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, 2024

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 26, 2024, 35,843,326 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, 2024

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, our ability to continue to attract and retain customers of, and contributors to, our creative platform; competition in our industry; the effectiveness and efficiency of our marketing efforts; our ability to innovate technologically or develop, market and offer new products and services, or enhance existing technology and products and services; our ability to increase market awareness of our brand and our existing and new products and services; pricing pressure, and increased service, indemnification and working capital requirements; expansion of our operations into new products, services and technologies; the impact of worldwide economic, political and social conditions; social and ethical issues relating to the use of new and evolving technologies, such as AI; our ability to grow our revenues at historical rates; our ability to effectively expand, train, manage changes to and retain our sales force; our ability to effectively manage our growth; our ability to successfully make, integrate and maintain acquisitions and investments; risks related to our personnel; risks related to our use of independent contractors; the non-payment or late payment of amounts due to us and other payment-related risks; the potential impairment of our goodwill or intangible assets; the need to raise additional capital; risks related to our debt; our reliance on information technologies and systems and other risks related to our intellectual property and security vulnerabilities; our international operations and our continued expansion internationally; foreign exchange risk; risks related to regulatory and tax challenges;
our ability to continue to attract and retain customers of, and contributors to, our creative platform; competition in our industry; the effectiveness and efficiency of our marketing efforts; our ability to innovate technologically or develop, market and offer new products and services, or enhance existing technology and products and services; our ability to increase market awareness of our brand and our existing and new products and services; pricing pressure, and increased service, indemnification and working capital requirements; expansion of our operations into new products, services and technologies; the impact of worldwide economic, political and social conditions; social and ethical issues relating to the use of new and evolving technologies, such as AI; our ability to grow our revenues at historical rates; our ability to effectively expand, train, manage changes to and retain our sales force; our ability to effectively manage our growth; our ability to successfully make, integrate and maintain acquisitions and investments; risks related to our personnel; risks related to our use of independent contractors; the non-payment or late payment of amounts due to us and other payment-related risks; the potential impairment of our goodwill or intangible assets; the need to raise additional capital; risks related to our debt; our reliance on information technologies and systems and other risks related to our intellectual property and security vulnerabilities; our international operations and our continued expansion internationally; foreign exchange risk; risks related to regulatory and tax challenges; *as well as those risks 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 26, 2024 (our "2023 Form 10-K") and in our consolidated financial statements, related notes, and the other information appearing elsewhere in the 2023 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," "Giphy," "Shutterstock Studios," "Shutterstock Editor," "Shutterstock.AI," "Creative Flow," and "Backgrid" 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, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,811	$ 100,490
Accounts receivable, net of allowance of $4,873 and $6,335	93,993	91,139
Prepaid expenses and other current assets	93,095	100,944
Total current assets	258,899	292,573
Property and equipment, net	63,430	64,300
Right-of-use assets	16,482	15,395
Intangible assets, net	174,868	184,396
Goodwill	402,787	383,325
Deferred tax assets, net	28,156	24,874
Other assets	83,881	71,152
Total assets	$ 1,028,503	$ 1,036,015
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,373	$ 9,108
Accrued expenses	99,212	131,443
Contributor royalties payable	61,392	54,859
Deferred revenue	198,041	203,463
Debt	30,000	30,000
Other current liabilities	34,959	23,513
Total current liabilities	432,977	452,386
Deferred tax liability, net	3,795	4,182
Lease liabilities	28,745	29,404
Other non-current liabilities	21,711	22,949
Total liabilities	487,228	508,921
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, $0.01 par value; 200,000 shares authorized; 40,013 and 39,982 shares issued and 35,603 and 35,572 shares outstanding as of March 31, 2024 and December 31, 2023, respectively	399	399
Treasury stock, at cost; 4,410 shares as of March 31, 2024 and December 31, 2023	(228,213)	(228,213)
Additional paid-in capital	434,416	424,229
Accumulated other comprehensive loss	(13,438)	(11,974)
Retained earnings	348,111	342,653
Total stockholders' equity	541,275	527,094
Total liabilities and stockholders' equity	$ 1,028,503	$ 1,036,015

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Revenue	$ 214,315	$ 215,280
Operating expenses:		
Cost of revenue	88,204	78,163
Sales and marketing	56,236	47,527
Product development	21,051	15,406
General and administrative	32,078	33,815
Total operating expenses	197,569	174,911
Income from operations	16,746	40,369
Other income, net	3,644	1,045
Income before income taxes	20,390	41,414
Provision for income taxes	4,269	8,571
Net income	$ 16,121	$ 32,843
Earnings per share:		
Basic	$ 0.45	$ 0.92
Diluted	$ 0.45	$ 0.90
Weighted average common shares outstanding:		
Basic	35,591	35,856
Diluted	36,066	36,575

(unaudited)

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2024	**2023**
Net income	$ 16,121	$ 32,843
Foreign currency translation (loss) / gain	(1,464)	1,419
Other comprehensive (loss) / income	(1,464)	1,419
Comprehensive income	$ 14,657	$ 34,262

See Notes to Unaudited Consolidated Financial Statements.

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

	Common Stock		Treasury Stock					
Three Months Ended March 31, 2024	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2023	39,982	$ 399	4,410	$ (228,213)	$ 424,229	$ (11,974)	$ 342,653	$ 527,094
Equity-based compensation	—	—	—	—	11,150	—	—	11,150
Issuance of common stock in connection with employee stock option exercises and RSU vesting	52	—	—	—	—	—	—	—
Common shares withheld for settlement of taxes in connection with equity-based compensation	(21)	—	—	—	(963)	—	—	(963)
Cash dividends paid	—	—	—	—	—	—	(10,663)	(10,663)
Other comprehensive loss	—	—	—	—	—	(1,464)	—	(1,464)
Net income	—	—	—	—	—	—	16,121	16,121
Balance at March 31, 2024	40,013	$ 399	4,410	$ (228,213)	$ 434,416	$ (13,438)	$ 348,111	$ 541,275
Three Months Ended March 31, 2023								
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

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2024	**2023**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 16,121	$ 32,843
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,263	18,896
Deferred taxes	(3,854)	(977)
Non-cash equity-based compensation	11,150	8,643
Bad debt expense	(1,510)	790
Unrealized gain on investments	(3,755)	—
Changes in operating assets and liabilities:		
Accounts receivable	(736)	19,168
Prepaid expenses and other current and non-current assets	(11,999)	5,189
Accounts payable and other current and non-current liabilities	(20,182)	(12,716)
Contributor royalties payable	6,127	2,246
Deferred revenue	(4,325)	(7,307)
Net cash provided by operating activities	$ 8,300	$ 66,775
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(14,461)	(12,380)
Business combination, net of cash acquired	(19,474)	—
Cash received related to Giphy Retention Compensation	18,401	—
Acquisition of content	(994)	(3,527)
Security deposit payment	—	(30)
Net cash used in investing activities	$ (16,528)	$ (15,937)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	—	3
Cash paid related to settlement of employee taxes related to RSU vesting	(7,966)	(11,008)
Payment of cash dividends	(10,663)	(9,662)
Repayment of credit facility	—	(50,000)
Net cash used in financing activities	$ (18,629)	$ (70,667)
Effect of foreign exchange rate changes on cash	(1,822)	507
Net decrease in cash and cash equivalents	(28,679)	(19,322)
Cash and cash equivalents, beginning of period	100,490	115,154
Cash and cash equivalents, end of period	$ 71,811	$ 95,832
Supplemental Disclosure of Cash Information:		
Cash paid / (received) for income taxes	$ 2,901	$ (5,150)
Cash paid for interest	509	428

See Notes to Unaudited Consolidated Financial Statements.

(1) Summary of Operations and Significant Accounting Policies

Summary of Operations

Shutterstock, Inc. (the "Company" or "Shutterstock") is a leading global creative platform connecting brands and businesses to high quality content.

The Company's platform brings together users and contributors of content by providing readily-searchable content that 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.

