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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

or

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

For the transition period from to

Commission File Number: 001-35669

SHUTTERSTOCK, INC.
(Exact name of registrant as specified in its charter)

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

350 Fifth Avenue, 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)

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

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

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

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

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

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

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

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

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

As of April 21, 2023, 36,050,788 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

Shutterstock, Inc.
FORM 10-Q
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For the Quarterly Period Ended March 31, 2023

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, particularly in the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." All statements other than statements of historical fact 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, future dividends, future stock performance, our ability to consummate acquisitions and integrate the businesses we have acquired or may acquire into our existing operations, new or planned features, products or services, management strategies and our competitive position. You can identify many forward-looking statements by words such as "may," "will," "would," "should," "could," "expects," "aims," "anticipates," "believes," "estimates," "intends," "plans," "predicts," "projects," "seeks," "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. Such risks and uncertainties include, among others, those discussed under the caption "Risk Factors" in our most recently filed Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (the "SEC") on February 14, 2023 (our "2022 Form 10-K") and in our consolidated financial statements, related notes, and the other information appearing elsewhere in the 2022 Form 10-K, this Quarterly Report on Form 10-Q and our other filings with the SEC. Given these risks and uncertainties, you should not place undue reliance on any forward-looking statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date hereof, and we do not intend, and, except as required by law, we undertake no obligation to update any forward-looking statements contained herein after the date of this report to reflect actual results or future events or circumstances.

Unless the context otherwise indicates, references in this Quarterly Report on Form 10-Q to the terms "Shutterstock," "the Company," "we," "our" and "us" refer to Shutterstock, Inc. and its subsidiaries. "Shutterstock," "Shutterstock Editorial," "Asset Assurance," "Offset," "Bigstock," "Rex Features," "PremiumBeat," "TurboSquid," "PicMonkey," "Pattern89," "Shotzr," "Pond5," "Splash News," "Shutterstock Studios" and "Shutterstock Editor" and their logos are registered trademarks and are the property of Shutterstock, Inc. or one of our subsidiaries. All other trademarks, service marks and trade names appearing in this Quarterly Report on Form 10-Q are the property of their respective owners.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 95,832	$ 115,154
Accounts receivable, net of allowance of $6,566 and $5,830	48,303	67,249
Prepaid expenses and other current assets	34,765	33,268
Total current assets	178,900	215,671
Property and equipment, net	56,604	54,548
Right-of-use assets	16,819	17,593
Intangible assets, net	167,807	173,087
Goodwill	382,640	381,920
Deferred tax assets, net	17,714	16,533
Other assets	22,039	21,832
Total assets	$ 842,523	$ 881,184
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,778	$ 7,183
Accrued expenses	72,802	89,387
Contributor royalties payable	41,036	38,649
Deferred revenue	180,698	187,070
Debt	—	50,000
Other current liabilities	11,148	11,445
Total current liabilities	313,462	383,734
Deferred tax liability, net	4,766	4,465
Lease liabilities	34,017	35,611
Other non-current liabilities	13,744	9,892
Total liabilities	365,989	433,702
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, $0.01 par value; 200,000 shares authorized; 39,690 and 39,605 shares issued and 35,914 and 35,829 shares outstanding as of March 31, 2023 and December 31, 2022, respectively	396	396
Treasury stock, at cost; 3,776 shares as of March 31, 2023 and December 31, 2022	(200,008)	(200,008)
Additional paid-in capital	395,934	391,482
Accumulated comprehensive loss	(14,020)	(15,439)
Retained earnings	294,232	271,051
Total stockholders' equity	476,534	447,482
Total liabilities and stockholders' equity	$ 842,523	$ 881,184

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2023	**2022**
Revenue	$ 215,280	$ 199,132
Operating expenses:		
Cost of revenue	78,163	69,451
Sales and marketing	47,527	53,329
Product development	15,406	13,626
General and administrative	33,815	30,808
Total operating expenses	174,911	167,214
Income from operations	40,369	31,918
Other income, net	1,045	758
Income before income taxes	41,414	32,676
Provision for income taxes	8,571	6,104
Net income	$ 32,843	$ 26,572
Earnings per share:		
Basic	$ 0.92	$ 0.73
Diluted	$ 0.90	$ 0.71
Weighted average common shares outstanding:		
Basic	35,856	36,303
Diluted	36,575	37,204

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2023	**2022**
Net income	$ 32,843	$ 26,572
Foreign currency translation gain / (loss)	1,419	(886)
Other comprehensive income / (loss)	1,419	(886)
Comprehensive income	$ 34,262	$ 25,686

See Notes to Unaudited Consolidated Financial Statements.

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

Three Months Ended March 31, 2023	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income / (Loss)	Retained Earnings	Total
Balance at December 31, 2022	39,605	$ 396	3,776	$ (200,008)	$ 391,482	$ (15,439)	$ 271,051	$ 447,482
Equity-based compensation	—	—	—	—	8,643	—	—	8,643
Issuance of common stock in connection with employee stock option exercises and RSU vesting	144	1	—	—	1	—	—	2
Common shares withheld for settlement of taxes in connection with equity-based compensation	(59)	(1)	—	—	(4,192)	—	—	(4,193)
Cash dividends paid	—	—	—	—	—	—	(9,662)	(9,662)
Other comprehensive income	—	—	—	—	—	1,419	—	1,419
Net income	—	—	—	—	—	—	32,843	32,843
Balance at March 31, 2023	39,690	$ 396	3,776	$ (200,008)	$ 395,934	$ (14,020)	$ 294,232	$ 476,534
Three Months Ended March 31, 2022								
Balance at December 31, 2021	39,209	$ 392	2,792	$ (127,196)	$ 376,537	$ (10,788)	$ 229,537	$ 468,482
Equity-based compensation	—	—	—	—	7,826	—	—	7,826
Issuance of common stock in connection with employee stock option exercises and RSU vesting	261	3	—	—	(3)	—	—	—
Repurchase of treasury shares	—	—	422	(38,269)	—	—	—	(38,269)
Common shares withheld for settlement of taxes in connection with equity-based compensation	(118)	(1)	—	—	(10,595)	—	—	(10,596)
Cash dividends paid	—	—	—	—	—	—	(8,706)	(8,706)
Other comprehensive loss	—	—	—	—	—	(886)	—	(886)
Net income	—	—	—	—	—	—	26,572	26,572
Balance at March 31, 2022	39,352	$ 394	3,214	$ (165,465)	$ 373,765	$ (11,674)	$ 247,403	$ 444,423

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 32,843	$ 26,572
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,896	15,065
Deferred taxes	(977)	(1,242)
Non-cash equity-based compensation	8,643	7,826
Bad debt expense	790	361
Changes in operating assets and liabilities:		
Accounts receivable	19,168	2,366
Prepaid expenses and other current and non-current assets	5,189	(1,376)
Accounts payable and other current and non-current liabilities	(12,716)	(26,717)
Contributor royalties payable	2,246	1,030
Deferred revenue	(7,307)	(1,162)
Net cash provided by operating activities	$ 66,775	$ 22,723
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(12,380)	(11,775)
Acquisition of content	(3,527)	(734)
Security deposit payment	(30)	(16)
Net cash used in investing activities	$ (15,937)	$ (12,525)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of treasury shares	—	(38,372)
Proceeds from exercise of stock options	3	—
Cash paid related to settlement of employee taxes related to RSU vesting	(11,008)	(18,496)
Payment of cash dividend	(9,662)	(8,706)
Repayment of Credit Facility	(50,000)	—
Net cash used in financing activities	$ (70,667)	$ (65,574)
Effect of foreign exchange rate changes on cash	507	(529)
Net decrease in cash and cash equivalents	(19,322)	(55,905)
Cash and cash equivalents, beginning of period	115,154	314,017
Cash and cash equivalents, end of period	$ 95,832	$ 258,112
Supplemental Disclosure of Cash Information:		
Cash (received) / paid for income taxes	$ (5,150)	$ 1,666
Cash paid for interest	428	—

See Notes to Unaudited Consolidated Financial Statements.

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

(1) Summary of Operations and Significant Accounting Policies

Summary of Operations

Shutterstock, Inc. (the "Company" or "Shutterstock") is a premier partner for transformative brands, newsrooms and media companies. The Company's platform brings together users and contributors of content by providing readily-searchable content that our customers pay to license and by compensating contributors as their content is licensed. Contributors upload their content to the Company's web properties in exchange for royalty payments based on customer download activity. Beyond content, customers also leverage the Company's platform to assist with the entire creative process from ideation through creative execution.

