023 and 2022**



Giphy, Inc.
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Giphy, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
(Unaudited)

	March 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,126	\$ 8,944
Prepaid expenses and other current assets	1,454	1,607
Total current assets	9,580	10,551
Non-current assets:		
Operating lease right-of-use assets	3,719	2,541
Restricted cash	1,647	1,647
Property and equipment, net	559	138
Total non-current assets	5,925	4,326
Total assets	\$ 15,505	\$ 14,877
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable	\$ 2,150	\$ 3,113
Accrued expenses	1,116	1,073
Operating lease liabilities, current	2,325	1,230
Accrued compensation and benefits	5,930	7,435
Total current liabilities	11,521	12,851
Non-current liabilities:		
Operating lease liabilities, non-current	1,516	1,380
Total non-current liabilities	1,516	1,380
Total liabilities	13,037	14,231
Stockholder's equity		
Additional paid-in capital	433,156	405,673
Accumulated deficit	(430,688)	(405,027)
Total stockholder's equity	2,468	646
Total liabilities and stockholder's equity	\$ 15,505	\$ 14,877

See accompanying notes to condensed consolidated financial statements.

Giphy, Inc.
Condensed Consolidated Statements of Operations
(in thousands)
(Unaudited)

	Three months ended March 31,	
	2023	2022
Costs and expenses:		
General and administrative	\$ 6,087	\$ 4,796
Marketing and sales	5,735	4,665
Research and development	13,897	12,101
Total costs and expenses	25,719	21,562
Loss from operations	(25,719)	(21,562)
Interest expense (income)	(11)	10
Other income	(47)	-
Loss from operations before provision for income taxes	(25,661)	(21,572)
Provision / benefit from income taxes	-	-
Net loss	\$ (25,661)	\$ (21,572)

See accompanying notes to condensed consolidated financial statements.

Giphy, Inc.
Condensed Consolidated Statements of Changes in Stockholder's Equity
(in thousands)
(Unaudited)

	Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity
December 31, 2021	\$ 311,463	\$ (310,654)	\$ 809
Share-based compensation	7,717	-	7,717
Contribution from parent	15,824	-	15,824
Net loss	-	(21,572)	(21,572)
March 31, 2022	\$ 335,004	\$ (332,226)	\$ 2,778
December 31, 2022	\$ 405,673	\$ (405,027)	\$ 646
Share-based compensation	8,687	-	8,687
Contribution from parent	18,796	-	18,796
Net loss	-	(25,661)	(25,661)
March 31, 2023	\$ 433,156	\$ (430,688)	\$ 2,468

See accompanying notes to condensed consolidated financial statement

Giphy, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Three months ended March 31,	
	2023	2022
Cash flows from operating activities		
Net loss	\$ (25,661)	\$ (21,572)
Adjustments to reconcile net loss to net cash used by operating activities:		
Share-based compensation	8,687	7,717
Amortization of lease right-of-use assets	567	584
Depreciation and amortization	34	42
Other	(30)	-
Changes in assets and liabilities:		
Accrued expenses and accrued compensation and benefits	(1,484)	(729)
Accounts payable	(962)	(526)
Operating lease liabilities	(515)	(586)
Prepaid expenses and other current assets	153	(110)
Net cash used in operating activities	(19,211)	(15,180)
Cash flows from investing activities		
Purchases of property and equipment	(424)	(10)
Net cash used in investing activities	(424)	(10)
Cash flows from financing activities		
Contribution from parent	18,817	15,789
Net cash provided by financing activities	18,817	15,789
Net increase in cash, cash equivalents, and restricted cash	(818)	599
Cash & cash equivalents, beginning of period	10,591	7,359
Cash & cash equivalents, end of period	\$ 9,773	\$ 7,958
Reconciliation of cash, cash equivalents, and restricted		
Cash and cash equivalents	\$ 8,126	\$ 6,132
Restricted cash	1,647	1,826
Total cash, cash equivalents, and restricted cash	\$ 9,773	\$ 7,958
Supplemental disclosures:		
Lease liabilities arising from obtaining right-of-use assets	\$ 1,836	\$ -

See accompanying notes to condensed consolidated financial statements.

Giphy, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business

Giphy, Inc. and its subsidiary (collectively, “Giphy”, or the “Company”), are headquartered in New York City, New York. The Company is a Delaware corporation which was established on February 5, 2013 and is a wholly-owned subsidiary of Meta Platforms, Inc. (“Meta”, or “Parent”). Giphy was acquired by Meta on May 15, 2020 (“Meta Acquisition Date”).

Giphy is the parent company of Giphy Arts, LLC (“Giphy Arts”). Giphy designs and develops application software, and also operates a search engine that enables users to search, share, and discover animated graphics interchange formats (“GIFs”) on the Internet.

Significant accounting policies followed by the Company in the preparation of the accompanying condensed consolidated financial statements are summarized below.

Liquidity

The Company has sustained operating losses since its inception in 2013. During the three months ended March 31, 2023 and 2022, the Company sustained a loss of \$25,661 thousand and \$21,572 thousand, respectively and incurred negative operating cash flows of approximately \$(19,211) thousand and \$(15,180) thousand, respectively. At March 31, 2023 and December 31, 2022, the Company had \$8,126 thousand and \$8,944 thousand, respectively, of cash and cash equivalents. Since the Meta Acquisition Date, Giphy did not have an ongoing source of external revenue. Meta has funded the operations of the Company through monthly capital contributions, payment of employee salaries by the Parent’s centralized payroll function, and payment of office security and business insurance expenses.