Digital content licensed to customers for their creative needs includes images, footage, music, and 3D models (the Company's "Content" offering). Content revenues represent the majority of the Company's business and are supported by the Company's searchable creative platform and driven by the Company's large contributor network.

In addition, customers have needs that are beyond traditional content license products and services. These include (i) licenses to metadata associated with the Company's images, footage, music tracks and 3D models through the Company's data offering, (ii) distribution and advertising services from the Company's Giphy business, which consists of GIFs (graphics interchange format visuals) that serve as a critical ingredient in text- and message- based conversations and in contextual advertising settings, (iii) specialized solutions for high-quality content matched with production tools and services through Shutterstock Studios and (iv) other tailored white-glove services (collectively, the Company's "Data, Distribution, and Services" offerings).

The Company's Content offering includes:

- Images - consisting of photographs, vectors and illustrations. Images are typically used in visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and other similar uses.
- Footage - consisting of video clips, premium footage filmed by industry experts and cinema grade video effects, available in HD and 4K formats. Footage is often integrated into websites, social media, marketing campaigns and cinematic productions.
- Music - consisting of high-quality music tracks and sound effects, which are often used to complement images and footage.
- 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.
- Generative AI Content - consisting of images generated from algorithms trained with high-quality, ethically sourced content. Customers can generate images by entering a description of their desired content into model prompts.

On February 1, 2024, the Company acquired Backgrid USA, Inc. and Backgrid London, Ltd. (collectively "Backgrid"). Backgrid supplies media organizations with real-time celebrity content. 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, 2024, and the Consolidated Statements of Operations, Comprehensive Income and Stockholders' Equity for the three months ended March 31, 2024 and 2023, and the Consolidated Statements of Cash Flows for the three months ended March 31, 2024 and 2023 are unaudited. The Consolidated Balance Sheet as of December 31, 2023, 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, 2024, and its consolidated results of operations, comprehensive income, stockholders' equity and cash flows for the three months ended March 31, 2024 and 2023. 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, 2024 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2024 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, 2023 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on February 26, 2024. 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.

Accounts Receivable and 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 and credit losses 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.

For certain Data, Distribution, and Services transactions, the Company has $52.2 million of unbilled receivables of which $25.4 million are recorded in Accounts Receivable and $26.8 million are recorded in Other Assets, as of March 31, 2024.

During the three months ended March 31, 2024, the Company recorded bad debt recovery of $1.5 million. As of March 31, 2024 and December 31, 2023, the Company's allowance for doubtful accounts was approximately $4.9 million and $6.3 million, respectively. The allowance for doubtful accounts is included as a reduction of accounts receivable on the Consolidated Balance Sheets.

The Company has certain customer arrangements that contain financing elements. Interest income earned from these financing receivables is recorded on the effective interest method and is included within interest income on the Consolidated Statements of Operations. As of March 31, 2024 and December 31, 2023, approximately $7.8 million and $16.0 million of financing receivables, respectively, were included in accounts receivable and other assets on the Consolidated Balance Sheets.

In addition, as of March 31, 2024, one customer accounted for approximately 18% of the accounts receivable balance and as of December 31, 2023, two customers accounted for a total of 29% of the accounts receivable balance.

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, 2024 and December 31, 2023, 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

A significant portion 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 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.

The Company also reports revenue net of return and chargeback allowances. These allowances are based off historical trends when available.

(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, 2024 or December 31, 2023, 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

Investment in Meitu, Inc. ("Meitu")

In 2018, the Company invested $15.0 million in convertible preferred shares issued by ZCool Technologies Limited ("ZCool") (the "Preferred Shares"). ZCool's primary business is the operation of an e-commerce platform in the People's Republic of China (the "PRC") whereby customers can pay to license content contributed by creative professionals. ZCool and its affiliates have been the exclusive distributor of Shutterstock content in China since 2014. The Company used the measurement alternative and the investment in ZCool was reported at cost, adjusted for impairments or any observable price changes in ordinary transactions with identical or similar investments.

On March 27, 2024, ZCool was acquired by Meitu, and the Company's Preferred Shares in ZCool were exchanged for $18.4 million of Meitu common shares, resulting in an investment carrying value increase of $3.4 million, which is recorded in Other income, net in the Consolidated Statement of Operations. Meitu's primary business is the provision of online advertising and other internet value added services in the PRC, and its common shares are publicly traded on the Main Board of The Stock Exchange of Hong Kong Limited. This investment will be recorded at fair value on a recurring basis, with changes in fair value being recorded in Other income, net in the Consolidated Statement of Operations. Its fair value level hierarchy and amount at March 31, 2024 are as follows:

	As of March 31, 2024
Hierarchy Level:	**Fair Value**
Level 1	$ 18,755

Other Long-Term Investment

As of March 31, 2024 and December 31, 2023, the Company also had a long-term investment in an equity security with no readily determinable fair value totaling $5.0 million. The Company uses the measurement alternative for fair value and the investment's carrying value is reported at cost, adjusted for impairments or any observable price changes in ordinary transactions with identical or similar investments.

Equity Contract

In connection with its Data, Distribution, and Services business, as part of the consideration for a customer data deal sale, the Company received a forward contract (the "Equity Contract") for the right to receive a variable number of equity shares for a fixed value from the customer. The Company estimated the value of the Equity Contract to be $11.8 million, which is included in the overall customer contract transaction price. In addition, the Equity Contract is recorded in Other Assets in the Consolidated Balance Sheet and will be carried at cost and evaluated for impairment at each reporting date.

(3) Acquisitions

Backgrid

On February 1, 2024, the Company completed its acquisition of all of the outstanding shares of Backgrid USA, Inc. and Backgrid London LTD, (collectively, "Backgrid"), for approximately $20 million, subject to customary working capital adjustments. The total purchase price was paid with existing cash on hand. In connection with the acquisition, the Company incurred approximately $1.5 million of transaction costs in total, which are included in general and administrative expenses on the Consolidated Statements of Operations.

Backgrid supplies media organizations with real-time celebrity content. The Company believes this acquisition expands Shutterstock Editorial's Newsroom offering of editorial images and footage across celebrity, red carpet and live-events.

The identifiable intangible assets, trademark and developed technology, have useful lives of approximately 10 years and 5 years, respectively. The goodwill arising from the transaction is primarily attributable to expected operational synergies and is not deductible for income tax purposes.

The Backgrid transaction was accounted for using the acquisition method and, accordingly, the results of the acquired business has been included in the Company's results of operations from the acquisition date. The fair value of consideration transferred in this business combination 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 asset of this acquisition is being amortized on a straight-line basis. The fair value of the trademark and developed technology was determined using the excess earnings and relief-from-royalty 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:		**Backgrid**
Cash and cash equivalents	$	1,718
Accounts receivable		732
Other assets		77
Intangible assets:		
Trade name		300
Developed technology		900
Intangible assets		1,200
Goodwill		19,843
Total assets acquired	$	23,570
Contributor royalties payable		(849)
Accrued expenses		(1,302)
Deferred tax liability		(271)
Total liabilities assumed		(2,422)
Net assets acquired	$	21,148

Giphy, Inc.

On May 22, 2023, the Company entered into a Stock Purchase Agreement with Meta Platforms, Inc. (“Meta”) dated May 22, 2023 (the “Purchase Agreement”). On June 23, 2023, the Company completed its acquisition of all of the outstanding shares of Giphy, Inc. (“Giphy”) from Meta. The consideration paid by the Company pursuant to the Purchase Agreement was $53 million in net cash, in addition to cash acquired, assumed debt and other working capital adjustments. The consideration was paid with existing cash on hand. Giphy is a New York-based company that operates a collection of GIFs and stickers that supplies casual conversational content. The Company believes its acquisition of Giphy extends Shutterstock’s audience touchpoints beyond primarily professional marketing and advertising use cases and expands into casual conversations.