The Company's key content offerings include:

- Images - consisting of photographs, vectors and illustrations. Images are typically used in visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and other similar uses.
- Footage - consisting of video clips, premium footage filmed by industry experts and cinema grade video effects, available in HD and 4K formats. Footage is often integrated into websites, social media, marketing campaigns and cinematic productions.
- Music - consisting of high-quality music tracks and sound effects, which are often used to complement images and footage.
- 3 Dimensional ("3D") Models - consisting of 3D models, used in a variety of industries such as advertising, media and video production, gaming, retail, education, design and architecture.

On May 11, 2022, the Company completed its acquisition of Pond5, Inc. ("Pond5"), a video-first content marketplace which expands Shutterstock's content offerings across footage, image and music. On May 28, 2022, Shutterstock acquired SCP 2020 Limited ("Splash News"), an entertainment news network for newsrooms and media companies, which offers image and video content across celebrity, red carpet and live events. See Note 3 Acquisitions.

Basis of Presentation

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

The interim Consolidated Balance Sheet as of March 31, 2023, and the Consolidated Statements of Operations, Comprehensive Income, Stockholders' Equity and Cash Flows for the three months ended March 31, 2023 and 2022, are unaudited. The Consolidated Balance Sheet as of December 31, 2022, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures required by GAAP. These unaudited interim financial statements have been prepared on a basis consistent with the Company's annual financial statements and, in the opinion of management, reflect all adjustments, which include all normal recurring adjustments necessary to fairly state the Company's financial position as of March 31, 2023, and its consolidated results of operations, comprehensive income, stockholders' equity and cash flows for the three months ended March 31, 2023 and 2022. The financial data and the other financial information disclosed in the notes to the financial statements related to these periods are also unaudited. The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2023 or for any other future annual or interim period.

These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2022 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on February 14, 2023. The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain immaterial changes in presentation have been made to conform the prior period presentation to current period reporting.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements. Actual results could differ from those estimates. Such estimates include, but are not limited to, the determination of the allowance for doubtful accounts, the volume of expected unused licenses for our subscription-based products, the assessment of recoverability of property and equipment, the fair value of acquired goodwill and intangible assets, the amount of non-cash equity-based compensation, the assessment of recoverability of deferred tax assets, the measurement of income tax and contingent non-income tax liabilities and the determination of the incremental borrowing rate used to calculate the lease liability.

Cash and Cash Equivalents

The Company's cash and cash equivalents consist primarily of bank deposits.

Allowance for Doubtful Accounts

The Company's accounts receivable consists of customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts, if required. The Company determines its allowance for doubtful accounts based on an evaluation of (i) the aging of its accounts receivable considering historical receivables loss rates, (ii) on a customer-by-customer basis, where appropriate, and (iii) the economic environments in which the Company operates.

During the three months ended March 31, 2023, the Company recorded bad debt expense of $0.8 million. As of March 31, 2023 and December 31, 2022, the Company's allowance for doubtful accounts was approximately $6.6 million and $5.8 million, respectively. The allowance for doubtful accounts is included as a reduction of accounts receivable on the Consolidated Balance Sheets.

Chargeback and Sales Refund Allowance

The Company establishes a chargeback allowance and sales refund reserve allowance based on factors surrounding historical credit card chargeback trends, historical sales refund trends and other information. As of March 31, 2023 and December 31, 2022, the Company's combined allowance for chargebacks and sales refunds was $0.4 million, which was included as a component of other current liabilities on the Consolidated Balance Sheets.

Revenue Recognition

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

For contracts that contain multiple performance obligations, the Company allocates the transaction price to each performance obligation based on a relative standalone selling price. The standalone selling price is determined based on the price at which the performance obligation is sold separately, or if not observable through past transactions, is estimated taking into account available information including internally approved pricing guidelines and pricing information of comparable products.

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

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

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

(2) Fair Value Measurements and Long-term Investments

Fair Value Measurements

The Company had no assets or liabilities requiring fair value hierarchy disclosures as of March 31, 2023 or December 31, 2022, except as noted below.

Other Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. Debt consists of principal amounts outstanding under our credit facility, which approximates fair value as underlying interest rates are reset regularly based on current market rates and is classified as Level 2. The Company's non-financial assets, which include long-lived assets, intangible assets and goodwill, are not required to be measured at fair value on a recurring basis. However, if the Company is required to evaluate a non-financial asset for impairment, whether due to certain triggering events or because annual impairment testing is required, a resulting asset impairment would require that the non-financial asset be recorded at fair value.

Long-term Investments

As of March 31, 2023 and December 31, 2022, the Company's long-term investments were in equity securities with no readily determinable fair value, totaled $20.0 million, and were reported within other assets on the Consolidated Balance Sheets. The Company uses the measurement alternative for these equity investments and their carrying value is reported at cost, adjusted for impairments or any observable price changes in ordinary transactions with identical or similar investments.

On a quarterly basis, the Company evaluates the carrying value of its long-term investments for impairment, which includes an assessment of revenue growth, earnings performance, working capital and general market conditions. As of March 31, 2023, no adjustments to the carrying values of the Company's long-term investments were identified as a result of this assessment. Changes in performance negatively impacting operating results and cash flows of these investments could result in the Company recording an impairment charge in future periods.

(3) Acquisitions

Pond5, Inc.

On May 11, 2022, the Company completed its acquisition of all of the outstanding shares of Pond5, for approximately $218.0 million. The total purchase price was paid with existing cash on hand as well as a $50 million drawdown on a newly established revolving credit facility (See Note 7). In connection with the acquisition, the Company incurred approximately $4.0 million of transaction costs, which is included in general and administrative expenses on the Consolidated Statements of Operations.

Pond5 is a New York based company that operates a video-first content marketplace for royalty-free and editorial video. The Company believes its acquisition of this video-first content marketplace provides expanded offerings across footage, image and music.

The identifiable intangible assets, which include customer relationships, developed technology and trade names have weighted average useful lives of approximately 14.2 years, 5 years and 10 years, respectively. The goodwill arising from the transaction is primarily attributable to expected operational synergies and is not deductible for income tax purposes.

Splash News

On May 28, 2022, the Company completed its acquisition of all of the outstanding shares of Splash News, for approximately $6.3 million. The total purchase price was paid with existing cash on hand. In connection with the acquisition, the Company incurred approximately $0.3 million of transaction costs, which is included in general and administrative expenses on the Consolidated Statements of Operations.

Splash News is a United Kingdom based entertainment news network and is a source for image and video content across celebrity, red carpet and live events. The Company believes this acquisition expands Shutterstock Editorial’s Newsroom offering for access to premium exclusive content.

The identifiable intangible asset, developed technology, has a useful life of approximately 4 years. The goodwill arising from the transaction is primarily attributable to expected operational synergies and is not deductible for income tax purposes.

The Pond5 and Splash News transactions were accounted for using the acquisition method and, accordingly, the results of the acquired businesses have been included in the Company’s results of operations from the respective acquisition dates. The fair value of consideration transferred in these business combinations has been allocated to the intangible and tangible assets acquired and liabilities assumed at the acquisition date, with the remaining unallocated amount recorded as goodwill. The identifiable intangible assets of these acquisitions are being amortized on a straight-line basis. The fair value of the customer relationships was determined using a variation of the income approach known as the multiple-period excess earnings method. The fair value of the trade name was determined using the relief-from-royalty method, and the fair value of the developed technology was determined using the relief-from-royalty and the cost to recreate methods.