Going Concern

Giphy ceased to generate external revenues in July 2020 after it was acquired by Meta. Beginning on the Meta Acquisition Date, Giphy relied on Meta as its primary source of financing and liquidity. Additionally, Meta provided \$6.9 million of cash contribution to fund Giphy’s costs and expenses for the three months ended March 31, 2023 and 2022, respectively. This funding is accounted for as a capital contribution on the condensed consolidated balance sheets. Without funding from Meta, the Company’s existing cash and cash equivalents will not be sufficient to meet Giphy’s operating and liquidity needs for any meaningful period of time.

Given the Company’s inability to sustain its operations on a standalone basis, and the history of losses and negative cash flows, management has concluded that substantial doubt exists regarding the Company’s ability to continue as a going concern for 12 months from the date of issuance of these financial statements.

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and payments of liabilities in the ordinary course of business. Accordingly, the condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the classification of liabilities that may result should the Company be unable to continue as a going concern.

2. Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared and presented on a carve-out basis from Meta’s historical accounting records. The condensed consolidated financial statements have been prepared using a legal entity approach and in accordance with accounting principles generally accepted in the United States (“GAAP”).

Giphy, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

All costs as well as assets and liabilities directly associated with the business activities of Giphy are included in the accompanying condensed consolidated financial statements. The condensed consolidated financial statements also include certain allocated expenses from Meta for corporate and shared services. The Giphy related costs that were recorded at Parent entity level primarily include share-based compensation, payroll and other benefit expenses, bonuses, contingent worker expense, and limited compliance costs. The allocations have been determined based on specific identification of costs associated with Giphy, pro-rata allocation based on headcount, or other systematic measures. The impact of these allocated costs on the condensed consolidated statement of operations was to increase costs and expenses by \$17.0 million and \$15.6 million for the three months ended March 31, 2023 and 2022, respectively.

Giphy believes the assumptions underlying the accompanying condensed consolidated financial statements, including the assumptions related to allocated expenses, reasonably reflect the utilization of services provided to, or the benefit received by Giphy during the periods presented. However, the condensed consolidated financial statements may not include all of the actual expenses that would have been incurred by Giphy and may not reflect results of operations, financial position, and cash flows had Giphy operated as a stand-alone company during the periods presented. Actual costs that would have been incurred if Giphy had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions in various areas, including information technology and infrastructure.

Giphy is subject to taxation in the U.S. federal and state jurisdictions and is included in Meta's combined U.S. and state and local tax returns, where applicable. The income tax provision included in these financial statements was calculated using the separate return basis, as if Giphy filed separate tax returns. The calculation of income taxes on a hypothetical separate return basis requires judgment and use of both estimates and allocations. Accordingly, the tax treatment of certain items reflected in the financial statements of Giphy may not be reflected in the condensed consolidated financial statements and tax returns of Parent, such as net operating losses and valuation allowances.

All contributions from Meta since the Meta Acquisition Date have been accounted for as capital contributions. The balances between Giphy and Meta are not intended to be cash settled and are reflected as adjustments within Meta's additional paid-in capital on the condensed consolidated balance sheets.

3. Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Giphy, Inc. and its wholly-owned subsidiary, Giphy Arts, LLC. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

Conformity with GAAP requires the use of estimates and judgments that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. These estimates form the basis for judgments Giphy makes about the carrying values of Giphy's assets and liabilities, which are not readily apparent from other sources. Giphy bases its estimates and judgments on historical information and on various other assumptions that it believes are reasonable under the circumstances. GAAP requires companies to make estimates and judgments in several areas, including, but not limited to, those related to the allocation of expenses to the carve-out business, income taxes, Right-of-Use ("ROU") assets and liabilities, regulatory matters, valuation of long-lived assets, and their associated estimated useful lives. These estimates are based on management's knowledge about current events and expectations about actions Giphy may undertake in the future. Actual results could differ materially from those estimates.

Giphy, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Related Party Transactions

Giphy entered into several intercompany arrangements. The arrangements include a monthly cash contribution from Parent, payment of employee salaries and share-based compensation by Parent's centralized payroll function, and payment of office security and business insurance expenses. All activities between Giphy and Parent, including expenses Giphy has incurred, and any payables due to related parties under these agreements, are considered related party transactions.

As a result of these related party transactions, the accompanying condensed consolidated financial statements may not reflect the financial position, results of operations, or cash flows that would have been achieved had Giphy operated independently from Giphy's immediate or ultimate Parent.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments purchased with original maturities of three months or less.

Restricted Cash

Restricted cash consists of amounts held at a financial institution to secure a letter of credit, and cash held as a security deposit, both of which are used as security for a long term lease (see Note 7). As of both March 31, 2023 and December 31, 2022, Giphy had cash held as a security deposit totaling \$1,561 thousand, included in non-current assets. As of both March 31, 2023 and December 31, 2022, Giphy had a letter of credit in the amount of \$86 thousand, included in non-current assets.