In January 2023, the United Kingdom Competition and Markets Authority (the “CMA”) issued its final order requiring Meta to divest its ownership of Giphy, which Meta acquired in 2020. In connection with the closing of the acquisition, whose terms were preapproved by the CMA, the Company and Meta entered into a transitional services agreement (the “TSA”) pursuant to which Meta is responsible for certain costs related to retention of Giphy employees, including (i) recurring salary, bonus, and benefits through August 2024, which would be $35.6 million if all employees are retained through August 2024, and (ii) nonrecurring items, totaling $87.9 million, comprised of one-time employment inducement bonuses and the cash value of unvested Meta equity awards (collectively, the “Giphy Retention Compensation”) and certain costs related to technology and integration expenses, totaling $30 million to be paid in $1.25 million monthly installments through May 2025.

The Giphy Retention Compensation will be paid to the individuals for being employees of the Company subsequent to the completion of the acquisition. Accordingly, it was determined that the payments by the Company are for future service requirements and will be reflected as operating expenses, less any amounts earned by the employees prior to the acquisition, in the Company’s Statements of Operations as incurred. The Giphy Retention Compensation is reflected as a reduction of the purchase price and has been funded into an escrow account.

The Giphy purchase price was calculated as follows:

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

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

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

Upon closing of the acquisition, the Company also entered into an agreement with Meta whereby the Company will provide Meta with access to Giphy content that is displayed through an API for a period of two years. The Company determined that the API arrangement represents a transaction separate from the business combination and was priced below market. Therefore, the Company allocated $30 million of the purchase price to these services, which represents the step-up to fair market value. This amount has been recognized in deferred revenue and will be recognized as revenue over-time as the API is provided.

The identifiable intangible assets, which include developed technology and the trade name have weighted average useful lives of approximately 7 years and 15 years, respectively. The fair value of the developed technology was determined using the cost to recreate method, and the fair value of the trade name was determined using the relief-from-royalty method.

The Giphy transaction was accounted for using the acquisition method and, accordingly, the results of the acquired business has been included in the Company’s results of operations from the acquisition date. The fair value of consideration transferred in this business combination has been allocated to the intangible and tangible assets acquired and liabilities assumed at the acquisition date, with the excess of the fair value of the net assets acquired over the net consideration received recorded as a bargain purchase gain. The identifiable intangible assets of these acquisitions are being amortized on a straight-line basis.

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

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

Assets acquired and liabilities assumed:		**Giphy**
Cash and cash equivalents	$	4,030
Prepaid expenses and other current assets		1,416
Right of use assets		1,243
Intangible assets:		
Trade name		21,000
Developed technology		19,500
Intangible assets		40,500
Deferred tax asset		1,463
Other assets		1,647
Total assets acquired	$	50,299
Accounts payable, accrued expenses and other liabilities		(4,949)
Lease liability		(1,090)
Total liabilities assumed		(6,039)
Net assets acquired	$	44,260
Net purchase price		(6,001)
Bargain purchase gain	$	50,261

1 - During the three months ended September 30, 2023, the Company revised its preliminary allocation of the Giphy purchase price to the assets acquired and liabilities assumed by $9.9 million associated with additional information analyzed related to the deferred income tax balances. The measurement and allocation of the purchase price is preliminary and will be finalized within the allowable measurement period once the Company finalizes its assessment of fair value of intangible assets, income tax balances and other assets acquired and liabilities assumed.

2 - During the three months ended December 31, 2023, the Company revised its preliminary allocation of the Giphy purchase price to the assets acquired and liabilities assumed by $1.6 million associated with additional information analyzed related to the valuation of the Developed Technology asset. The measurement and allocation of the purchase price is preliminary and will be finalized within the allowable measurement period once the Company finalizes its assessment of fair value of intangible assets, income tax balances and other assets acquired and liabilities assumed.

The Company recognized a non-taxable bargain purchase gain of $50.3 million, representing the excess of the fair value of the net assets acquired in addition to the net consideration to be received from Meta. The bargain purchase gain is the result of the CMA's regulatory order requiring Meta's divestiture of Giphy and the Giphy Retention Compensation payments. In connection with the acquisition, the Company incurred approximately $3.0 million of transaction costs, which are included in general and administrative expenses on the Consolidated Statements of Operations.

As of March 31, 2024, Shutterstock's receivable of $65.5 million, is against an escrow fully funded by Meta. $48.7 million and $16.8 million are included within Prepaid expenses and other current assets and Other assets, respectively, on the Consolidated Balance Sheet.

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, 2024 and 2023, respectively, as if the Backgrid acquisition had been completed on January 1, 2023, and as if the the Giphy acquisition had been completed on January 1, 2022, after giving effect to certain purchase accounting adjustments, primarily related to Giphy Retention Compensation - non-recurring, intangible assets and transaction costs. These pro forma results have been prepared for comparative purposes only and are based on estimates and assumptions that have been made solely for purposes of developing such pro forma information 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,	
	2024	2023
Revenue		
As Reported	$ 214,315	$ 215,280
Pro Forma	215,259	224,066
Income before income taxes		
As Reported	$ 20,390	$ 41,414
Pro Forma	23,030	28,764

(4) Property and Equipment

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

	As of March 31, 2024	As of December 31, 2023
Computer equipment and software	$ 317,244	$ 308,473
Furniture and fixtures	10,823	10,829
Leasehold improvements	19,316	19,153
Property and equipment	347,383	338,455
Less accumulated depreciation	(283,953)	(274,155)
Property and equipment, net	$ 63,430	$ 64,300

Depreciation and amortization expense related to property and equipment was $10.3 million and $9.1 million for the three months ended March 31, 2024 and 2023, respectively. Of these amounts, $9.9 million and $8.7 million are included in cost of revenue for the three months ended March 31, 2024 and 2023, respectively, and $0.4 million and $0.5 million are included in general and administrative expense for the three months ended March 31, 2024 and 2023, 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 $9.0 million and $10.3 million for the three months ended March 31, 2024 and 2023, 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 $9.6 million and $8.4 million for the three months ended March 31, 2024 and 2023, 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, 2024 and December 31, 2023, the Company had capitalized internal-use software of $59.6 million and $60.3 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, 2024.

The following table summarizes the changes in the carrying value of the Company's goodwill balance during the three months ended March 31, 2024 (in thousands):

	Goodwill
Balance as of December 31, 2023	$ 383,325
Goodwill related to acquisitions	$ 19,843
Foreign currency translation adjustment	(381)
Balance as of March 31, 2024	$ 402,787

Intangible Assets

Intangible assets, all of which are subject to amortization, consisted of the following as of March 31, 2024 and December 31, 2023 (in thousands):

	As of March 31, 2024				As of December 31, 2023		
	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	$ 89,832	$ (28,664)	$ 61,168	12	$ 90,350	$ (26,982)	$ 63,368
Trade name	38,142	(9,855)	28,287	12	37,937	(9,272)	28,665
Developed technology	116,354	(67,737)	48,617	5	115,914	(61,376)	54,538
Contributor content	66,590	(29,884)	36,706	8	65,628	(27,897)	37,731
Patents	259	(169)	90	18	259	(165)	94
Total	$ 311,177	$ (136,309)	$ 174,868		$ 310,088	$ (125,692)	$ 184,396

Amortization expense was $11.0 million and $9.8 million for the three months ended March 31, 2024 and 2023, respectively. Of these amounts, $10.0 million and $9.2 million are included in cost of revenue for the three months ended March 31, 2024 and 2023, respectively, and $1.0 million and $0.6 million are included in general and administrative expense for the three months ended March 31, 2024 and 2023, respectively.

The Company determined that there was no indication of impairment of the intangible assets for any period presented. Estimated amortization expense is: $27.0 million for the remaining nine months of 2024, $27.5 million in 2025, $25.2 million in 2026, $19.0 million in 2027, $16.5 million in 2028, $15.3 million in 2029 and $44.3 million thereafter.

(6) Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	As of March 31, 2024	As of December 31, 2023
Compensation	$ 44,268	$ 75,752
Non-income taxes	24,175	23,702
Website hosting and marketing fees	11,222	11,804
Other expenses	19,547	20,185
Total accrued expenses	$ 99,212	$ 131,443

As of March 31, 2024, compensation-related accrued expenses included amounts due to Giphy employees for compensation earned pre-acquisition and severance costs associated with workforce optimizations. Approximately $1.8 million and $7.7 million of severance costs associated with workforce optimization is included within accrued expenses as of March 31, 2024 and December 31, 2023, respectively.

