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, 2020

or

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

For the transition period from to

Commission File Number: 001-35669

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of April 24, 2020, 35,631,028 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, 2020

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, particularly in the discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, are forward-looking. Examples of forward-looking statements include, but are not limited to, statements regarding future business, future results of operations or financial condition, future dividends, new or planned features, products or services, management strategies and the COVID-19 pandemic. You can identify many forward-looking statements by words such as "may," "will," "would," "should," "could," "expect," "aim," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. However, not all forward-looking statements contain these words. Forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in the forward-looking statements. Such risks and uncertainties include, among others, those discussed under the caption "Risk Factors" in our most recently filed Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission, or the SEC, on February 13, 2020, under the caption "Risk Factors" in this Quarterly Report on Form 10-Q and in our consolidated financial statements, related notes, and the other information appearing elsewhere in such Annual Report, this Quarterly Report on Form 10-Q and our other filings with the SEC. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. We do not intend, and, except as required by law, we undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 295,711	$ 303,261
Accounts receivable, net of allowance of $4,553 and $3,579	45,216	47,016
Prepaid expenses and other current assets	28,769	26,703
Total current assets	369,696	376,980
Property and equipment, net	56,896	58,834
Right-of-use assets	43,430	45,453
Intangible assets, net	25,499	26,669
Goodwill	88,144	88,974
Deferred tax assets, net	14,803	14,387
Other assets	16,497	19,215
Total assets	$ 614,965	$ 630,512
LIABILITIES AND STOCKHOLDERS ' EQUITY		
Current liabilities:		
Accounts payable	$ 4,125	$ 6,104
Accrued expenses	53,294	53,864
Contributor royalties payable	25,637	25,193
Deferred revenue	138,883	141,922
Other current liabilities	10,367	18,811
Total current liabilities	232,306	245,894
Lease liabilities	45,522	47,313
Other non-current liabilities	9,410	9,160
Total liabilities	287,238	302,367
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, $0.01 par value; 200,000 shares authorized; 38,119 and 38,055 shares issued and 35,561 and 35,497 shares outstanding as of March 31, 2020 and December 31, 2019, respectively	381	381
Treasury stock, at cost; 2,558 shares as of March 31, 2020 and December 31, 2019	(100,027)	(100,027)
Additional paid-in capital	316,823	312,824
Accumulated comprehensive loss	(8,668)	(6,220)
Retained earnings	119,218	121,187
Total stockholders' equity	327,727	328,145
Total liabilities and stockholders' equity	$ 614,965	$ 630,512

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2020	**2019**
Revenue	$ 161,285	$ 163,332
Operating expenses:		
Cost of revenue	69,123	69,218
Sales and marketing	42,660	44,446
Product development	13,069	14,986
General and administrative	30,652	26,583
Total operating expenses	155,504	155,233
Income from operations	5,781	8,099
Other income, net	513	896
Income before income taxes	6,294	8,995
Provision for income taxes	1,976	1,473
Net income	$ 4,318	$ 7,522
Earnings per share:		
Basic	$ 0.12	$ 0.21
Diluted	$ 0.12	$ 0.21
Weighted average shares outstanding:		
Basic	35,521	35,114
Diluted	35,882	35,491

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2020	**2019**
Net income	$ 4,318	$ 7,522
Foreign currency translation (loss) / gain	(2,448)	45
Other comprehensive (loss) / gain	(2,448)	45
Comprehensive income	$ 1,870	$ 7,567

See Notes to Unaudited Consolidated Financial Statements.