The aggregate purchase price for these acquisitions has been allocated to the assets acquired and liabilities assumed as follows (in thousands):

Assets acquired and liabilities assumed:	**Pond5[1]**	**Splash News**	**Total**
Cash and cash equivalents	$ 11,675	$ 180	$ 11,855
Accounts receivable	1,273	500	$ 1,773
Other assets	1,102	525	1,627
Right of use asset	1,674	—	1,674
Intangible assets:			
Customer relationships	34,900	—	34,900
Trade name	5,300	—	5,300
Developed technology	27,600	1,263	28,863
Intangible assets	67,800	1,263	69,063
Goodwill	158,957	5,565	164,522
Total assets acquired	$ 242,481	$ 8,033	$ 250,514
			—
Accounts payable, accrued expenses and other liabilities	(9,304)	(1,528)	(10,832)
Contributor royalties payable	(3,039)		(3,039)
Deferred revenue	(3,705)	—	(3,705)
Deferred tax liability	(6,381)	(189)	(6,570)
Lease liability	(2,038)	—	(2,038)
Total liabilities assumed	(24,467)	(1,717)	(26,184)
Net assets acquired	$ 218,014	$ 6,316	$ 224,330

[1] During the three months ended September 30, 2022, the Company updated its preliminary allocation of the Pond5 purchase price to the assets acquired and liabilities assumed. This resulted in a (i) $4.0 million increase to goodwill, (ii) a $4.1 million decrease to intangible assets, including a $7.0 million decrease to the value of customer relationships, partially offset by a $2.3 million increase to the value of the developed technology, and (iii) other immaterial adjustments.

Pro-Forma Financial Information (unaudited)

The following unaudited pro forma consolidated financial information (in thousands) reflects the results of operations of the Company for the three months ended March 31, 2022, as if the Pond5 and Splash News acquisitions had been completed on January 1, 2021, after giving effect to certain purchase accounting adjustments, primarily related to intangible assets and transaction costs. These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of what the Company's operating results would have been, had the acquisitions actually taken place at the beginning of the previous annual period.

	Three Months Ended March 31, 2022
Revenue	
As Reported	$ 199,132
Pro Forma	212,835
Income before income taxes	
As Reported	$ 32,676
Pro Forma	32,412

(4) Property and Equipment

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

	As of March 31, 2023	As of December 31, 2022
Computer equipment and software	$ 272,431	$ 261,067
Furniture and fixtures	10,491	10,328
Leasehold improvements	18,685	18,635
Property and equipment	301,607	290,030
Less accumulated depreciation	(245,003)	(235,482)
Property and equipment, net	$ 56,604	$ 54,548

Depreciation and amortization expense related to property and equipment was $9.1 million and $8.0 million for the three months ended March 31, 2023 and 2022, respectively. Of these amounts, $8.7 million and $7.2 million are included in cost of revenue for the three months ended March 31, 2023 and 2022, respectively, and $0.5 million and $0.8 million are included in general and administrative expense for the three months ended March 31, 2023 and 2022, respectively.

Depreciation and amortization expense is included in cost of revenue and general and administrative expense in the Consolidated Statements of Operations based on the nature of the asset being depreciated.

Capitalized Internal-Use Software

The Company capitalized costs related to the development of internal-use software of $10.3 million and $9.5 million for the three months ended March 31, 2023 and 2022, respectively. Capitalized amounts are included as a component of property and equipment under computer equipment and software on the Consolidated Balance Sheets.

The portion of total depreciation expense related to capitalized internal-use software was $8.4 million and $6.9 million for the three months ended March 31, 2023 and 2022, respectively. Depreciation expense related to capitalized internal-use software is included in cost of revenue in the Consolidated Statements of Operations.

As of March 31, 2023 and December 31, 2022, the Company had capitalized internal-use software of $52.0 million and $50.1 million, respectively, net of accumulated depreciation, which was included in property and equipment, net.

(5) Goodwill and Intangible Assets

Goodwill

The Company’s goodwill balance is attributable to its Content reporting unit and is tested for impairment annually on October 1 or upon a triggering event. No triggering events were identified during the three months ended March 31, 2023.

The following table summarizes the changes in the carrying value of the Company’s goodwill balance during the three months ended March 31, 2023 (in thousands):

	Goodwill
Balance as of December 31, 2022	$ 381,920
Foreign currency translation adjustment	720
Balance as of March 31, 2023	$ 382,640

Intangible Assets

Intangible assets, all of which are subject to amortization, consisted of the following as of March 31, 2023 and December 31, 2022 (in thousands):

	As of March 31, 2023				As of December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing intangible assets:							
Customer relationships	$ 89,704	$ (21,231)	$ 68,473	12	$ 88,996	$ (19,168)	$ 69,828
Trade name	16,767	(7,604)	9,163	9	16,588	(7,209)	9,379
Developed technology	95,667	(41,575)	54,092	4	94,872	(35,288)	59,584
Contributor content	57,938	(21,966)	35,972	8	54,284	(20,098)	34,186
Patents	259	(152)	107	18	259	(149)	110
Total	$ 260,335	$ (92,528)	$ 167,807		$ 254,999	$ (81,912)	$ 173,087

Amortization expense was $9.8 million and $7.1 million for the three months ended March 31, 2023 and 2022, respectively. Of these amounts, $9.2 million and $6.5 million are included in cost of revenue for the three months ended March 31, 2023 and 2022, respectively, and $0.6 million are included in general and administrative expense for the three months ended March 31, 2023 and 2022.

The Company determined that there was no indication of impairment of the intangible assets for any period presented. Estimated amortization expense is: $29.6 million for the remaining nine months of 2023, $32.7 million in 2024, $22.3 million in 2025, $19.8 million in 2026, $13.5 million in 2027, $10.9 million in 2028 and $39.0 million thereafter.

(6) Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	As of March 31, 2023	As of December 31, 2022
Compensation	$ 23,452	$ 40,314
Non-income taxes	23,451	24,390
Website hosting and marketing fees	8,301	6,608
Other expenses	17,598	18,075
Total accrued expenses	$ 72,802	$ 89,387

(7) Debt

On May 6, 2022, the Company entered into a five-year $100 million unsecured revolving loan facility (the "Credit Facility") with Bank of America, N.A., as Administrative Agent and other lenders. The Credit Facility includes a letter of credit sub-facility and a swingline facility and it also permits, subject to the satisfaction of certain conditions, up to $100 million of additional revolving loan commitments with the consent of the Administrative Agent.

At the Company's option, revolving loans accrue interest at a per annum rate based on either (i) the base rate plus a margin ranging from 0.125% to 0.500%, determined based on the Company's consolidated leverage ratio or (ii) the Term Secured Overnight Financing Rate ("SOFR") (for interest periods of 1, 3 or 6 months) plus a margin ranging from 1.125% to 1.5%, determined based on the Company's consolidated leverage ratio. The Company is also required to pay an unused commitment fee ranging from 0.150% to 0.225%, determined based on the Company's consolidated leverage ratio. In connection with the execution of this agreement, the Company paid debt issuance costs of approximately $0.6 million.

On May 9, 2022, the Company borrowed $50 million for use in connection with the acquisition of Pond5, described under Note 3 ("Acquisitions") and for general corporate purposes. During the three months ended March 31, 2023, the Company repaid the full amount outstanding and as of March 31, 2023, the Company had no outstanding borrowings under the Credit Facility. As of March 31, 2023, the Company had a remaining borrowing capacity of $98 million, net of standby letters of credit. For the three months ended March 31, 2023, the Company recognized interest expense of $0.2 million.

The Credit Facility contains financial covenants and requirements restricting certain of the Company's activities, which are usual and customary for this type of credit facility. The Company is also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio, in each case, determined in accordance with the terms of the Credit Facility. As of March 31, 2023, the Company was in compliance with these covenants.

(8) Stockholders' Equity and Equity-Based Compensation

Stockholders' Equity

Common Stock

The Company issued approximately 85,000 and 143,000 shares of common stock during the three months ended March 31, 2023 and 2022, respectively, related to the exercise of stock options and the vesting of Restricted Stock Units.

Treasury Stock

In October 2015, the Company's Board of Directors approved a share repurchase program, authorizing the Company to purchase up to $100 million of its common stock. In February 2017, the Company's Board of Directors approved an increase to the share repurchase program, authorizing the Company to repurchase up to an additional $100 million of its outstanding common stock.

The Company expects to fund future repurchases, if any, through a combination of cash on hand, cash generated by operations and future financing transactions, if appropriate. Accordingly, the share repurchase program is subject to the Company having available cash to fund repurchases. Under the share repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors.

During the three months ended March 31, 2022, the Company repurchased approximately 422,000 shares of its common stock at an average cost of $90.69. As of December 31, 2022, the Company fully utilized its authorization for purchases under the share repurchase program.

Dividends

The Company declared and paid cash dividends of $0.27 and $0.24 per share of common stock or $9.7 million and $8.7 million, during the three months ended March 31, 2023 and 2022, respectively.