(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.

As of March 31, 2024 and December 31, 2023, the Company had $30 million of outstanding borrowings under the Credit Facility. As of March 31, 2024, the Company had a remaining borrowing capacity of $67 million, net of standby letters of credit. For the three months ended March 31, 2024, the Company recognized interest expense of $0.6 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, 2024, the Company was in compliance with these covenants.

(8) Stockholders' Equity and Equity-Based Compensation

Stockholders' Equity

Common Stock

The Company issued approximately 31,000 and 85,000 shares of common stock during the three months ended March 31, 2024 and 2023, respectively, related to the exercise of stock options and the vesting of Restricted Stock Units.

Treasury Stock

In June 2023, the Company's Board of Directors approved a share repurchase program (the "2023 Share Repurchase Program"), providing authorization to repurchase up to $100 million of its 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 2023 Share Repurchase Program is subject to the Company having available cash to fund repurchases. Under the 2023 Share Repurchase Program, 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.

As of March 31, 2024, the Company has repurchased approximately 4.4 million shares of common stock under the 2023 Share Repurchase Program at an average per-share cost of $51.74. During the three months ended March 31, 2024, the Company did not repurchase any shares of common stock. As of March 31, 2024, the Company had $71.8 million of remaining authorization for purchases under the 2023 Share Repurchase Program.

Dividends

The Company declared and paid cash dividends of $0.30 and $0.27 per share of common stock, or $10.7 million and $9.7 million during the three months ended March 31, 2024 and 2023, respectively.

On April 22, 2024, the Company's Board of Directors declared a quarterly cash dividend of $0.30 per share of outstanding common stock payable on June 13, 2024 to stockholders of record at the close of business on May 30, 2024. 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, 2024 and 2023 (in thousands):

	Three Months Ended March 31,	
	2024	2023
Cost of revenue	$ 224	$ 184
Sales and marketing	2,011	604
Product development	2,285	2,448
General and administrative	6,630	5,407
Total	$ 11,150	$ 8,643

For the three months ended March 31, 2024 and 2023, substantially all of the Company's non-cash equity-based compensation expense related to RSUs.

Stock Option Awards

During the three months ended March 31, 2024, no options to purchase shares of its common stock were granted. As of March 31, 2024, there were approximately 299,000 options vested and exercisable with a weighted average exercise price of $34.14.

Restricted Stock Unit Awards

During the three months ended March 31, 2024, the Company had RSU grants, net of forfeitures, of approximately 71,000. As of March 31, 2024, there are approximately 1,958,000 non-vested RSUs outstanding with a weighted average grant-date fair value of $66.45. As of March 31, 2024, the total unrecognized non-cash equity-based compensation expense related to the non-vested RSUs was approximately $64.6 million, which is expected to be recognized through 2028.

During the three months ended March 31, 2024 and 2023, shares of common stock with an aggregate value of $1.0 million and $4.2 million were withheld upon vesting of RSUs and paid in connection with related remittance of employee withholding taxes to taxing authorities.

On April 1, 2024, the Company granted approximately 1,422,000 RSUs with a grant date fair value of $61 million.

(9) Revenue

The Company distributes its products through two primary offerings:

Content: The majority of the Company's customers license image, video, music and 3D content for commercial purposes either directly through the Company's self-service web properties or through the Company's dedicated sales teams. Content customers have the flexibility to purchase subscription-based plans that are paid on a monthly or annual basis. Customers 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. Certain content customers also have unique content, licensing and workflow needs. These customers communicate 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.

Data, Distribution, and Services: The Company's Data, Distribution, and Services offerings address customer demand for products and services that are beyond the stock image, footage music and 3D model licenses. These offerings include access to the Company's metadata for machine learning and generative artificial intelligence model training and high-quality production and custom content at scale provided by Shutterstock Studios.

The Company's revenues by product offering for the three months ended March 31, 2024 and 2023 are as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Content	$ 173,830	$ 193,984
Data, Distribution, and Services	40,485	21,296
Total Revenue	$ 214,315	$ 215,280

Deferred revenue reported on the balance sheet represents unfulfilled performance obligations for which the Company has either received payment or has outstanding receivables. The March 31, 2024 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. $82.7 million of total revenue recognized for the three months ended March 31, 2024 was reflected in deferred revenue as of December 31, 2023. In addition, as of March 31, 2024, the Company has approximately $60.1 million of contracted but unsatisfied performance obligations relating primarily to our data deal offerings, which are not included as a component of deferred revenue and that the Company expects to recognize over a five year period.

(10) Other Income, net

The following table presents a summary of the Company's other income and expense activity included in the accompanying Consolidated Statements of Operations for the three months ended March 31, 2024 and 2023 (in thousands):

	Three Months Ended March 31,	
	2024	2023
Foreign currency (loss) / gain	$ (592)	$ 1,111
Interest expense	(562)	(231)
Interest income, unrealized gain on investments, and other	4,798	165
Total other income	$ 3,644	$ 1,045

(11) Income Taxes

The Company's effective tax rates were 20.9% and 20.7% for the three months ended March 31, 2024 and 2023, respectively. For the three months ended March 31, 2024, the net effect of discrete items increased the effective tax rate by 1.5%. Excluding these items, the Company's effective tax rate would have been 19.4% for the three months ended March 31, 2024.

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.

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, 2024 and 2023, 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, 2024 and 2023.

During the three months ended March 31, 2024, the Company had net cash taxes paid of $2.9 million and during the three months ended March 31, 2023, the Company had net cash taxes refunded of $5.2 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, 2024 and 2023 (in thousands):

	Three Months Ended March 31,	
	2024	2023
Net income	$ 16,121	$ 32,843
Shares used to compute basic net income per share	35,591	35,856
Dilutive potential common shares		
Stock options	84	153
Unvested restricted stock awards	391	566
Shares used to compute diluted net income per share	36,066	36,575
Basic net income per share	$ 0.45	$ 0.92
Diluted net income per share	$ 0.45	$ 0.90
Dilutive shares included in the calculation	1,357	1,691
Anti-dilutive shares excluded from the calculation	665	176

(13) Geographic Information

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
North America	$ 110,427	$ 99,140
Europe	55,400	59,034
Rest of the world	48,488	57,106
Total revenue	$ 214,315	$ 215,280

The United States, included in North America in the above table, accounted for 49% and 43% of consolidated revenue for the three months ended March 31, 2024 and 2023, 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, 2024	As of December 31, 2023
North America	$ 45,509	$ 46,531
Europe	17,859	17,695
Rest of the world	62	74
Total long-lived tangible assets	$ 63,430	$ 64,300

The United States, included in North America in the above table, accounted for 67% and 68% of total long-lived tangible assets as of March 31, 2024 and December 31, 2023, respectively. Ireland, included in Europe in the above table, accounted for 22% and 21% of total long-lived tangible assets as of March 31, 2024 and December 31, 2023, 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, 2024, the Company had total non-lease obligations in the amount of approximately $73.9 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, 2024, the Company’s non-lease obligations for the remainder of 2024 and for the years ending December 31, 2025, and 2026 were approximately $37.1 million, $32.1 million, and $4.6 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 occurrence 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 the modifications made by the customer, or the context in which an image is used. The standard maximum aggregate obligation and liability to any one customer for all claims is generally limited to ten thousand dollars The Company offers certain of its customers greater levels of indemnification, including unlimited indemnification and believes that it has appropriate insurance coverage in place to adequately cover indemnification claims, if necessary. As of and for the three months ended March 31, 2024, the Company made no material payments for losses on customer indemnification claims and recorded no liabilities related to indemnification for loss contingencies, before considering any insurance recoveries.

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.