Concentration of Credit Risk

Financial instruments owned by Giphy that are potentially subject to concentrations of credit risk consist primarily of cash and restricted cash. Cash consists of cash on deposit with banks. Cash on deposit with financial institutions may, at times, exceed federally insured limits. Significant adverse events in these financial institutions could adversely affect Giphy's liquidity. See Note 1 for additional information related to Giphy's liquidity.

Research and Development

Costs incurred for research and product development, which consist primarily of salaries, payroll tax and benefits, including share-based compensation, and subcontractor costs, are expensed as incurred.

General and Administrative Expenses

General and administrative expenses consist of legal-related costs and other professional services, and salaries, benefits, and share-based compensation for Giphy employees.

Marketing and Sales Expenses

Marketing and sales expenses consist of salaries, benefits, and share-based compensation for Giphy employees and subcontractors engaged in marketing and brand partnership functions.

Share-based Compensation

Giphy, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Giphy employees participate in the equity incentive plans of Meta and have been issued restricted stock units (RSUs) in Meta. Giphy accounts for employee share-based compensation plans under the fair value recognition and measurement provisions of GAAP. Those provisions require all share-based payments to employees, including grants of RSUs, to be measured based on the grant-date fair value of the awards, with the resulting expense recognized in Giphy's accompanying condensed consolidated statements of operations on a straight-line basis over the period during which the employee is required to perform service in exchange for the award. See Note 8 for additional information related to share-based compensation.

Leases

Giphy has operating leases consisting of office space. The Company determines if an arrangement is a lease at inception. Most of the Company's leases contain lease and non-lease components. Non-lease components include fixed payments for maintenance, utilities, and real estate taxes. Giphy combines fixed lease and non-lease components and accounts for them as a single lease component for all classes of underlying assets. The Company's lease agreements may contain variable costs such as contingent rent escalations, common area maintenance, insurance, real estate taxes, or other costs. Such variable lease costs are expensed as incurred on the condensed consolidated statements of operations.

Giphy does not record leases with an initial term of 12 months or less on the balance sheet for all classes of underlying assets and recognizes lease expense for these leases on a straight-line basis. For leases with a lease term greater than 12 months, ROU assets and lease liabilities are recognized on the condensed consolidated balance sheets at the commencement date based on the present value of the remaining fixed lease payments and includes only payments that are fixed and determinable at the time of commencement.

Giphy's lease terms may include options to extend or terminate the lease when it is reasonably certain that Giphy will exercise such options. When determining the probability of exercising such options, the Company considers contract-based, asset-based, and market-based factors.

The Company uses an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments if the rate implicit in the lease is not readily determinable. The incremental borrowing rate is an estimate of the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

Operating leases are included in operating lease right-of-use assets, operating lease liabilities, current, and operating lease liabilities, non-current on Giphy's condensed consolidated balance sheets. Operating lease costs are recognized on a straight-line basis over the lease terms.

Fair Value

ASC Topic 280, Fair Value Measurements ("ASC 280"), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lower priority to unobservable inputs (level 3 measurements).

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Prepaid expenses, accounts payable, and accrued expenses are financial assets and liabilities, respectively, with carrying values that approximate fair value, because of the short maturity of these instruments.

Giphy, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Income Taxes

Valuation allowances are recognized to reduce deferred tax assets to the amount that will more likely than not be realized. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies and actions. Management has considered available evidence and concluded that due to cumulative losses it is more likely than not that the U.S. deferred tax assets will not be realizable.

The Company recognizes tax benefits from uncertain tax positions only if it believes that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Giphy currently has unrecognized tax benefits with respect to federal R&D tax credit carryforwards, which are presented in the financial statements as reduction to the underlying deferred tax asset. The Company has not accrued for any interest or penalties associated with unrecognized tax benefits in the three months ended March 31, 2023 and 2022 financial statements.

4. Other Financial Statement Line Items

The components of accrued expenses are outlined in the table below:

	March 31, 2023	December 31, 2022
Deferred rent	\$ 113	\$ 59
Hosting	447	491
Professional Services	198	62
Other	358	461
Total accrued expenses	\$ 1,116	\$ 1,073

The components of accrued compensation and benefits are outlined in the table below:

	March 31, 2023	December 31, 2022
Payroll liabilities	\$ 3,224	\$ 3,734
Performance bonus liabilities	1,884	2,981
Retention bonus liabilities	822	720
Accrued compensation and benefits	\$ 5,930	\$ 7,435

5. Related Party Transactions

Related Party Transactions

Our related party agreements consist of the following:

Service agreement with Meta

Effective March 9, 2015, Giphy entered into a services agreement with Meta, under which the Company provides Meta access to Giphy GIF content from the Company's app directly.

Effective June 8, 2017, Giphy entered into a Professional Services Agreement with Meta, under which the Company develops 20 custom GIFS that feature some of the internet's most recognizable faces. Each GIF

Giphy, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

functions both as a unique piece of net art and a shareable morsel of human expression for internet users everywhere.

Effective August 21, 2018, Giphy entered into a Materials Release Agreement with Meta, under which the Company granted to Meta a license to use, reproduce, distribute, publicly perform and display the GIPHY Materials.

There were no transactions under either of these agreements during for the three months ended March 31, 2023 and 2022, respectively. Meta pays the salary expense and share-based compensation for Giphy employees as part of its centralized payroll function. Additionally, Meta provided \$6.9 million of cash contribution to fund Giphy's costs and expenses for the three months ended March 31, 2023 and 2022, respectively.