On April 17, 2023, the Company's Board of Directors declared a quarterly cash dividend of $0.27 per share of outstanding common stock payable on June 15, 2023 to stockholders of record at the close of business on June 1, 2023. Future declarations of dividends are subject to the final determination of the Board of Directors, and will depend on, among other things, the Company's future financial condition, results of operations, capital requirements, capital expenditure requirements, contractual restrictions, anticipated cash needs, business prospects, provisions of applicable law and other factors the Board of Directors may deem relevant.

Equity-Based Compensation

The Company recognizes stock-based compensation expense for all equity-based compensation awards, including employee Restricted Stock Units and Performance-based Restricted Stock Units ("PRSUs" and, collectively with Restricted Stock Units, "RSUs") and stock options, based on the fair value of each award on the grant date. Awards granted prior to June 1, 2022 were granted under the Company's Amended and Restated 2012 Omnibus Equity Incentive Plan (the "2012 Plan"). At the Annual Meeting held on June 2, 2022, the Company's stockholders approved the 2022 Omnibus Equity Incentive Plan (the "2022 Plan"). Awards granted subsequent to June 2, 2022 were granted under the 2022 Plan.

The following table summarizes non-cash equity-based compensation expense, net of forfeitures, by financial statement line item included in the accompanying Consolidated Statements of Operations for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
Cost of revenue	$ 184	$ 78
Sales and marketing	604	928
Product development	2,448	1,781
General and administrative	5,407	5,039
Total	$ 8,643	$ 7,826

The following table summarizes non-cash equity-based compensation expense, net of forfeitures, by award type included in the accompanying Consolidated Statements of Operations for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
Stock options	$ —	$ 175
RSUs	8,643	7,651
Total	$ 8,643	$ 7,826

Stock Option Awards

During the three months ended March 31, 2023, no options to purchase shares of its common stock were granted. As of March 31, 2023, there were approximately 303,000 options vested and exercisable with a weighted average exercise price of $34.55.

Restricted Stock Unit Awards

During the three months ended March 31, 2023, the Company had RSU grants, net of forfeitures, of approximately 129,000. As of March 31, 2023, there are approximately 1,703,000 non-vested RSUs outstanding with a weighted average grant-date fair value of $71.08. As of March 31, 2023, the total unrecognized non-cash equity-based compensation expense related to the non-vested RSUs was approximately $74.9 million, which is expected to be recognized through 2027.

During the three months ended March 31, 2023 and 2022, shares of common stock with an aggregate value of $4.2 million and $10.6 million were withheld upon vesting of RSUs and paid in connection with related remittance of employee withholding taxes to taxing authorities.

On April 3, 2023, the Company granted approximately 822,000 RSUs with a grant date fair value of $58 million.

(9) Revenue

The Company distributes its products through two primary channels:

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

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

The Company's revenues by distribution channel for the three months ended March 31, 2023 and 2022 are as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
E-commerce	$ 119,754	$ 127,070
Enterprise	95,526	72,062
Total Revenues	$ 215,280	$ 199,132

The March 31, 2023 deferred revenue balance will be earned as content is downloaded or upon the expiration of subscription-based products, and nearly all is expected to be earned within the next twelve months. $80.5 million of total revenue recognized for the three months ended March 31, 2023 was reflected in deferred revenue as of December 31, 2022.

(10) Other Income / (Expense), net

The following table presents a summary of the Company's other income and expense activity included in the accompanying Consolidated Statements of Operations for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
Foreign currency gain	$ 1,111	$ 734
Interest expense	(231)	—
Other	165	24
Total other income	$ 1,045	$ 758

(11) Income Taxes

The Company's effective tax rates were 20.7% and 18.7% for the three months ended March 31, 2023 and 2022, respectively. For the three months ended March 31, 2023, the net effect of discrete items increased the effective tax rate by 0.9%. Excluding these items, the Company's effective tax rate would have been 19.8% for the three months ended March 31, 2023.

For the three months ended March 31, 2022, the net effect of discrete items decreased the effective tax rate by 0.2%. Excluding these items, the Company's effective tax rate would have been 18.9% for the three months ended March 31, 2022.

The Company has computed the provision for income taxes based on the estimated annual effective tax rate excluding loss jurisdictions with no tax benefit and the application of discrete items, if any, in the applicable period.

During the three months ended March 31, 2023 and 2022, uncertain tax positions recorded by the Company were not material. To the extent the remaining uncertain tax positions are ultimately recognized, the Company's effective tax rate may be impacted in future periods.

The Company recognizes interest expense and tax penalties related to unrecognized tax benefits in income tax expense in the Consolidated Statements of Operations. The Company's accrual for interest and penalties related to unrecognized tax benefits was not material for the three months ended March 31, 2023 and 2022.

During the three months ended March 31, 2023, the Company had net cash taxes refunded of $5.2 million and during the three months ended March 31, 2022, the Company had net cash taxes paid of $1.7 million.

(12) Net Income Per Share

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

The following table sets forth the computation of basic and diluted net income per share for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
Net income	$ 32,843	$ 26,572
Shares used to compute basic net income per share	35,856	36,303
Dilutive potential common shares		
Stock options	153	233
Unvested restricted stock awards	566	668
Shares used to compute diluted net income per share	36,575	37,204
Basic net income per share	$ 0.92	$ 0.73
Diluted net income per share	$ 0.90	$ 0.71
Dilutive shares included in the calculation	1,691	1,409
Anti-dilutive shares excluded from the calculation	176	56

(13) Geographic Information

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

	Three Months Ended March 31,	
	2023	2022
North America	$ 99,140	$ 79,943
Europe	59,034	62,553
Rest of the world	57,106	56,636
Total revenue	$ 215,280	$ 199,132

The United States, included in North America in the above table, accounted for 43% and 37% of consolidated revenue for the three months ended March 31, 2023 and 2022, respectively. No other country accounts for more than 10% of the Company’s revenue in any period presented.

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

	As of March 31, 2023	As of December 31, 2022
North America	$ 42,764	$ 42,266
Europe	13,585	12,079
Rest of the world	255	203
Total long-lived tangible assets	$ 56,604	$ 54,548

The United States, included in North America in the above table, accounted for 72% and 73% of total long-lived tangible assets as of March 31, 2023 and December 31, 2022, respectively. Ireland, included in Europe in the above table, accounted for 19% and 17% of total long-lived tangible assets as of March 31, 2023 and December 31, 2022, respectively. No other country accounts for more than 10% of the Company’s long-lived tangible assets in any period presented.

(14) Commitments and Contingencies

As of March 31, 2023, the Company had total non-lease obligations in the amount of approximately $73.8 million, which consisted primarily of minimum royalty guarantees and unconditional purchase obligations related to contracts for infrastructure and other business services. As of March 31, 2023, the Company's non-lease obligations for the remainder of 2023 and for the years ending December 31, 2024, 2025, 2026, 2027 and 2028 were approximately $35.5 million, $30.1 million, $6.7 million, $0.9 million, $0.4 million and $0.2 million, respectively.

Legal Matters

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

Indemnification and Employment Agreements

In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to provide indemnification of varying scope and terms to customers with respect to certain matters, including, but not limited to, losses arising out of the breach of the Company's intellectual property warranties for damages to the customer directly attributable to the Company's breach. The Company is not responsible for any damages, costs, or losses to the extent such damages, costs or losses arise as a result of any modifications made by the customer, or the context in which content is used. The standard maximum aggregate obligation and liability to any one customer for any single claim is generally limited to ten thousand dollars but can range to $250,000, with certain exceptions for which our indemnification obligation are uncapped. As of March 31, 2023, the Company had recorded no material liabilities related to indemnification obligations for loss contingencies. Additionally, the Company believes that it has the appropriate insurance coverage in place to adequately cover such indemnification obligations, if necessary.

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

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim unaudited consolidated financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q and with information contained in our other filings, including the audited consolidated financial statements included in our 2022 Form 10-K.

In addition to historical consolidated financial information, this discussion contains forward-looking statements including statements about our plans, estimates and beliefs. These statements involve risks and uncertainties and our actual results could differ materially from those expressed or implied in forward-looking statements. See "Forward Looking Statements" above. See also the "Risk Factors" disclosures contained in our 2022 Form 10-K for additional discussion of the risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements.