(15) Subsequent Events

Share Purchase Agreement

On May 1, 2024, the Company entered into a Share Purchase Agreement (the "Purchase Agreement") to acquire all of the outstanding shares (the "Acquisition") of Envato Pty Ltd. ("Envato"). The consideration payable for the Acquisition, after customary working capital and other adjustments, will be approximately $245 million. The purchase price will be funded through a newly established credit facility. Envato is an Australian based company that provides an on-line marketplace for creative digital assets. The Company believes the Acquisition will expand its offerings across customers and products. The acquisition is anticipated to close in the third quarter, subject to regulatory approvals and other customary closing conditions.

Commitment Letter

On May 1, 2024, in connection with the execution of the Purchase Agreement, the Company entered into a commitment letter (the "Debt Commitment Letter") with Bank of America, N.A., BofA Securities, Inc., Citibank, N.A., Wells Fargo Bank, N.A. and Citizens Bank, N.A. (collectively, the "Commitment Parties"). The Debt Commitment Letter provides that the Commitment Parties have agreed to provide the Company with debt financing in connection with the Acquisition comprised of (i) a senior unsecured term loan facility in an aggregate principal amount of $125.0 million and (ii) a senior unsecured revolving credit facility in an aggregate principal amount of $250.0 million. The funding of the debt financing pursuant to the Debt Commitment Letter is contingent on the satisfaction of certain conditions set forth therein, including negotiation and execution of the definitive debt financing agreement contemplated by the Debt Commitment Letter and the Acquisition being consummated substantially contemporaneously with the initial funding of the debt financing. The proceeds from the debt financing will be used by the Company: (i) to finance the consideration, and related transaction costs, due in connection with the Acquisition, (ii) to repay certain existing indebtedness and (iii) for general corporate purposes of the Company and its subsidiaries.

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 2023 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 2023 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 leading global creative platform connecting brands and businesses to high quality content.

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 our web properties in exchange for royalty payments based on customer download activity. Beyond content, customers also leverage our platform to assist with the entire creative process from ideation through creative execution.

Digital content licensed to our customers for their creative needs includes images, footage, music, and 3D models (our "Content" offering). Our Content revenues represent the majority of our business and are supported by our searchable creative platform and driven by our large contributor network.

In addition, our customers have needs that are beyond traditional content license products and services. These include (i) licenses to metadata associated with our images, footage, music tracks and 3D models through our data offering, (ii) distribution and advertising services from our Giphy business, which consists of GIFs (graphics interchange format visuals) that serve as a critical ingredient in text- and message- based conversations and in contextual advertising settings, (iii) specialized solutions for high-quality content matched with production tools and services through Shutterstock Studios and (iv) other tailored white-glove services (collectively, our "Data, Distribution, and Services" offerings).

Over 2.1 million active, paying customers contributed to our revenue for the twelve-month period ended March 31, 2024.

Our Content Offering

Our Content offering includes licenses for:

- 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 available in a variety of formats, used in a variety of industries such as advertising, media and video production, gaming, retail, education, design and architecture.
- Generative AI Content - consisting of images generated from algorithms trained with high-quality, ethically sourced content. Customers can generate images by entering a description of their desired content into model prompts.

Our Content is distributed to customers under the following brands: Shutterstock; Pond5; TurboSquid; PicMonkey; PremiumBeat; Splash News; Bigstock; and Offset. Shutterstock, our flagship brand, includes various content types such as image, footage, music and editorial.

Pond5 is a video-first content marketplace which expands the Company’s content offerings across footage, image and music. TurboSquid operates a marketplace that offers more than one million 3D models and a 2 dimensional (“2D”) marketplace derived from 3D objects. PicMonkey is a leading online graphic design and image editing platform. 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. Splash News provides editorial image and video content across celebrity and red carpet events. Bigstock maintains a separate content library tailored for creators seeking to incorporate cost-effective imagery into their projects. 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.

On February 1, 2024, we acquired Backgrid USA, Inc. and Backgrid London, Ltd. (collectively “Backgrid”). Backgrid supplies media organizations with real-time celebrity content.

Our Data, Distribution, and Services Offering:

Our Data, Distribution, and Services offering addresses customer demand for products and services that are beyond our Content licenses. These products and services include, among other things, the use of our metadata, leveraging our Giphy, Inc. platform, and customized Shutterstock Studios offerings.

We have seen increased demand for access to our metadata for machine learning and generative artificial intelligence model training. We offer ethically sourced and licenseable metadata at industry leading scales and quality. Our metadata customer base ranges from large technology and media companies to smaller start-up organizations.

In 2023, we completed our acquisition of Giphy, Inc. (“Giphy”). Giphy is a content platform that allows users to personalize casual conversations with GIFs, and generates billions of monthly impressions through over 14,000 API partners. We believe customers in all industries will look to use Giphy in marketing campaigns as another advertising outlet.

Our Data, Distribution, and Services offering also includes high-quality production and custom content at scale provided by Shutterstock Studios (“Studios”). Studios is a cost-effective solution for brands and agencies looking to meet their content needs and create fresh dynamic digital assets. Customers can bring an idea, and our Studios team will provide a 360-degree content creation solution. We offer a whole spectrum of services at pre-production, production, live production and post-production stages.

Acquisition of Envato Pty Ltd.

Share Purchase Agreement

On May 1, 2024, the Company entered into a Share Purchase Agreement (the “Purchase Agreement”) to acquire all of the outstanding shares (the “Acquisition”) of Envato Pty Ltd. (“Envato”). The consideration payable for the Acquisition, after customary working capital and other adjustments, will be approximately $245 million. The purchase price will be funded through a newly established credit facility. Envato is an Australian based company that provides an on-line marketplace for creative digital assets. The Company believes the Acquisition will expand its offerings across customers and products. The acquisition is anticipated to close in the third quarter, subject to regulatory approvals and other customary closing conditions.

Debt Commitment Letter

On May 1, 2024, in connection with the execution of the Purchase Agreement, the Company entered into a commitment letter (the “Debt Commitment Letter”) with Bank of America, N.A., BofA Securities, Inc., Citibank, N.A., Wells Fargo Bank, N.A. and Citizens Bank, N.A. (collectively, the “Commitment Parties”). The Debt Commitment Letter provides that the Commitment Parties have agreed to provide the Company with debt financing in connection with the Acquisition comprised of (i) a senior unsecured term loan facility in an aggregate principal amount of $125.0 million and (ii) a senior unsecured revolving credit facility in an aggregate principal amount of $250.0 million. The funding of the debt financing pursuant to the Debt Commitment Letter is contingent on the satisfaction of certain conditions set forth therein, including negotiation and execution of the definitive debt financing agreement contemplated by the Debt Commitment Letter and the Acquisition being consummated substantially contemporaneously with the initial funding of the debt financing. The proceeds from the debt financing will be used by the Company: (i) to finance the consideration, and related transaction costs, due in connection with the Acquisition, (ii) to repay certain existing indebtedness and (iii) for general corporate purposes of the Company and its subsidiaries.

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 Pond5 and Splash News beginning May 2023. These metrics exclude the respective counts and revenues from Giphy and Backgrid.

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 metadata delivered through our data deal 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 data deal 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 AI generated 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, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
Subscribers (end of period)[1]	499,000	559,000
Subscriber revenue (in millions)[1]	$ 83.9	$ 90.6
Average revenue per customer (last twelve months)[1]	$ 418	$ 356
Paid downloads (in millions)	35.0	42.7
Revenue per download	$ 4.97	$ 4.41
Content in our collection (end of period, in millions):		
Images	832	731
Footage clips	56	48

[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 Pond5 and Splash News beginning May 2023. These metrics exclude the respective counts and revenues from our acquisitions of Giphy and Backgrid.

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. Therefore, we consider these to be our critical accounting estimates. Actual results could differ from those estimates.

A description of our critical accounting policies that involve significant management judgments appears in our 2023 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 2023 Form 10-K.

Key Components of Our Results of Operations

Revenue

We distribute our product offerings through two primary channels:

Content: The majority of our customers license image, video, music and 3D content for commercial purposes either directly through our self-service web properties or through our dedicated sales teams. Content customers have the flexibility to purchase subscription-based plans that are paid on a monthly or annual basis. Customers are also able 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. Certain content customers also have unique content, licensing and workflow needs. These customers 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.