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

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Three Months Ended March 31, 2020	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	38,055	$ 381	2,558	$ (100,027)	$ 312,824	$ (6,220)	$ 121,187	$ 328,145
Cumulative effect of accounting change (Note 1)	—	—	—	—	—	—	(247)	(247)
Balance at January 1, 2020	38,055	$ 381	2,558	$ (100,027)	$ 312,824	$ (6,220)	$ 120,940	$ 327,898
Equity-based compensation	—	—	—	—	5,760	—	—	5,760
Issuance of common stock in connection with employee stock option exercises and RSU vesting	109	1	—	—	(1)	—	—	—
Common shares withheld for settlement of taxes in connection with equity-based compensation	(45)	(1)	—	—	(1,760)	—	—	(1,761)
Cash dividends paid, $0.17 per common share	—	—	—	—	—	—	(6,040)	(6,040)
Other comprehensive loss	—	—	—	—	—	(2,448)	—	(2,448)
Net income	—	—	—	—	—	—	4,318	4,318
Balance at March 31, 2020	38,119	$ 381	2,558	$ (100,027)	$ 316,823	$ (8,668)	$ 119,218	$ 327,727
Three Months Ended March 31, 2019								
Balance at December 31, 2018	37,618	$ 376	2,558	$ (100,027)	$ 291,710	$ (6,471)	$ 101,079	$ 286,667
Equity-based compensation	—	—	—	—	4,624	—	—	4,624
Issuance of common stock in connection with employee stock option exercises and RSU vesting	229	3	—	—	214	—	—	217
Common shares withheld for settlement of taxes in connection with equity-based compensation	(88)	(1)	—	—	(4,090)	—	—	(4,091)
Other comprehensive income	—	—	—	—	—	45	—	45
Net income	—	—	—	—	—	—	7,522	7,522
Balance at March 31, 2019	37,759	$ 378	2,558	$ (100,027)	$ 292,458	$ (6,426)	$ 108,601	$ 294,984

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,318	$ 7,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,519	11,916
Deferred taxes	(386)	699
Non-cash equity-based compensation	5,760	4,624
Bad debt expense	658	(632)
Changes in operating assets and liabilities:		
Accounts receivable	673	(3,812)
Prepaid expenses and other current and non-current assets	(2,207)	(2,782)
Accounts payable and other current and non-current liabilities	(2,286)	1,994
Long-term incentives related to acquisitions	(7,759)	—
Contributor royalties payable	551	2,138
Deferred revenue	(2,982)	(1,958)
Net cash provided by operating activities	$ 6,859	$ 19,709
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,719)	(7,253)
Proceeds from sale of Webdam, net	—	2,500
Acquisition of content	(723)	(545)
Security deposit release	31	—
Net cash used in investing activities	$ (8,411)	$ (5,298)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	—	214
Cash paid related to settlement of employee taxes related to RSU vesting	(1,761)	(4,090)
Payment of cash dividend	(6,040)	—
Net cash used in financing activities	$ (7,801)	$ (3,876)
Effect of foreign exchange rate changes on cash	(810)	(1,246)
Net increase in cash, cash equivalents and restricted cash	(10,163)	9,289
Cash, cash equivalents and restricted cash, beginning of period	305,874	233,465
Cash, cash equivalents and restricted cash, end of period	$ 295,711	$ 242,754
Supplemental Disclosure of Cash Information:		
Cash paid for income taxes	$ 494	$ 305

See Notes to Unaudited Consolidated Financial Statements.

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

(1) Summary of Operations and Significant Accounting Policies

Summary of Operations

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

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

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

Basis of Presentation

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

The interim Consolidated Balance Sheet as of March 31, 2020, and the Consolidated Statements of Operations, Comprehensive Income, Stockholders’ Equity and Cash Flows for the three months ended March 31, 2020 and 2019, are unaudited. The Consolidated Balance Sheet as of December 31, 2019, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures required by GAAP. These unaudited interim financial statements have been prepared on a basis consistent with the Company’s annual financial statements and, in the opinion of management, reflect all adjustments, which include all normal recurring adjustments necessary to fairly state the Company’s financial position as of March 31, 2020, and its consolidated results of operations, comprehensive income, stockholders’ equity and cash flows for the three months ended March 31, 2020 and 2019. The financial data and the other financial information disclosed in the notes to the financial statements related to these periods are also unaudited. The results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2020 or for any other future annual or interim period.

These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K, which was filed with the SEC on February 13, 2020. The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain immaterial changes in presentation have been made to conform the prior period presentation to current period reporting.

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash

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

	As of March 31, 2020	As of December 31, 2019
Cash and cash equivalents	$ 295,711	$ 303,261
Restricted cash	—	2,613
Total cash, cash equivalents and restricted cash	$ 295,711	$ 305,874

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

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

Allowance for Doubtful Accounts

The Company's accounts receivable consists of customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts, if required. The Company determines its allowance for doubtful accounts based on an evaluation of the aging of its accounts receivable and on a customer-by-customer basis where appropriate. The Company's reserve analysis contemplates the Company's historical loss rate on receivables, specific customer situations and the economic environments in which the Company operates.