Overview and Recent Developments

Shutterstock, Inc. (referred to herein as the "Company", "we," "our," and "us") is a premier partner for transformative brands, newsrooms and media companies. Our platform brings together users and contributors of content by providing readily-searchable content that our customers pay to license and by compensating contributors as their content is licensed. Contributors upload their content to the Company's web properties in exchange for royalty payments based on customer download activity. Beyond content, customers also leverage the Company's platform to assist with the entire creative process from ideation through creative execution.

Our key content offerings include:

- Images - consisting of photographs, vectors and illustrations. Images are typically used in visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and other similar uses.
- Footage - consisting of video clips, premium footage filmed by industry experts and cinema grade video effects, available in HD and 4K formats. Footage is often integrated into websites, social media, marketing campaigns and cinematic productions.
- Music - consisting of high-quality music tracks and sound effects, which are often used to complement images and footage.
- 3 Dimensional ("3D") Models - consisting of 3D models, used in a variety of industries such as advertising, media and video production, gaming, retail, education, design and architecture.

Our offerings are distributed to customers under the following brands: Shutterstock; Pond5; TurboSquid; Offset; PremiumBeat; Bigstock; PicMonkey; and Splash News.

Shutterstock, our flagship brand, includes various content types such as image, footage, music and editorial. For customers seeking specialized solutions, Shutterstock Studios extends our offerings by providing custom, high-quality content matched with production tools and services at scale. In addition, our collection of images, footage clips, music tracks and 3D models is also distributed through our computer vision offering which is used by large technology companies to train AI models.

Pond5 is a video-first content marketplace which expands the Company's content offerings across footage, image and music. PicMonkey is a leading online graphic design and image editing platform. TurboSquid operates a marketplace that offers more than one million 3D models and a 2 dimensional ("2D") marketplace derived from 3D objects. Our Offset brand provides authentic and exceptional content for high-impact use cases that require extraordinary images, featuring work from top assignment photographers and illustrators from around the world. PremiumBeat offers exclusive high-quality music tracks and provides producers, filmmakers and marketers the ability to search handpicked production music from the world's leading composers. Bigstock maintains a separate content library tailored for creators seeking to incorporate cost-effective imagery into their projects.

Over 2.2 million active, paying customers contributed to our revenue for the twelve-month period ended March 31, 2023. As of March 31, 2023, more than 2.4 million approved contributors made their images, footage and music tracks available in our collection, which has grown to more than 615 million images and more than 47 million footage clips as of March 31, 2023.

This makes our collection of content one of the largest of its kind, and we delivered 42.7 million paid downloads to our customers across all of our brands during the three months ended March 31, 2023.

Contributors of content typically earn a royalty each time their work is licensed. Contributors earn royalties based on our published earnings schedule that is based on annual licensing volume, which determines the contributor's earnings tier and the purchase option under which the content was licensed. Royalties represent the largest component of our operating expenses, are reported within cost of revenue, tend to fluctuate proportionately with revenue and paid downloads and may be impacted by the mix of products sold.

In October 2022, Shutterstock announced our strategic partnership with OpenAI, an AI research and deployment company. In 2023, Shutterstock integrated Dall-E 2, OpenAI's tool for AI-generated content into the Shutterstock platform to enable our customers to input keywords and generate unique images based on their specific criteria.

Through our platform, we generate revenue by licensing content to our customers. During the three months ended March 31, 2023, 56% of our revenue and the majority of our content licenses came from our E-commerce sales channel. The majority of our customers license content directly through our self-service web properties. E-commerce customers have the ability to purchase plans that are paid on either a monthly or annual basis or to license content on a transactional basis. E-commerce customers generally license content under our standard or enhanced licenses, with additional licensing options available to meet customers' individual needs.

Customers in our Enterprise sales channel generally have unique content, licensing and workflow needs. These customers benefit from communication with our dedicated sales, service and research teams which provide a number of personalized enhancements to their creative workflows including non-standard licensing rights, multi-seat access, ability to pay on credit terms, multi-brand licensing packages, increased indemnification protection and content licensed for use-cases outside of those available on our e-commerce platform. Customers in our enterprise sales channel may also benefit from access to (i) Shutterstock Editorial, which includes our library of editorial images and videos, (ii) Shutterstock Studios, our offering which provides custom, high-quality content matched with production tools and services at scale, and (iii) computer vision, our data partnerships offering which provides metadata associated with our content collection, used to train AI models. Our range of solutions, including the depth of our API platform integrations, appeals to a broad and diverse customer base and enables us to adapt and evolve with the needs of our more high touch clients to deliver capabilities that embed deep within their workflows. Our Enterprise sales channel provided approximately 44% of our revenue for the three months ended March 31, 2023.

As the use cases for our creative solutions expand, we believe our customers are seeking alternative means to consume our offerings. As a result, we have seen continued demand for our monthly subscription products, including our suite of multi-asset subscriptions. These multi-asset products are credit-based and enable customers to license images, footage and music in a single subscription. Our monthly subscriptions provide for either a fixed number of content licenses or credits that may be used to download content during the period. Our subscription-based pricing model makes the creative process easier because customers can download content in our collection for use in their creative process without incremental costs, which provides greater creative freedom and helps improve work product. In addition, customers may also purchase licenses through other contractual plans where the customer commits to buy a predetermined quantity of content licenses that may be downloaded over a period of time, generally between one month to one year. For users who need less content, individual content licenses may also be purchased on a transactional basis, paid for at the time of download.

Key Operating Metrics

In addition to key financial metrics, we regularly review a number of key operating metrics to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. We believe that these metrics can be useful for understanding the underlying trends in our business.

Subscribers, subscriber revenue and average revenue per customer from acquisitions are included in these metrics beginning twelve months after the closing of the respective business combination. Accordingly, the metrics include Subscribers, Subscriber revenue, and Average revenue per customer from TurboSquid beginning February 2022 and from PicMonkey beginning September 2022. These metrics exclude the respective counts and revenues from our acquisitions of Pond5 and Splash News.

Subscribers

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

Subscriber Revenue

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

Average Revenue Per Customer

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

Paid Downloads

We define paid downloads as the number of downloads that our customers make in a given period of our content. Paid downloads exclude content related to our Studios business, downloads of content that are offered to customers for no charge, including our free trials, and downloads associated with our computer vision offering. Measuring the number of paid downloads that our customers make in a given period is important because it is a measure of customer engagement on our platform and triggers the recognition of revenue and contributor royalties.

Revenue per Download

We define revenue per download as the amount of revenue recognized in a given period divided by the number of paid downloads in that period excluding revenue from our Studios business, revenue that is not derived from or associated with content licenses and revenue associated with our computer vision offering. This metric captures any changes in our pricing, including changes resulting from the impact of competitive pressures, as well as the mix of licensing options that our customers choose, some of which generate more revenue per download than others, and the impact that changes in foreign currency rates have on our pricing. Changes in revenue per download are primarily driven by the introduction of new product offerings, changes in product and sales channel mix and customer utilization of our products.

Content in our Collection

We define content in our collection as the total number of approved images (photographs, vectors and illustrations) and footage (in number of clips) in our library at the end of the period. We exclude content from this collection metric that is not uploaded directly to our site but is available for license by our customers through an application program interface, content from our Studios business and editorial content. Prior to December 31, 2022, this metric only included approved images and footage clips in our library on shutterstock.com at the end of the period. We believe that our large selection of high-quality content enables us to attract and retain customers and drives our network effect.

The following table summarizes our key operating metrics, which are unaudited, for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
Subscribers (end of period)[1]	559,000	359,000
Subscriber revenue (in millions)[1]	$ 90.6	$ 85.4
Average revenue per customer (last twelve months)[1]	$ 356	$ 355
Paid downloads (in millions)	42.7	44.6
Revenue per download	$ 4.41	$ 4.22
Content in our collection (end of period, in millions):		
Images	615	405
Footage clips	47	25

[1] Subscribers, Subscriber Revenue and Average Revenue Per Customer from acquisitions are included in these metrics beginning twelve months after the closing of the respective business combination. Accordingly, the metrics include Subscribers, Subscriber revenue, and Average revenue per customer from TurboSquid beginning February 2022 and from PicMonkey beginning September 2022. These metrics exclude the respective counts and revenues from our acquisitions of Pond5 and Splash News.