Data, Distribution, and Services: Our Data, Distribution, and Services offering addresses customer demand for products and services that are beyond our stock image, footage music and 3D model licenses. We have seen increased demand for access to our metadata for machine learning and generative artificial intelligence model training. We offer ethically sourced and licenseable metadata at unique scales and quality. Our metadata customer base ranges from large technology and media companies to smaller start-up organizations.

In 2023, we completed our acquisition of Giphy, Inc. ("Giphy"). Giphy is a content platform that allows used to personalize casual conversations with GIFs, and generates billions of monthly impressions through over 14,000 API partners. We believe customers in all industries will look to use Giphy in marketing campaigns as another advertising outlet.

Our Data, Distribution, and Services offering also includes high-quality production and custom content at scale provided by Shutterstock Studios ("Studios"). Studios is a cost-effective solution for brands and agencies looking to meet their content needs and create fresh dynamic digital assets. Customers can bring an idea, and our Studios team will provide a 360-degree content creation solution. We offer a whole spectrum of services at pre-production, production and post-production stages.

The Company's revenues by distribution channel for the three months ended March 31, 2024 and 2023 are as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Content	$ 173,830	$ 193,984
Data, Distribution, and Services	40,485	21,296
Total Revenues	$ 214,315	$ 215,280

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 unrealized gains and losses on investments and 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, 2024	Three Months Ended March 31, 2023
	(in thousands)	
Consolidated Statements of Operations:		
Revenue	$ 214,315	$ 215,280
Operating expenses:		
Cost of revenue	88,204	78,163
Sales and marketing	56,236	47,527
Product development	21,051	15,406
General and administrative	32,078	33,815
Total operating expenses	197,569	174,911
Income from operations	16,746	40,369
Other income, net	3,644	1,045
Income before income taxes	20,390	41,414
Provision for income taxes	4,269	8,571
Net income	$ 16,121	$ 32,843

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, 2024	Three Months Ended March 31, 2023
Consolidated Statements of Operations:		
Revenue	100 %	100 %
Operating expenses:		
Cost of revenue	41 %	36 %
Sales and marketing	26 %	22 %
Product development	10 %	7 %
General and administrative	15 %	16 %
Total operating expenses	92 %	81 %
Income from operations	8 %	19 %
Other income, net	2 %	— %
Income before income taxes	10 %	19 %
Provision for income taxes	2 %	4 %
Net income	8 %	15 %

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

Comparison of the Three Months Ended March 31, 2024 and 2023

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

	Three Months Ended March 31,			
	2024	2023	$ Change	% Change
Consolidated Statements of Operations:				
Revenue	$ 214,315	$ 215,280	$ (965)	–
Operating expenses:				
Cost of revenue	88,204	78,163	10,041	1
Sales and marketing	56,236	47,527	8,709	1
Product development	21,051	15,406	5,645	3
General and administrative	32,078	33,815	(1,737)	(
Total operating expenses	197,569	174,911	22,658	1
Income from operations	16,746	40,369	(23,623)	(5
Other income, net	3,644	1,045	2,599	24
Income before income taxes	20,390	41,414	(21,024)	(5
Provision for income taxes	4,269	8,571	(4,302)	(5
Net income	$ 16,121	$ 32,843	$ (16,722)	(5

Revenue

Revenue for the three months ended March 31, 2024 was in-line with revenue for the three months ended March 31, 2023, declining by $1.0 million. Revenue was not impacted on a constant currency basis in the three months ended March 31, 2024, compared to the same period in 2023.

The Company's Content revenues decreased by 10%, to $173.8 million in the three months ended March 31, 2024, compared to the same period in 2023. The decline in our Content revenues was primarily driven by weakness in new customer acquisition.

The Company's Data, Distribution, and Services revenues increased by 90%, to $40.5 million in the three months ended March 31, 2024, compared to the same period in 2023. The increase in Data, Distribution, and Services revenues was primarily driven by growth in our data offering, which grew 73% in the three months ended March 31, 2024 compared to the same period in 2023.

In the three months ended March 31, 2024 and 2023, we delivered 35.0 million and 42.7 million paid downloads, respectively, and our revenue per download was $4.97 and $4.41 for the three months ended March 31, 2024 and 2023, respectively. During the three months ended March 31, 2024, the decline in paid downloads is attributed to the decline in the Content business.

Changes in our revenue by region were as follows: revenue from North America increased by $11.3 million, or 11%, to $110.4 million, revenue from Europe decreased by $3.6 million, or 6%, to $55.4 million and revenue from outside Europe and North America decreased by $8.6 million, or 15%, to $48.5 million, in the three months ended March 31, 2024 compared to the same period in 2023.

Costs and Expenses

Cost of Revenue. Cost of revenue increased by $10.0 million, or 13% to $88.2 million in the three months ended March 31, 2024 compared to the same period in 2023. This increase was primarily driven by: (i) higher costs associated with website hosting, hardware and software licenses; (ii) higher employee-related costs, and; (iii) increased depreciation and amortization expense. These increases relate to expenses associated with the Giphy and Backgrid acquisitions, which are not in the first quarter 2023 expenses. The Giphy employee-related costs were comprised of $2.5 million of recurring Giphy Retention Compensation and $0.7 million of non-recurring Giphy Retention Compensation. We expect that our cost of revenue will continue to fluctuate in-line with changes in revenue.

Sales and Marketing. Sales and marketing expenses increased by $8.7 million, or 18%, to $56.2 million in the three months ended March 31, 2024 compared to the same period in 2023. As a percentage of revenue, sales and marketing expenses increased to 26% for the three months ended March 31, 2024, from 22% for the same period in 2023. This was primarily driven by $5.5 million increase in marketing spend for brand and performance-based marketing. In addition, for the three months ended March 31, 2024, sales and marketing expenses included higher commissions and bonus related expenses. 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 $5.6 million, or 37%, to $21.1 million in the three months ended March 31, 2024 compared to the same period in 2023. The increase in product development was primarily driven by Giphy employee-related costs comprised of $2.7 million of recurring Giphy Retention Compensation and $4.3 million of non-recurring Giphy Retention Compensation, offset by declines in software and outside consultant expenses. We expect product development expenses, of which a portion will be capitalized, to continue in the foreseeable future, as we pursue opportunities to invest in developing new products and internal tools and enhance the functionality of our existing products and technologies.

General and Administrative. General and administrative expenses decreased by $1.7 million, or 5%, to $32.1 million in the three months ended March 31, 2024 compared to the same period in 2023. This decrease was driven primarily by reductions in compensation related expenses and a recovery in bad debt expense, offset by increases in professional fees associated with the acquisition of Backgrid and Envato, and Giphy employee-related expenses. The recurring Giphy Retention Compensation was $0.6 million and the non-recurring Giphy Retention Compensation was $1.6 million for the three months ended March 31, 2024.

Other Income, Net. In the three months ended March 31, 2024, other income, net was primarily driven by $3.8 million of unrealized gains related to our investment in Meitu, Inc. In the first quarter of 2024, we exchanged our investment in ZCool Technologies Limited with Meitu, Inc. for $18.4 million of Meitu common shares, resulting in an investment carrying value increase of $3.4 million, which is recorded in Other income, net in the Consolidated Statement of Operations. In addition, other income, net had $1.0 million of interest income, $0.6 million of unfavorable unrealized foreign currency losses and $0.6 million of interest expense related to our credit facility. During the three months ended March 31, 2023, other income, net substantially consisted of $1.1 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 decreased by $4.3 million for the three months ended March 31, 2024, compared to the same period in 2023. Our effective tax rates were 20.9% and 20.7% for the three months ended March 31, 2024 and 2023, respectively.

For the three months ended March 31, 2024, the net effect of discrete items increased the effective tax rate by 1.5%. Excluding discrete items, our effective tax rate would have been 19.4% for the three months ended March 31, 2024.