6. Property and Equipment, Net

Property and equipment are depreciated and stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Property and equipment, net consisted of the following as of:

	March 31, 2023	December 31, 2022
Office Furniture	\$ 594	\$ 582
Computers and Equipment	1,238	1,220
Leasehold Improvements	4,069	3,675
	5,901	5,477
Less: Accumulated Depreciation	(5,342)	(5,339)
	<u>\$ 559</u>	<u>\$ 138</u>

Depreciation expense was \$34 thousand and \$42 thousand for the three months ended March 31, 2023 and 2022, respectively, which is included in general and administrative expenses.

7. Lease Obligations

Giphy has entered into various non-cancelable operating lease agreements for the Company's offices. Giphy's leases have original lease periods expiring between 2024 and 2025. All leases include the option to renew. The Company does not assume renewals in Giphy's determination of the lease term unless the renewals are deemed to be reasonably assured. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Supplemental balance sheet information related to leases is as follows:

	March 31, 2023	December 31, 2022
Weighted-average remaining lease term:		
Operating leases	1.9	2.2
Weighted-average discount rate:		
Operating leases	12.0%	11.8%

The following is a schedule, by years, of maturities of lease liabilities as of March 31, 2023 (in thousands):

Giphy, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

	Operating Leases
2023	1,979
2024	1,592
2025	757
Thereafter	-
Total undiscounted cash flows	4,328
Less: Imputed interest	(487)
Present value of lease liabilities	3,841
Lease liabilities, current	2,325
Lease liabilities, non-current	1,516
Present value of lease liabilities	3,841

The components of lease costs are as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Operating lease cost	\$ 664	\$ 632
Variable lease cost, net	45	44
Short-term lease cost	15	15
	724	691

8. Stockholder's Equity

Common Stock

As of both March 31, 2023 and December 31, 2022, the authorized capital stock of the Company consists of 1,000,000 shares of common stock, par value \$0.0001. Each share of common stock is entitled to one vote.

As of both March 31, 2023 and December 31, 2022, there were 1,000,000 shares of common stock issued and outstanding.

Share-Based Compensation Plan

Meta maintains an equity incentive awards plan under which Meta may issue, among other awards, incentive and non-statutory stock options, restricted stock awards, stock appreciation rights, RSUs, performance shares, and stock bonuses to qualified Giphy employees, directors, and contractors.

Giphy employees participate in Meta's equity incentive plans and have been issued RSUs in Meta. Employees vest in the RSUs of Meta over the corresponding service term, which is generally over four years. Giphy records the share-based compensation expense related to these awards in the condensed consolidated financial statements, and accounts for forfeitures as they occur.

The following table summarizes the unvested RSU activities for the three months ended March 31, 2023:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Shares
Unvested at December 31, 2021	330	\$ 242.4

Giphy, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Granted	70	\$	211.5
Vested	(31)	\$	219.6
Forfeited	(4)	\$	237.0
Unvested at March 31, 2022	365	\$	236.5
Unvested at December 31, 2022	261	\$	234.4
Granted	85	\$	197.8
Vested	(36)	\$	211.8
Forfeited	-	\$	-
Unvested at March 31, 2023	310	\$	224.2

As of March 31, 2023, there was \$65.0 million of unrecognized share-based compensation expense related to RSU awards. This unrecognized compensation expense is expected to be recognized over a weighted-average period of approximately 2.4 years based on vesting under the award service conditions.

The weighted average grant date fair value of RSUs granted during the three months ended March 31, 2023 and 2022, was \$198 and \$211, respectively. The fair value as of the respective vesting dates of RSUs that vested during the three months ended March 31, 2023 and 2022 was \$6.5 million and \$6.9 million, respectively.

Giphy recognized \$8.7 million and \$7.7 million of share-based compensation expense during the three months ended March 31, 2023 and 2022, respectively.

9. Income Taxes

Giphy has a history of cumulative losses, resulting in a full valuation allowance to offset all net deferred taxes, since they are not more likely than not to be realized. The annual tax provisions for 2021 and 2022 were \$825 from minimum state taxes. As a similar amount is expected for 2023, the Q1 results each reflect one quarter of tax expense (i.e., \$206).

10. Defined Contribution Plan

Meta maintains a retirement savings plan in which eligible U.S. employees may defer compensation for income tax purposes under Section 401(k) of the Internal Revenue Code (the Meta 401k Plan). Giphy's total matching contribution expense for Giphy employees under the Meta 401k Plan was \$818 thousand and \$638 thousand for the three months ended March 31, 2023 and 2022, respectively.

11. Subsequent Events

The Company has evaluated subsequent events through August 29, 2023, which is the date the condensed consolidated financial statements were available to be issued. Except as noted below, the Company has concluded that no events or transactions have occurred that may require disclosure in the accompanying condensed consolidated financial statements.

Acquisition by Shutterstock, Inc.

On June 23, 2023, Shutterstock, Inc. completed its acquisition of all of the outstanding shares of the Company from Meta.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On May 22, 2023, Shutterstock, Inc. (“Shutterstock” or the “Company”) entered into a Stock Purchase Agreement with Meta Platforms, Inc. (“Meta”) (the “Purchase Agreement”). On June 23, 2023, the Company completed its acquisition (the “Acquisition”) of all of the outstanding shares of Giphy, Inc. (“Giphy”) from Meta. The consideration payable by the Company pursuant to the Purchase Agreement is \$53 million in net cash, in addition to cash acquired, assumed debt and other working capital adjustments.