Critical Accounting Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of the consolidated financial statements in conformity with GAAP requires our management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure or inclusion of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. We evaluate our significant estimates on an ongoing basis, including, but not limited to, estimates related to allowance for doubtful accounts, the volume of expected unused licenses used in revenue recognition for our subscription-based products, the fair value of acquired goodwill and intangible assets and income tax provisions. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

We believe that the policies, assumptions and estimates associated with our revenue recognition, allowance for doubtful accounts, goodwill and intangible assets and accounting for income taxes have the greatest potential impact on our financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

A description of our critical accounting policies that involve significant management judgments appears in our 2022 Form 10-K, under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates.”

See Note 1 to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a full description of the impact of the adoption of new accounting standards on our financial statements. There have been no material changes to our critical accounting estimates as compared to our critical accounting policies and estimates included in our 2022 Form 10-K.

Key Components of Our Results of Operations

Revenue

We distribute our content offerings through two primary channels:

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

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

The Company's revenues by distribution channel for the three months ended March 31, 2023 and 2022 are as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
E-commerce	$ 119,754	$ 127,070
Enterprise	95,526	72,062
Total Revenues	$ 215,280	$ 199,132

Costs and Expenses

Cost of Revenue. Cost of revenue consists of royalties paid to contributors, credit card processing fees, content review costs, customer service expenses, infrastructure and hosting costs related to maintaining our creative platform and cloud-based software platform, depreciation and amortization of capitalized internal-use software, purchased content and acquisition-related intangible assets, allocated facility costs and other supporting overhead costs. Cost of revenue also includes employee compensation, including non-cash equity-based compensation, bonuses and benefits associated with the maintenance of our creative platform and cloud-based software platform.

Sales and Marketing. Sales and marketing expenses include third-party marketing, advertising, branding, public relations and sales expenses. Sales and marketing expenses also include associated employee compensation, including non-cash equity-based compensation, bonuses and benefits, and commissions as well as allocated facility and other supporting overhead costs.

Product Development. Product development expenses consist of employee compensation, including non-cash equity-based compensation, bonuses and benefits, and expenses related to vendors engaged in product management, design, development and testing of our websites and products. Product development costs also includes software and other IT equipment costs, allocated facility expenses and other supporting overhead costs.

General and Administrative. General and administrative expenses include employee compensation, including non-cash equity-based compensation, bonuses and benefits for executive, finance, accounting, legal, human resources, internal information technology, internet security, business intelligence and other administrative personnel. In addition, general and administrative expenses include outside legal, tax and accounting services, bad debt expense, insurance, facilities costs, other supporting overhead costs and depreciation and amortization expense.

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

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

Results of Operations

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

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Consolidated Statements of Operations:		
Revenue	$ 215,280	$ 199,132
Operating expenses:		
Cost of revenue	78,163	69,451
Sales and marketing	47,527	53,329
Product development	15,406	13,626
General and administrative	33,815	30,808
Total operating expenses	174,911	167,214
Income from operations	40,369	31,918
Other income, net	1,045	758
Income before income taxes	41,414	32,676
Provision for income taxes	8,571	6,104
Net income	$ 32,843	$ 26,572

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

	Three Months Ended March 31,	
	2023	2022
Consolidated Statements of Operations:		
Revenue	100 %	100 %
Operating expenses:		
Cost of revenue	36 %	35 %
Sales and marketing	22 %	27 %
Product development	7 %	7 %
General and administrative	16 %	15 %
Total operating expenses	81 %	84 %
Income from operations	19 %	16 %
Other income, net	— %	— %
Income before income taxes	19 %	16 %
Provision for income taxes	4 %	3 %
Net income	15 %	13 %

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

Comparison of the Three Months Ended March 31, 2023 and 2022

The following table presents our results of operations for the periods indicated (in thousands):

	Three Months Ended March 31,			
	2023	2022	$ Change	% Change
Consolidated Statements of Operations:				
Revenue	$ 215,280	$ 199,132	$ 16,148	
Operating expenses:				
Cost of revenue	78,163	69,451	8,712	1
Sales and marketing	47,527	53,329	(5,802)	(1
Product development	15,406	13,626	1,780	1
General and administrative	33,815	30,808	3,007	1
Total operating expenses	174,911	167,214	7,697	
Income from operations	40,369	31,918	8,451	2
Other income, net	1,045	758	287	3
Income before income taxes	41,414	32,676	8,738	2
Provision for income taxes	8,571	6,104	2,467	4
Net income	$ 32,843	$ 26,572	$ 6,271	2

Revenue

Revenue increased by $16.1 million, or 8%, to $215.3 million in the three months ended March 31, 2023 compared to the same period in 2022. On a constant currency basis, revenue increased approximately 10% in the three months ended March 31, 2023, compared to the same period in 2022.

The Company's E-commerce revenues decreased by 6%, to $119.8 million in the three months ended March 31, 2023, compared to the same period in 2022. On a constant currency basis, E-commerce revenues decreased by 4% in the three months ended March 31, 2023, compared to the same period in 2022. The decline in our E-commerce revenues was driven by continued weakness in new customer acquisition in Europe and Rest of World, partially offset by revenues generated from our acquisition of Pond5, which was completed on May 11, 2022.

The Company's Enterprise revenues increased by 33%, to $95.5 million in the three months ended March 31, 2023, compared to the same period in 2022. On a constant currency basis, the Company's Enterprise revenues increased by 35% in the three months ended March 31, 2023, compared to the same period in 2022. The increase in Enterprise revenues was primarily driven by growth in our computer vision data partnerships and Studios business, in addition to revenue generated from our acquisitions of Pond5 and Splash News, which were completed on May 11, 2022 and May 28, 2022, respectively.

In the three months ended March 31, 2023 and 2022, we delivered 42.7 million and 44.6 million paid downloads, respectively, and our revenue per download was $4.41 and $4.22 for the three months ended March 31, 2023 and 2022, respectively. During the three months ended March 31, 2023, the decline in paid downloads is attributed to the decline in the E-commerce business, and the increase in revenue per download was primarily due to changes in sales channel mix.

Changes in our revenue by region were as follows: revenue from North America increased by $19.2 million, or 24%, to $99.1 million, revenue from Europe decreased by $3.5 million, or 6%, to $59.0 million and revenue from outside Europe and North America increased by $0.5 million, or 1%, to $57.1 million, in the three months ended March 31, 2023 compared to the same period in 2022.

Costs and Expenses

Cost of Revenue. Cost of revenue increased by $8.7 million, or 13% to $78.2 million in the three months ended March 31, 2023 compared to the same period in 2022. This increase was primarily driven by: (i) increased depreciation and amortization expense driven by our recent acquisitions; (ii) increased royalty, content and reviewer costs; and (iii) higher costs associated with website hosting, hardware and software licenses. We expect that our cost of revenue will continue to fluctuate in-line with changes in revenue.

Sales and Marketing. Sales and marketing expenses decreased by $5.8 million, or 11%, to $47.5 million in the three months ended March 31, 2023 compared to the same period in 2022. As a percent of revenue, sales and marketing expenses decreased to 22% for the three months ended March 31, 2023, from 27% for the same period in 2022. This was primarily driven by $7.0 million in decreased performance marketing spend, partially offset by higher employee-related costs. We expect sales and marketing expenses to continue to fluctuate as we optimize our sales channels and invest in new customer acquisition, products and geographies.

Product Development. Product development expenses increased by $1.8 million, or 13%, to $15.4 million in the three months ended March 31, 2023 compared to the same period in 2022. This increase was driven by $1.8 million in higher employee and third-party contractor related costs, net of capitalized labor, for the three months ended March 31, 2023, as compared to the same period in the prior year. We expect product development expenses, of which a portion will be capitalized, to continue in the foreseeable future, as we pursue opportunities to invest in developing new products and internal tools and enhance the functionality of our existing products and technologies.

General and Administrative. General and administrative expenses increased by $3.0 million, or 10%, to $33.8 million in the three months ended March 31, 2023 compared to the same period in 2022. This increase was driven by $2.4 million in higher employee-related costs and $1.9 million in severance costs associated with strategic workforce optimizations, partially offset by $0.8 million in lower professional fees.

Other Income, Net. In the three months ended March 31, 2023, other income, net substantially consisted of $1.1 million of favorable unrealized foreign currency fluctuations. During the three months ended March 31, 2022, other income, net substantially consisted of $0.7 million of favorable unrealized foreign currency fluctuations. As we increase the volume of business transacted in foreign currencies resulting from international expansion and as currency rates fluctuate, we expect foreign currency gains and losses to continue to fluctuate.