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.

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, timing of acquisitions and the timing of revenue recognition associated with data deal partnerships. 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.

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. 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, 2024, we had cash and cash equivalents totaling $71.8 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 programs. 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 $0.30 per share of common stock, or $10.7 million during the three months ended March 31, 2024.

On April 22, 2024, our Board of Directors declared a quarterly cash dividend of $0.30 per share of outstanding common stock payable on June 13, 2024 to stockholders of record at the close of business on May 30, 2024. 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 June 2023, our Board of Directors approved a share repurchase program (the “2023 Share Repurchase Program”), providing authorization to repurchase up to $100 million of our 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 2023 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, 2024, we have repurchased approximately 4.4 million shares of our common stock under the 2023 Share Repurchase Program at an average per-share cost of $51.74. During the three months ended March 31, 2024, we did not repurchase shares of our common stock. As of March 31, 2024, we had $71.8 million of remaining authorization for repurchases under the 2023 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.

As of March 31, 2024 and December 31, 2023, we had $30 million of outstanding borrowings under the Credit Facility. As of March 31, 2024, we had a remaining borrowing capacity of $67 million, net of standby letters of credit. For the three months ended March 31, 2024, cash interest paid was not significant.

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, 2024, 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 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, 2024, 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, 2024, we had approximately $45 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, 2024.

Cash Flows

The following table summarizes our cash flow data for the three months ended March 31, 2024 and 2023 (in thousands):

	Three Months Ended March 31,	
	2024	**2023**
Net cash provided by operating activities	$ 8,300	$ 66,775
Net cash used in investing activities	$ (16,528)	$ (15,937)
Net cash used in financing activities	$ (18,629)	$ (70,667)

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 $8.3 million for the three months ended March 31, 2024, compared to Net cash provided by operating activities of $66.8 million for the three months ended March 31, 2023. In the three months ended March 31, 2024, operating cash flows were unfavorably impacted from payments of year-end bonuses and commissions, which are typical first quarter cash outflows. In addition, operating cash flows for the three months ended March 31, 2024 were unfavorably impacted by the recurring and non-recurring payments made to the Giphy workforce, the reimbursement of which is reflected in Investing Activities on the Statement of Cash Flows.

Operating cash flows for the three months ended March 31, 2023 were favorably impacted from an increase in operating income and changes in the timing of cash collections from data deal customers, which had large receivable balances at the end of 2022, and lower payments pertaining to operating expenses, which can cause operating cash flow to fluctuate from period to period.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2024 was $16.5 million, consisting primarily of (i) $19.5 million used in the acquisition of Backgrid, net of cash acquired, (ii) capital expenditures of $14.5 million for internal-use software and website development costs and purchases of software and equipment, and (iii) $1.0 million paid to acquire the rights to distribute certain digital content into perpetuity. These cash outflows were partially offset by (i) $18.4 million of Giphy Retention Compensation, as reimbursed by the Giphy seller.

Cash used in investing activities in 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 in perpetuity.

Financing Activities

Cash used in financing activities in the three months ended March 31, 2024 was $18.6 million, consisting of (i) $10.7 million, related to the payment of the quarterly cash dividend, and (ii) $8.0 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, 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.

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 product offering) on a constant currency basis (expressed as a percentage), and adjusted 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,	
	2024	2023
Non-GAAP Financial Measures (in thousands):		
Adjusted EBITDA	$ 55,977	$ 69,764
Adjusted net income	$ 40,640	$ 47,134
Adjusted free cash flow	$ 11,246	$ 50,868
Revenue growth on a constant currency basis	— %	10 %

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 product offering) on a constant currency basis (expressed as a percentage) and adjusted 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 product offering) on a constant currency basis (expressed as a percentage) and adjusted free cash flow are useful to investors because these measures enable investors to analyze Shutterstock's 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 Shutterstock's underlying operating performance and revenue growth (including by product offering) on a constant currency basis (expressed as a percentage), provides useful information to investors by eliminating the effect of foreign currency fluctuations that are not directly attributable to Shutterstock's operating performance. Management also believes that providing these non-GAAP financial measures enhances the comparability for investors in assessing Shutterstock's financial reporting. Management believes that adjusted 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 internal-use software and website development costs 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 alongside 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 product offering) on a constant currency basis (expressed as a percentage) and adjusted free cash flow, as well as a reconciliation of the differences between adjusted EBITDA, adjusted net income, revenue growth (including by product offering) on a constant currency basis (expressed as a percentage) and adjusted free cash flow, and the most comparable financial measures calculated and presented in accordance with GAAP, is presented below.

The expense associated with the Giphy Retention Compensation related to (i) the one-time employment inducement bonuses and (ii) the vesting of the cash value of unvested Meta equity awards held by the employees prior to closing, which are reflected in operating expenses (together, the "Giphy Retention Compensation Expense - non-recurring"), are required payments in accordance with the terms of the acquisition. Meta's sale of Giphy was directed by the CMA and accordingly, the terms of the acquisition were subject to CMA preapproval. Management considers the operating expense associated with these required payments to be unusual and non-recurring in nature. The Giphy Retention Compensation Expense - non-recurring is not considered ongoing expense necessary to operate the Company's business. Therefore, such expenses have been included in the below adjustments for calculating adjusted EBITDA, adjusted EBITDA margin, adjusted net income and adjusted net income per diluted common share. For the three months ended March 31, 2024, the Company also incurred $7.1 million, of Giphy Retention Compensation expense related to recurring employee costs, which is included in operating expenses, and are not included in the below adjustments for calculating adjusted EBITDA, adjusted EBITDA margin, adjusted net income and adjusted net income per diluted common share.

Adjusted EBITDA and Adjusted EBITDA Margin

We define adjusted EBITDA as net income adjusted for depreciation and amortization, non-cash equity-based compensation, bargain purchase gain related to the acquisition of Giphy, Giphy Retention Compensation Expense - non-recurring, foreign currency transaction gains and losses, severance costs associated with strategic workforce optimizations, unrealized gains on investments, 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, 2024	Three Months Ended March 31, 2023
Net income	$ 16,121	$ 32,843
Add / (less) Non-GAAP adjustments:		
Depreciation and amortization	21,263	18,896
Non-cash equity-based compensation	11,150	8,643
Giphy Retention Compensation Expense - non-recurring	6,829	—
Other adjustments, net[(1)]	(3,655)	811
Provision for income taxes	4,269	8,571
Adjusted EBITDA	$ 55,977	$ 69,764
Revenue	$ 214,315	$ 215,280
Net income margin	7.5 %	15.3 %
Adjusted EBITDA margin	26.1 %	32.4 %

(1) Other adjustments, net includes unrealized foreign currency transaction gains and losses, severance costs associated with strategic workforce optimizations, unrealized gains on investments, 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, Giphy Retention Compensation Expense - non-recurring, unrealized gains on investments, 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,	
	2024	2023
	(in thousands)	
Net income	$ 16,121	$ 32,843
Add / (less) Non-GAAP adjustments:		
Non-cash equity-based compensation	11,150	8,643
Tax effect of non-cash equity-based compensation[1]	(2,620)	(2,031)
Acquisition-related amortization expense[2]	9,163	8,158
Tax effect of acquisition-related amortization expense[1]	(2,153)	(1,917)
Giphy Retention Compensation Expense - non-recurring	6,829	—
Tax effect of Giphy Retention Compensation Expense - non-recurring	(1,605)	—
Other	3,755	1,856
Tax effect of other[1]	—	(418)
Adjusted net income	$ 40,640	$ 47,134
Net income per diluted common share	$ 0.45	$ 0.90
Adjusted net income per diluted common share	$ 1.13	$ 1.29
Weighted average diluted shares	36,066	36,575

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

(2) Of these amounts, $8.2 million and $7.5 million are included in cost of revenue for the three months ended March 31, 2024 and 2023, respectively. The remainder of acquisition-related amortization expense is included in general and administrative expense in the Statement of Operations.