The Acquisition was accounted for using the acquisition method of accounting for business combinations under the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 805, *Business Combinations* (“ASC 805”). The unaudited pro forma condensed combined financial statements were prepared in accordance with Article 11 of Regulation S-X, as amended by SEC Final Rule Release No. 33-10786, *Amendments to Financial Disclosures About Acquired and Disposed Businesses* and are presented to illustrate the estimated effects of the Acquisition.

The unaudited pro forma condensed combined balance sheet was prepared as if the Acquisition had occurred on March 31, 2023. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2022, and for the three months ended March 31, 2023 were prepared as if the Acquisition had occurred on January 1, 2022.

The following unaudited pro forma condensed combined financial information is derived from the historical financial statements of Shutterstock and Giphy, and should be read in conjunction with:

- Shutterstock, Inc.’s consolidated financial statements included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 14, 2023, and incorporated herein by reference,
- Shutterstock, Inc.’s consolidated financial statements included in its Quarterly Report on Form 10-Q filed with the SEC on April 25, 2023, and incorporated herein by reference,
- Shutterstock, Inc.’s consolidated financial statements included in its Quarterly Report on Form 10-Q filed with the SEC on August 1, 2023, and incorporated herein by reference,
- Giphy, Inc.’s audited consolidated financial statements for the years ended December 31, 2022 and 2021, that are included as Exhibit 99.1 in the Company’s Report on Form 8-K/A filed with the SEC on August 30, 2023 to which this unaudited pro forma condensed combined financial information is being filed as an exhibit, and
- Giphy, Inc.’s unaudited condensed consolidated financial statements for the quarterly periods ended March 31, 2023 and 2022, that are included as Exhibit 99.2 in the Company’s Report on Form 8-K/A filed with the SEC on August 30, 2023 to which this unaudited pro forma condensed combined financial information is being filed as an exhibit.

The unaudited pro forma condensed combined financial information has been prepared for illustrative purposes only and are not necessarily indicative of the financial condition or results of operations of future periods or the financial condition or results of operations that would have been realized had the entities been a single entity as of or for the periods presented.

Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined financial information. The transaction accounting adjustments are based on available information and assumptions that the Company’s management believes are reasonable. Such adjustments are estimates and actual experience may differ from expectations.

The combination is subject to closing adjustments that have not yet been finalized. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information as required by SEC rules. Differences between these preliminary estimates and the final combination accounting may be material.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF MARCH 31, 2023
(In thousands)

	Historical		Transaction Accounting Adjustments	Note	Pro Forma Combined
	Shutterstock	Giphy Reclassified (Note 5)			
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 95,832	\$ 8,126	\$ (57,750)	4A	\$ 46,208
Accounts receivable, net	48,303	—	—		48,303
Prepaid expenses and other current assets	34,765	1,454	102,400	4B, 4F	138,619
Total current assets	178,900	9,580	44,650		233,130
Property and equipment, net	56,604	559	—		57,163
Right-of-use asset	16,819	3,719	(1,870)	4D	18,668
Intangible assets, net	167,807	—	42,500	4D	210,307
Goodwill	382,640	—	—		382,640
Deferred tax assets, net	17,714	—	—		17,714
Other assets	22,039	1,647	45,200	4B, 4F	68,886
Total assets	\$ 842,523	\$ 15,505	\$ 130,480		\$ 988,508
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Accounts payable	7,778	2,150	—		9,928
Accrued expenses	72,802	1,116	3,000	4E	76,918
Contributor royalties payable	41,036	—	—		41,036
Deferred revenue	180,698	—	30,000	4F	210,698
Other liabilities	11,148	8,255	21,972	4G	41,375
Total current liabilities	313,462	11,521	54,972		379,955
Deferred tax liability, net	4,766	—	28,588	4C, 4D	33,354
Lease liabilities	34,017	1,516	—		35,533
Other non-current liabilities	13,744	—	13,000	4G	26,744
Total liabilities	365,989	13,037	96,560		475,586
Stockholders equity:					
Common Stock	396	—	—		396
Treasury stock	(200,008)	—	—		(200,008)
Additional paid-in capital	395,934	433,156	(433,156)	4H	395,934
Accumulated comprehensive loss	(14,020)	—	—		(14,020)
Retained earnings	294,232	(430,688)	467,076	4H	330,620
Total stockholders equity	476,534	2,468	33,920		512,922
Total liabilities and stockholders equity	\$ 842,523	\$ 15,505	\$ 130,480		\$ 988,508

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022
(In thousands, except per share data)