Income Taxes. Income tax expense increased by $2.5 million for the three months ended March 31, 2023, compared to the same period in 2022. Our effective tax rates were 20.7% and 18.7% for the three months ended March 31, 2023 and 2022, respectively.

For the three months ended March 31, 2023, the net effect of discrete items increased the effective tax rate by 0.9%. Excluding discrete items, our effective tax rate would have been 19.8% for the three months ended March 31, 2023.

For the three months ended March 31, 2022, the net effect of discrete items decreased the effective tax rate by 0.2%. Excluding discrete items, our effective tax rate would have been 18.9% for the three months ended March 31, 2022.

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

Quarterly Trends

Our operating results may fluctuate from quarter to quarter as a result of a variety of factors, including the effects of some seasonal trends in customer behavior. For example, we expect that certain customers' usage may decrease at times during the third quarter of each calendar year due to the summer vacation season and may increase at times during the fourth quarter of each calendar year as demand is generally higher to support marketing campaigns in advance of the fourth quarter holiday season. While we believe seasonal trends have affected and will continue to affect our quarterly results, our growth trajectory may have overshadowed these effects to date. Additionally, because a significant portion of our revenue is derived from repeat customers who have purchased subscription plans, our revenues have historically been less volatile than if we had no subscription-based customers.

In addition, expenditures on content by customers tend to be discretionary in nature, reflecting overall economic conditions, the economic prospects of specific industries, budgeting constraints, buying patterns and a variety of other factors, many of which are outside our control, including any impacts from COVID-19. As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indicators of our future operating performance.

Liquidity and Capital Resources

As of March 31, 2023, we had cash and cash equivalents totaling $95.8 million which consisted primarily of bank balances. Since inception, we have financed our operations primarily through cash flows generated from operations. In addition, if necessary, we have the ability to draw on our credit facility, which was obtained on May 6, 2022.

Historically, our principal uses of cash have included funding our operations, capital expenditures, content acquisitions, business combinations and asset acquisitions that enhance our strategic position, cash dividend payments and share purchases under our share repurchase program. We plan to finance our operations, capital expenditures and corporate actions largely through cash generated by our operations and our credit facility. Since our results of operations are sensitive to the level of competition we face, increased competition could adversely affect our liquidity and capital resources.

Dividends

We declared and paid cash dividends of $0.27 per share of common stock, or $9.7 million during the three months ended March 31, 2023.

On April 17, 2023, our Board of Directors declared a quarterly cash dividend of $0.27 per share of outstanding common stock payable on June 15, 2023 to stockholders of record at the close of business on June 1, 2023. Future declarations of dividends are subject to the final determination of our Board of Directors, and will depend on, among other things, our future financial condition, results of operations, capital requirements, capital expenditure requirements, contractual restrictions, anticipated cash needs, business prospects, provisions of applicable law and other factors our Board of Directors may deem relevant.

Share Repurchase Program

In October 2015, our Board of Directors approved a share repurchase program, authorizing us to repurchase up to $100 million of our common stock and, in February 2017, our Board of Directors approved an increase to the share repurchase program, authorizing us to repurchase up to an additional $100 million of our outstanding common stock. We expect to fund future repurchases, if any, through a combination of cash on hand, cash generated by operations and future financing transactions, if appropriate. Accordingly, our share repurchase program is subject to us having available cash to fund repurchases. Under the share repurchase program, management is authorized to purchase shares of our common stock from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors.

As of March 31, 2023, we have repurchased approximately 3.8 million shares of our common stock under the share repurchase program at an average per-share cost of $52.97. As of December 31, 2022, we have fully utilized our authorization for purchases under the share repurchase program.

Revolving Credit Facility

On May 6, 2022, we entered into a five-year $100 million unsecured revolving loan facility (the “Credit Facility”) with Bank of America, N.A., as Administrative Agent and other lenders. The Credit Facility includes a letter of credit sub-facility and a swingline facility and it also permits, subject to the satisfaction of certain conditions, up to $100 million of additional revolving loan commitments with the consent of the Administrative Agent.

At our option, revolving loans accrue interest at a per annum rate based on either (i) the base rate plus a margin ranging from 0.125% to 0.500%, determined based on the Company’s consolidated leverage ratio or (ii) the Term Secured Overnight Financing Rate (“SOFR”) (for interest periods of 1, 3 or 6 months) plus a margin ranging from 1.125% to 1.5%, determined based on our consolidated leverage ratio. We are also required to pay an unused commitment fee ranging from 0.150% to 0.225%, determined based on the Company’s consolidated leverage ratio. In connection with the execution of this agreement, we paid debt issuance costs of approximately $0.6 million.

On May 9, 2022, we borrowed $50 million for use in connection with the acquisition of Pond5 and for general corporate purposes. During the three months ended March 31, 2023, we repaid the full amount and had no outstanding borrowings under the Credit Facility. As of March 31, 2023, we had a remaining borrowing capacity of $98 million, net of standby letters of credit. For the three months ended March 31, 2023, we paid cash interest totaling $0.4 million.

The Credit Facility contains financial covenants and requirements restricting certain of our activities, which are usual and customary for this type of loan. We are also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio, in each case, determined in accordance with the terms of the Credit Facility. As of March 31, 2023, we are in compliance with these covenants.

Sources and Uses of Funds

We believe, based on our current operating plan, that our cash and cash equivalents, and cash from operations, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our longer-term liquidity is contingent upon future operating performance. Future capital expenditures will generally relate to building enhancements to the functionality of our current platform, the acquisition of additional storage, servers, network connectivity hardware, security apparatus and software, leasehold improvements and furniture and fixtures related to office expansion and relocation, content and general corporate infrastructure.

As of March 31, 2023, we had approximately $74 million in unconditional cash obligations, consisting primarily of purchase obligations related to contracts for cloud-based services, infrastructure and other business services as well as minimum royalty guarantees in connection with certain content licenses, of which the majority is due to be paid within the next two years. In addition, as of March 31, 2023, we had approximately $49 million in operating lease obligations with lease payments extending through 2029.

See Note 14 to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding our existing capital commitments as of March 31, 2023.

Cash Flows

The following table summarizes our cash flow data for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
Net cash provided by operating activities	$ 66,775	$ 22,723
Net cash used in investing activities	$ (15,937)	$ (12,525)
Net cash used in financing activities	$ (70,667)	$ (65,574)

Operating Activities

Our primary source of cash from operating activities is cash collections from our customers. The majority of our revenue is generated from credit card transactions and is typically settled within one to five business days. Our primary uses of cash for operating activities are for the payment of royalties to content contributors, employee-related expenditures and the payment of other operating expenses incurred in the ordinary course of business.

Net cash provided by operating activities was $66.8 million for the three months ended March 31, 2023, compared to $22.7 million for the three months ended March 31, 2022. In the three months ended March 31, 2023, operating cash flows were favorably impacted from an increase in operating income and changes in the timing of cash collections from our computer vision customers and payments pertaining to operating expenses, which can cause operating cash flow to fluctuate from period to period. In addition, operating cash flows for the three months ended March 31, 2022 were unfavorably impacted by several large accounts payables and accrued expense items from 2021 that were paid in 2022.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2023 was $15.9 million, consisting primarily of (i) capital expenditures of $12.4 million for internal-use software and website development costs and purchases of software and equipment, and (ii) $3.5 million paid to acquire the rights to distribute certain digital content into perpetuity.

Cash used in investing activities in the three months ended March 31, 2022 was $12.5 million, consisting primarily of (i) capital expenditures of $11.8 million for internal-use software and website development costs and purchases of software and equipment, and (ii) $0.7 million paid to acquire the rights to distribute certain digital content in perpetuity.

Financing Activities

Cash used in financing activities in the three months ended March 31, 2023 was $70.7 million, consisting of (i) $50.0 million used for the repayment of our Credit Facility; (ii) $9.7 million, related to the payment of the quarterly cash dividend, and (iii) $11.0 million paid in settlement of tax withholding obligations related to employee stock-based compensation awards.

Cash used in financing activities in the three months ended March 31, 2022 was $65.6 million, consisting primarily of (i) $38.4 million in connection with the repurchase of common stock under our share repurchase program; (ii) $18.5 million paid in settlement of tax withholding obligations related to employee stock-based compensation awards; and (iii) $8.7 million related to the payment of the quarterly cash dividend.