Revenue Growth (including by product offering) on a Constant Currency Basis

We define revenue growth (including by product offering) 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,	
	2024	2023
Reported revenue (in thousands)	$ 214,315	$ 215,280
Revenue growth	*— %*	*8 %*
Revenue growth on a constant currency basis	*— %*	*10 %*
Content reported revenue (in thousands)	$ 173,830	$ 193,984
Content revenue growth	*(10)%*	*(1)%*
Content revenue growth on a constant currency basis	*(10)%*	*1 %*
Data, Distribution, and Services reported revenue (in thousands)	$ 40,485	$ 21,296
Data, Distribution, and Services revenue growth	*90 %*	*436 %*
Data, Distribution, and Services revenue growth on a constant currency basis	*90 %*	*437 %*

Adjusted Free Cash Flow

We define adjusted free cash flow as our cash provided by operating activities, adjusted for capital expenditures, content acquisition and cash received related to Giphy Retention Compensation in connection with the acquisition of Giphy.

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

	Three Months Ended March 31,	
	2024	2023
Cash flow information:	(in thousands)	
Net cash provided by operating activities	$ 8,300	$ 66,775
Net cash used in investing activities	$ (16,528)	$ (15,937)
Net cash used in financing activities	$ (18,629)	$ (70,667)
Adjusted free cash flow:		
Net cash provided by operating activities	$ 8,300	$ 66,775
Capital expenditures	(14,461)	(12,380)
Content acquisitions	(994)	(3,527)
Cash received related to Giphy Retention Compensation	18,401	—
Adjusted Free Cash Flow	$ 11,246	$ 50,868

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 28% and 30% for the three months ended March 31, 2024 and 2023, 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, 2024, 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,			
	2024		2023	
	U.S. Dollars	Originating Currency	U.S. Dollars	Originating Currency
Euro	$ 33,280	€ 30,709	$ 35,975	€ 33,634
British pounds	14,321	£ 11,359	14,068	£ 11,437
All other non-U.S. currencies[(1)]	13,183		14,371	
Total foreign currency	60,784		64,414	
U.S. dollar	153,531		150,866	
Total revenue	$ 214,315		$ 215,280	

(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, 2024.

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, 2024. 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, 2024, 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 2023 Form 10-K, which could materially affect our business, financial condition or future results. During the three months ended March 31, 2024, there were no material changes to these risk factors as described in our 2023 Form 10-K.

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

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

(c) Insider Trading Arrangements

During the quarter ended March 31, 2024, none of our directors or officers (as defined in Section 16 of the Securities Exchange Act of 1934, as amended), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” (each as defined in Item 408(a) and (c), respectively, of Regulation S-K).

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#	Shutterstock, Inc. Director Compensation Policy
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: May 2, 2024	By:	/s/ Jarrod Yahes
		Jarrod Yahes
		Chief Financial Officer
		(Principal Financial Officer)
Dated: May 2, 2024	By:	/s/ Steven Ciardiello
		Steven Ciardiello
		Chief Accounting Officer
		(Principal Accounting Officer)

SHUTTERSTOCK, INC.

DIRECTOR COMPENSATION POLICY

(as amended on February 20, 2024)

Independent directors of Shutterstock, Inc. (the “***Company***”) shall receive the compensation for their service as a member of the Board of Directors (the “***Board***”) of the Company. This Policy shall remain in effect until it is revised or rescinded by further action of the Board.

General

We will pay director fees only to those members of our Board who are independent under the listing standards of the New York Stock Exchange.

Our goal is to provide compensation for our independent directors in a manner that enables us to attract and retain outstanding director candidates and reflects the substantial time commitment necessary to oversee the Company’s affairs. We also seek to align the interests of our directors and our stockholders and we have chosen to do so by compensating our directors with a mix of cash and equity-based compensation.

Cash Fees and Retainers

Board Members

Each independent director shall be entitled to an annual cash retainer of $50,000 (the “***Annual Cash Retainers***”) as set forth below.

Committee Chairs and Lead Independent Director

In addition to the Annual Cash Retainer, an independent director who serves as member or chairperson of the Company’s Audit, Compensation or Nominating and Corporate Governance Committee shall be entitled to an additional annual cash retainer (collectively, the “***Committee Cash Retainers***”) as set forth below.

	Chairperson	Other Members
Audit Committee:	$ 20,000	$ 10,000
Compensation Committee:	$ 15,000	$ 5,000
Nominating and Corporate Governance Committee:	$ 10,000	$ 5,000

In addition to the Annual Cash Retainer, the independent director who serves as the Lead Independent Director or Presiding Director, as applicable, shall be entitled to an additional annual cash retainer (the “***Lead Director Retainer***”) in the amount of $20,000.

Payment of Cash Retainers

The Company shall pay the Annual Cash Retainers, the Committee Cash Retainers and the Lead Director Retainer on a quarterly basis in arrears, subject to the director's continued service to the Company as an independent director, member or chairperson of the Audit, Compensation or Nominating and Corporate Governance Committee, as applicable, or lead independent director or presiding director, as applicable, on the first day of the preceding quarter. Such cash amounts shall be prorated in the case of service for less than the entire quarter.

Equity Awards and Equity Retainers

Initial Equity Retainer for New Directors

On the date a new independent director becomes a member of the Board, each such independent director shall automatically receive an award of restricted stock units with a cash value of $175,000 (an "***Initial Equity Retainer***"); *provided, however*, that the value of the Initial Equity Retainer will be reduced pro rata for each full month since the date of the last annual meeting of the Company's stockholders during which such individual did not serve as a member of the Board. The Initial Equity Retainer shall vest as to all of such shares on the earlier of (i) the one year anniversary of the date of grant and (ii) the date immediately preceding the date of the next annual meeting of the Company's stockholders, subject in each case, to the independent director's continued service to the Company through the vesting date.

Annual Equity Retainer for Continuing Board Members

Each continuing independent director shall automatically receive an annual equity retainer in the form of an award of restricted stock units with a cash value of $175,000 (an "***Annual Equity Retainer***"), with the grant date of such award to be the date of each Company annual meeting of stockholders. The Annual Equity Retainer for such independent directors shall vest as to all of such shares on the earlier of (i) the one year anniversary of the date of grant and (ii) the date immediately preceding the date of the next annual meeting of the Company's stockholders, subject in each case, to the independent director's continued service to the Company through the vesting date.

Provisions Applicable to All Equity Awards

The number of restricted stock units subject to an Initial Equity Retainer or an Annual Equity Retainer shall be determined by dividing (x) the cash value of the award by (y) the average of the Company's closing price for a share of common stock on each trading day during the thirty (30) trading days period ending on the date immediately prior to the grant date, rounded down to the nearest whole number of shares. The Initial Equity Retainers and the Annual Equity Retainers shall be subject to the terms and conditions of the Company's 2012 Omnibus Equity Incentive Plan (the "***Plan***") and the terms of the Restricted Stock Unit Agreements entered into between the Company and each director in connection with such awards. Furthermore, the vesting of all Initial Equity Retainers and Annual Equity Retainers shall be accelerated in full immediately prior to (and contingent upon) the effectiveness of a Change of Control (as defined in the Plan).

Directors' Deferred Compensation

In its discretion, the Company may structure the Initial Equity Retainer and/or the Annual Equity Retainer to include, or allow the director to elect, a deferred settlement of the shares subject to such award until the earlier of one or more of the following events: (i) a fixed date in the future; (ii) a separation from service as a member of the Board; or (iii) a Change of Control (as defined in the Plan).

Expense Reimbursement

All independent directors shall be entitled to reimbursement from the Company for their reasonable travel (including airfare and ground transportation), lodging and meal expenses incident to meetings of the Board or committees thereof or in connection with other Board related business. The Company shall make expense reimbursements to all directors within a reasonable amount of time following submission by the director of reasonable written substantiation for the expenses.

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: May 2, 2024

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: May 2, 2024

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, 2024 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: May 2, 2024	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, 2024 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: May 2, 2024	By:	/s/ Jarrod Yahes
		Jarrod Yahes Chief Financial Officer *(Principal Financial Officer)*