	Historical		Transaction Accounting Adjustments	Note	Pro Forma Combined
	Shutterstock	Giphy			
Revenue	\$ 827,826	\$ —	\$ 15,000	4I	\$ 842,826
Operating expenses:					
Cost of revenue	314,306	—	5,250	4J	319,556
Sales and marketing	203,154	20,462	105	4K	223,721
Product development	65,434	51,587	642	4K	117,663
General and administrative	132,644	22,263	4,677	4J, 4K, 4L	159,584
Impairment of lease and related assets	18,664	—	—		18,664
Total operating expenses	734,202	94,312	10,674		839,188
Income / (loss) from operations	93,624	(94,312)	4,326		3,638
Bargain purchase gain	—	—	41,940	4M	41,940
Other (expense) / income, net	(2,587)	(60)	—		(2,647)
Income / (loss) before income taxes	91,037	(94,372)	46,266		42,931
Provision for income taxes	14,934	1	952	4N	15,887
Net income / (loss)	\$ 76,103	\$ (94,373)	\$ 45,314		\$ 27,044
Earnings per share:					
Basic	\$ 2.11				\$ 0.75
Diluted	\$ 2.08				\$ 0.74
Weighted average shares outstanding:					
Basic	36,042				36,042
Diluted	36,546				36,546

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2023
(In thousands, except per share data)

	Historical		Transaction Accounting Adjustments	Note	Pro Forma Combined
	Shutterstock	Giphy			
Revenue	\$ 215,280	\$ —	\$ 3,750	4I	\$ 219,030
Operating expenses:					
Cost of revenue	78,163	—	1,313	4J	79,476
Sales and marketing	47,527	5,735	(139)	4K	53,123
Product development	15,406	13,897	(3,875)	4K	25,428
General and administrative	33,815	6,087	(440)	4J, 4K	39,462
Total operating expenses	174,911	25,719	(3,141)		197,489
Income / (loss) from operations	40,369	(25,719)	6,891		21,541
Other income, net	1,045	58	—		1,103
Income / (loss) before income taxes	41,414	(25,661)	6,891		22,644
Provision for income taxes	8,571	—	1,516	4N	10,087
Net income / (loss)	<u>\$ 32,843</u>	<u>\$ (25,661)</u>	<u>\$ 5,375</u>		<u>\$ 12,557</u>
Earnings per share:					
Basic	<u>\$ 0.92</u>				<u>\$ 0.35</u>
Diluted	<u>\$ 0.90</u>				<u>\$ 0.34</u>
Weighted average shares outstanding:					
Basic	<u>35,856</u>				<u>35,856</u>
Diluted	<u>36,575</u>				<u>36,575</u>

Notes to Unaudited Pro Forma Condensed Combined Financial Information

Note 1 – Basis of Pro Forma Presentation

On May 22, 2023, Shutterstock, Inc. (“Shutterstock” or the “Company”) entered into a Stock Purchase Agreement with Meta Platforms, Inc. (“Meta”) (the “Purchase Agreement”). On June 23, 2023, the Company completed its acquisition (the “Acquisition”) of all of the outstanding shares of Giphy, Inc. (“Giphy”) from Meta. The consideration payable by the Company pursuant to the Purchase Agreement is \$53 million in net cash, in addition to cash acquired, assumed debt and other working capital adjustments. Giphy is a New York-based company that operates a collection of GIFs and stickers that supplies casual conversational content.

The unaudited pro forma condensed combined financial information has been prepared for illustrative and informational purposes only and were prepared from the respective historical information of Shutterstock and Giphy and reflect adjustments to the historical information using the acquisition method of accounting. As a result, Shutterstock has recorded the business combination in its consolidated financial statements and has applied the acquisition method to account for Giphy’s assets acquired and liabilities assumed upon completion of the transaction. The acquisition method requires recording the identifiable assets acquired and liabilities assumed at their fair values on the acquisition date and recording goodwill for the excess of the purchase price over the aggregate fair value of the identifiable assets acquired and liabilities assumed.

The unaudited pro forma condensed combined balance sheet was prepared as if the Acquisition had occurred on March 31, 2023. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2022, and for the three months ended March 31, 2023 were prepared as if the Acquisition had occurred on January 1, 2022.

The following unaudited pro forma condensed combined financial information is derived from the historical financial statements of Shutterstock and Giphy, and should be read in conjunction with:

- Shutterstock, Inc.’s consolidated financial statements included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 14, 2023, and incorporated herein by reference,
- Shutterstock, Inc.’s consolidated financial statements included in its Quarterly Report on Form 10-Q filed with the SEC on April 25, 2023, and incorporated herein by reference,
- Shutterstock, Inc.’s consolidated financial statements included in its Quarterly Report on Form 10-Q filed with the SEC on August 1, 2023, and incorporated herein by reference,
- Giphy, Inc.’s audited consolidated financial statements for the years ended December 31, 2022 and 2021, that are included as Exhibit 99.1 in the Company’s Report on Form 8-K/A filed with the SEC on August 30, 2023 to which this unaudited pro forma condensed combined financial information is being filed as an exhibit, and
- Giphy, Inc.’s unaudited condensed consolidated financial statements for the quarterly periods ended March 31, 2023 and 2022, that are included as Exhibit 99.2 in the Company’s Report on Form 8-K/A filed with the SEC on August 30, 2023 to which this unaudited pro forma condensed combined financial information is being filed as an exhibit.

The unaudited pro forma condensed combined financial information is not necessarily indicative of what Shutterstock's results of operations would have been had the transaction occurred on the dates indicated, nor is it necessarily indicative of what the financial position or results of operations of the combined company will be in future periods. The historical financial information has been adjusted to reflect transaction related adjustments that management believes are necessary to present fairly Shutterstock's pro forma results of operations following the closing of the transaction for the period indicated. Additionally, the unaudited pro forma condensed combined statement of operations does not reflect any benefits that may result from potential revenue enhancements, anticipated cost savings and expense efficiencies or other synergies that may be achieved from the transaction.