Non-GAAP Financial Measures

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

	Three Months Ended March 31,	
	2023	2022
Non-GAAP Financial Measures (in thousands):		
Adjusted EBITDA	$ 69,764	$ 54,809
Adjusted net income	47,134	37,184
Free cash flow	$ 50,868	$ 10,214
Revenue growth on a constant currency basis	10 %	11 %

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

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

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

Our use of non-GAAP financial measures has limitations as an analytical tool, and these measures should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP, as the excluded items may have significant effects on our operating results and financial condition. Additionally, our methods for measuring non-GAAP financial measures may differ from other companies' similarly titled measures. When evaluating our performance, these non-

GAAP financial measures should be considered in addition to other financial performance measures, including various cash flow metrics, net income and our other GAAP results.

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

Adjusted EBITDA and Adjusted EBITDA Margin

We define adjusted EBITDA as net income adjusted for depreciation and amortization, non-cash equity-based compensation, foreign currency transaction gains and losses, severance costs associated with strategic workforce optimizations, interest income and expense and income taxes. We define adjusted EBITDA margin as the ratio of adjusted EBITDA to revenue.

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

	Three Months Ended March 31,	
	2023	2022
Net income	$ 32,843	$ 26,572
Add / (less) Non-GAAP adjustments:		
Depreciation and amortization	18,896	15,065
Non-cash equity-based compensation	8,643	7,826
Other adjustments, net[1]	811	(758)
Provision for income taxes	8,571	6,104
Adjusted EBITDA	$ 69,764	$ 54,809
Adjusted EBITDA margin	32.4 %	27.5 %

(1) Other adjustments, net includes unrealized foreign currency transaction gains and losses, severance associated with strategic workforce optimizations and interest income and expense.

Adjusted Net Income and Adjusted Net Income Per Diluted Common Share

We define adjusted net income as net income adjusted for the impact of non-cash equity-based compensation, the amortization of acquisition-related intangible assets, severance costs associated with strategic workforce optimizations and the estimated tax impact of such adjustments. We define adjusted net income per diluted common share as adjusted net income divided by weighted average diluted shares.

The following is a reconciliation of net income to adjusted net income for each of the periods indicated (in thousands, except per share data):

	Three Months Ended March 31,	
	2023	2022
Net income	$ 32,843	$ 26,572
Add / (less) Non-GAAP adjustments:		
Non-cash equity-based compensation	8,643	7,826
Tax effect of non-cash equity-based compensation[1]	(2,031)	(1,838)
Acquisition-related amortization expense	8,158	6,045
Tax effect of acquisition-related amortization expense[1]	(1,917)	(1,421)
Other	1,856	—
Tax effect of other[1]	(418)	—
Adjusted net income	$ 47,134	$ 37,184
Adjusted net income per diluted common share	$ 1.29	$ 1.00

(1) Statutory tax rates are used to calculate the tax effect of the adjustments.

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

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

	Three Months Ended March 31,	
	2023	2022
Reported revenue (in thousands)	$ 215,280	$ 199,132
Revenue growth	*8 %*	*9 %*
Revenue growth on a constant currency basis	*10 %*	*11 %*
E-commerce reported revenue (in thousands)	$ 119,754	$ 127,070
E-commerce revenue growth	*(6)%*	*7 %*
E-commerce revenue growth on a constant currency basis	*(4)%*	*9 %*
Enterprise reported revenue (in thousands)	$ 95,526	$ 72,062
Enterprise revenue growth	*33 %*	*11 %*
Enterprise revenue growth on a constant currency basis	*35 %*	*13 %*

Free Cash Flow

We define free cash flow as our cash provided by operating activities, adjusted for capital expenditures and content acquisition.

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

	Three Months Ended March 31,	
	2023	2022
Net cash provided by operating activities	$ 66,775	$ 22,723
Capital expenditures	(12,380)	(11,775)
Content acquisitions	(3,527)	(734)
Free Cash Flow	$ 50,868	$ 10,214

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign Currency Exchange Risk

Our sales to international customers are denominated in multiple currencies, including but not limited to the U.S. dollar, the euro, the British pound, the Australian dollar and the Japanese yen. Revenue denominated in foreign currencies as a percentage of total revenue was approximately 30% and 33% for the three months ended March 31, 2023 and 2022, respectively. Changes in exchange rates will affect our revenue and certain operating expenses to the extent that our revenue is generated and expenses are incurred in currencies other than the U.S. dollar. Royalties earned by and paid to contributors are denominated in the U.S. dollar and will not be affected by changes in exchange rates. Based on our foreign currency denominated revenue for the three months ended March 31, 2023, we estimate that a 10% change in the exchange rate of the U.S. dollar against all foreign currency denominated revenues would result in an approximately 3% impact on our revenue.

We have established foreign subsidiaries in various countries and have concluded that the functional currency of these entities is generally the local currency. Business transacted in currencies other than each entity's functional currency results in transactional gains and losses. Translation adjustments resulting from converting the foreign subsidiaries' financial statements into U.S. dollars are recorded as a component of accumulated other comprehensive loss in stockholders' equity. We do not currently enter into derivatives or other financial instruments in order to hedge our foreign currency exchange risk, but we may do so in the future.

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

	Three Months Ended March 31,			
	2023		2022	
	U.S. Dollars	Originating Currency	U.S. Dollars	Originating Currency
Euro	$ 35,975	€ 33,634	$ 37,618	€ 33,015
British pounds	14,068	£ 11,437	13,465	£ 9,993
All other non-U.S. currencies[(1)]	14,371		14,186	
Total foreign currency	64,414		65,269	
U.S. dollar	150,866		133,863	
Total revenue	$ 215,280		$ 199,132	

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

Interest Rate Fluctuation Risk

Our cash and cash equivalents consist of cash and money market accounts. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. The fair value of our cash and cash equivalents is not particularly sensitive to interest rate changes.

Amounts borrowed under our Credit Facility accrue interest at a per annum rate based on either (i) the base rate plus a margin ranging from 0.125% to 0.500%, determined based on our consolidated leverage ratio or (ii) the Term Secured Overnight Financing Rate (for interest periods of 1, 3 or 6 months) plus a margin ranging from 1.125% to 1.5%, determined based on our consolidated leverage ratio. A hypothetical 10% change in interest rates would not have a material impact on our interest expense as of March 31, 2023.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2023. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. However, any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objective.

Based on the evaluation of our disclosure controls and procedures as of March 31, 2023, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2022 Form 10-K, which could materially affect our business, financial condition or future results. During the three months ended March 31, 2023, there were no material changes to these risk factors as described in our 2022 Form 10-K.

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

We did not sell any unregistered equity securities during the three months ended March 31, 2023.

Item 6. Exhibits.

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

EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1	Employment Agreement by and between John Caine and Shutterstock, Inc., dated January 12, 2023
31.1#	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2#	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32#	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Filed herewith.

SIGNATURES

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

SHUTTERSTOCK, INC.

Dated: April 25, 2023	By:	/s/ Jarrod Yahes
		Jarrod Yahes *Chief Financial Officer* *(Principal Financial Officer)*
Dated: April 25, 2023	By:	/s/ Steven Ciardiello
		Steven Ciardiello *Chief Accounting Officer* *(Principal Accounting Officer)*

EXHIBIT 31.1

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

I, Paul Hennessy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shutterstock, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 25, 2023

By: /s/ Paul Hennessy
Paul Hennessy
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Jarrod Yahes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shutterstock, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 25, 2023

By: /s/ Jarrod Yahes
Jarrod Yahes
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

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

In connection with the Quarterly Report on Form 10-Q of Shutterstock, Inc., for the quarterly period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul Hennessy, as Chief Executive Officer of Shutterstock, Inc., hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shutterstock, Inc.

Date: April 25, 2023	By:	/s/ Paul Hennessy
		Paul Hennessy
		Chief Executive Officer
		(Principal Executive Officer)

In connection with the Quarterly Report on Form 10-Q of Shutterstock, Inc., for the quarterly period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jarrod Yahes, as Chief Financial Officer of Shutterstock, Inc., hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shutterstock, Inc.

Date: April 25, 2023	By:	/s/ Jarrod Yahes
		Jarrod Yahes
		Chief Financial Officer
		(Principal Financial Officer)