The pro forma adjustments are based on certain estimates and assumptions. The actual adjustments and the allocation of the final purchase price will depend on several factors, including additional financial information and completion of the determination of fair value of assets and liabilities of Giphy as of the purchase date. Therefore, the actual adjustments will differ from the pro forma adjustments, and it is possible that the differences may be material.

The combination is subject to closing adjustments that have not yet been finalized. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information as required by SEC rules. Differences between these preliminary estimates and the final combination accounting may be material.

The pro forma adjustments also include certain reclassifications to conform Giphy historical accounting presentation to Shutterstock accounting presentation. Shutterstock's management believes that its assumptions provide a reasonable basis for presenting all of the significant effects of the transactions and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

Note 2 – Preliminary Giphy Acquisition Consideration

In January 2023, the United Kingdom Competition and Markets Authority (the "CMA") issued its final order requiring Meta to divest its ownership of Giphy, which Meta acquired in 2020. In connection with the closing of the Acquisition, whose terms were preapproved by the CMA, the Company and Meta entered into a transitional services agreement (the "TSA") pursuant to which Meta is responsible for certain costs related to retention of Giphy employees, including (i) recurring salary, bonus, and benefits through August 2024, which would be \$35.6 million if all employees are retained through August 2024, and (ii) nonrecurring items, totaling \$87.9 million, comprised of one-time employment inducement bonuses and the cash value of unvested Meta equity awards (the "Giphy Retention Compensation").

The Giphy Retention Compensation will be paid to the individuals for being employees of the Company after the completion of the Acquisition. Accordingly, it was determined that the payments by the Company are for future service requirements and will be reflected as operating expenses, less any amounts earned by the employees prior to the acquisition as pre-combination service, in the Company's Statements of Operations as incurred. The pro-forma adjustments reflect the change in the historical compensation costs expected to be incurred from the acquisition date, as if it had occurred on January 1, 2022. If the Giphy employees are no longer employed by the Company, the full amount of the Giphy Retention Compensation may not be paid or recognized as expense.

In addition, upon closing of the Acquisition, the Company also entered into an agreement with Meta whereby the Company will provide Meta with Giphy content through API services for a period of two years. To reflect this customer arrangement at fair value, the Company allocated and deferred \$30 million of the Acquisition proceeds to the API services agreement.

The Giphy purchase price, which will result in net cash to be received by the Company, is as follows (in thousands):

	Purchase Price
Purchase price	\$ 53,000
Cash acquired and other working capital adjustments	4,750
Cash paid on closing	\$ 57,750
Fair value of Giphy Retention Compensation contingent consideration ¹	(98,723)
Fair value of consideration attributable to pre-combination service ²	34,972
Net purchase price	\$ (6,001)

1 - This amount consists of \$123.5 million of Giphy Retention Compensation, adjusted for \$18.9 million of income tax obligations associated with the receipt of the Giphy Retention Compensation and \$5.9 million for the time value of money.

2 - Relates to the cash value of replaced unvested Meta equity awards attributable to pre-combination services.

Note 3 – Preliminary Fair Value Allocation of Assets Acquired and Liabilities Assumed

The preliminary fair value of consideration transferred in the Acquisition has been allocated to the intangible and tangible assets acquired and liabilities assumed at the acquisition date, with the excess of the fair value of the net assets acquired over the net consideration received recorded as a bargain purchase gain. The identifiable intangible assets of these acquisitions are being amortized on a straight-line basis.

Assets acquired and liabilities assumed:	As of March 31, 2023
Cash and cash equivalents	\$ 8,126
Prepaid expenses and other current assets	1,454
Property and equipment, net	559
Right-of-use asset	1,849
Intangible assets:	
Trade name	21,000
Developed technology	21,500
Intangible assets, net	42,500
Other assets	1,647
Total assets acquired	\$ 56,135
Accounts payable	(2,150)
Accrued expenses	(1,116)
Other liabilities	(8,255)
Deferred tax liability, net	(9,711)
Lease liabilities	(1,516)
Total liabilities assumed	(22,748)
Net assets acquired	\$ 33,387
Net purchase price	(6,001)
Bargain purchase gain	\$ 39,388

The fair value adjustments are preliminary and based on estimates of the fair value and useful lives of the assets and liabilities assumed on March 31, 2023 and have been prepared to illustrate the effect of the Acquisition. Accordingly, the pro forma purchase price allocation may be subject to further adjustments as additional information becomes available and as additional analyses and final valuations are completed. The final adjustments could be

materially different from those reflected herein. The identifiable intangible assets, which include developed technology and the trade name have weighted average useful lives of approximately 4.0 years and 15.0 years, respectively. The fair value of the developed technology was determined using the cost to recreate method, and the fair value of the trade name was determined using the relief-from-royalty method.

Note 4 – Summary Accumulation of Other Pro Forma Adjustments

The following pro forma adjustments result from the Acquisition.

Pro Forma Condensed Combined Balance Sheet adjustments as of March 31, 2023:

- A. The Giphy Acquisition consideration includes \$57.8 million of cash transferred on date of Acquisition. See Note 2.
- B. Represents current and non-current receivables from the escrow, which was funded by Meta, for the Giphy Retention Compensation contingent consideration.

As of March 31, 2023

Prepaid and other current assets	87,400
Other assets	30,200

- C. Represents \$18.9 million of deferred tax obligations primarily associated with the Giphy Retention Compensation included as a component of Acquisition consideration. See Note 2.
- D. Adjustment to record the acquired assets and assumed liabilities at fair value, and the related deferred income tax effect. The intangible assets includes \$21 million and \$21.5 million related to the Giphy tradename and developed technology, respectively, with estimated useful lives of 15 years and 4 years, respectively.

As of March 31, 2023

Right-of-use asset	(1,870)
Intangible assets, net	42,500
Deferred tax liability, net	(9,711)

- E. Represents \$3.0 million of accrued expenses primarily related to Acquisition transaction costs (e.g. attorneys, bankers, etc.).
- F. Allocation of Acquisition consideration for the fair value of the API services to be provided by the Company to Meta. See Note 2.

As of March 31, 2023

Prepaid expenses and other current assets	15,000
Other assets	15,000
Deferred revenue	(30,000)

- G. Fair value of consideration related to the replaced unvested Meta equity awards attributable to pre-combination service.

As of March 31, 2023

Other liabilities	21,972
Other non-current liabilities	13,000

H. The adjustment relates to the elimination of the Giphy additional paid-in capital and retained earnings balances, offset by the impact of the bargain purchase gain and transaction costs.

	As of March 31, 2023
Additional paid-in capital	(433,156)
Retained earnings	467,076

Pro Forma Condensed Combined Statement of Operations adjustments for the year ended December 31, 2022 and for the three-months ended March 31, 2023:

- I. To record \$3.8 million and \$15.0 million, for the three-months ended March 31, 2023, and the year ended December 31, 2022, respectively, representing the allocation of the \$30 million of Acquisition consideration to the API services agreement, which was deferred on the date of acquisition and will be recorded as revenue. See Note 2.
- J. Amortization of intangible assets recorded in connection with purchase accounting adjustments.

	Three months ended March 31, 2023	Year ended December 31, 2022
Cost of revenue	1,313	5,250
General and administrative	358	1,433

- K. Adjustments to compensation expense resulting from the Giphy Retention Compensation arrangements executed at the closing of the Acquisition. See Note 2.

	Three months ended March 31, 2023	Year ended December 31, 2022
Sales and marketing	(139)	105
Product development	(3,875)	642
General and administrative	(798)	244

- L. Adjustment to include \$3.0 million related to Giphy Acquisition transaction costs (e.g. attorneys, bankers, etc.)
- M. Represents bargain purchase gain of \$41.9 million, which was calculated as of the Acquisition date on June 23, 2023.
- N. Estimated income tax impact of the Transaction Accounting Adjustments, using the statutory tax rate.

Note 5 – Balance Sheet Reclassification Adjustments

Certain reclassifications have been made in the historical presentation of Giphy's balance sheet as of March 31, 2023 to conform to the Company's historical presentation.

As of March 31, 2023

(In thousands)

Giphy caption	Shutterstock caption	Giphy Historical	Reclassification Adjustments	Ref.	Giphy As Adjusted
ASSETS	ASSETS				
Current assets:	Current assets:				
Cash and cash equivalents	Cash and cash equivalents	8,126			8,126
Prepaid expenses and other current assets	Prepaid expenses and other current assets	1,454			1,454
Total current assets	Total current assets	9,580	—		9,580
Property and equipment, net	Property and equipment, net	559			559
Restricted cash		1,647	(1,647)	(i)	—
Operating lease right-of-use assets	Right-of-use asset	3,719			3,719
	Other assets	—	1,647	(i)	1,647
Total non-current assets		5,925	—		5,925
Total assets	Total assets	15,505	—		15,505
Accounts payable	Accounts payable	2,150			2,150
Accrued expenses	Accrued expenses	1,116			1,116
Operating lease liabilities, current		2,325	(2,325)	(ii)	—
Other current liabilities		5,930	(5,930)	(ii)	—
	Other liabilities	—	8,255	(ii)	8,255
Total current liabilities	Total current liabilities	11,521	—		11,521
Operating lease liabilities, non-current		1,516	(1,516)	(iii)	—
	Lease liabilities	—	1,516	(iii)	1,516
Total liabilities	Total liabilities	13,037	—		13,037
Stockholders equity:	Stockholders equity:				
Additional paid-in capital	Additional paid-in capital	433,156			433,156
Accumulated Deficit	Retained earnings	(430,688)			(430,688)
Total stockholders equity	Total stockholders equity	2,468	—		2,468
Total liabilities and stockholders equity	Total liabilities and stockholders equity	15,505	—		15,505

- (i) Represents the reclassification of "Restricted cash" on Giphy's balance sheet into "Other assets" to conform to the Company's balance sheet presentation.
- (ii) Represents the reclassification of "Operating lease liabilities, current" and "Other current liabilities" on Giphy's balance sheet into "Other liabilities" to conform to the Company's balance sheet presentation.
- (iii) Represents the reclassification of "Operating lease liabilities, non-current" on Giphy's balance sheet into "Lease liabilities" to conform to the Company's balance sheet presentation.