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

During the three months ended March 31, 2020, the Company recorded bad debt expense of $0.7 million. As of March 31, 2020 and December 31, 2019, the Company's allowance for doubtful accounts was approximately $4.6 million and $3.6 million, respectively, which are included as a reduction of accounts receivable on the Consolidated Balance Sheets.

Chargeback and Sales Refund Allowance

The Company establishes a chargeback allowance and sales refund reserve allowance based on factors surrounding historical credit card chargeback trends, historical sales refund trends and other information. As of March 31, 2020 and December 31, 2019, the Company's combined allowance for chargebacks and sales refunds was $0.3 million, which was included as a component of other current liabilities on the Consolidated Balance Sheets.

Revenue Recognition

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

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

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

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

Recently Adopted Accounting Standard Updates

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

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

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

Recently Issued Accounting Standard Updates

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

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

Fair Value Measurements

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

Other Fair Value Measurements

The carrying amounts of cash, accounts receivable, restricted cash, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. The Company's non-financial assets, which include property and equipment, intangible assets and goodwill, are not required to be measured at fair value on a recurring basis. However, if the Company is required to evaluate the non-financial asset for impairment, whether due to certain triggering events or because annual impairment testing is required, a resulting asset impairment would require that the non-financial asset be recorded at fair value.

Other Long-term Investments

Investment in ZCool Technologies Limited ("ZCool")

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

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

On a quarterly basis, the Company evaluates the carrying value of the Preferred Shares for impairment, which includes an assessment of ZCool's revenue growth, earnings performance, working capital and the general regional market conditions. As of March 31, 2020, no adjustments to the carrying value were identified as a result of this assessment. Changes in performance negatively impacting ZCool's operating results and cash flows could result in the Company recording an impairment charge on the Preferred Shares in future periods.

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

(3) Property and Equipment

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

	As of March 31, 2020	As of December 31, 2019
Computer equipment and software	$ 172,931	$ 165,950
Furniture and fixtures	10,206	10,199
Leasehold improvements	19,260	19,203
Property and equipment	202,397	195,352
Less accumulated depreciation	(145,501)	(136,518)
Property and equipment, net	$ 56,896	$ 58,834

Depreciation and amortization expense related to property and equipment was $9.3 million and $10.6 million for the three months ended March 31, 2020 and 2019, respectively. Of these amounts, $8.2 million and $9.3 million are included in cost of revenue for the three months ended March 31, 2020 and 2019, respectively, and $1.1 million and $1.3 million are included in general and administrative expense for the three months ended March 31, 2020 and 2019, 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 $6.6 million and $6.5 million for the three months ended March 31, 2020 and 2019, respectively. Capitalized amounts are included as a component of property and equipment under computer equipment and software on the Consolidated Balance Sheets.

The portion of total depreciation expense related to capitalized internal-use software was $7.2 million and $7.3 million for the three months ended March 31, 2020 and 2019, respectively. Depreciation expense related to capitalized internal-use software is included in cost of revenue and general and administrative expense in the Consolidated Statements of Operations based on the nature of the asset.

As of March 31, 2020 and December 31, 2019, the Company had capitalized internal-use software of $41.2 million and $41.8 million, respectively, net of accumulated depreciation, which was included in property and equipment, net.

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

(4) Goodwill and Intangible Assets

Goodwill

The Company's goodwill balance is attributable to its Content reporting unit and is tested for impairment annually on October 1 or upon a triggering event. No triggering events were identified during the three months ended March 31, 2020.

The following table summarizes the changes in the carrying value of the Company's goodwill balance during the three months ended March 31, 2020 (in thousands):

		Goodwill
Balance as of December 31, 2019	$	88,974
Foreign currency translation adjustment		(830)
Balance as of March 31, 2020	$	88,144

Intangible Assets

Intangible assets, all of which are subject to amortization, consisted of the following as of March 31, 2020 and December 31, 2019 (in thousands):

	As of March 31, 2020				Weighted Average Life (Years)	As of December 31, 2019			
	Gross Carrying Amount		Accumulated Amortization			Gross Carrying Amount		Accumulated Amortization	
Amortizing intangible assets:									
Customer relationships	$	16,960	$	(9,290)	9	$	17,729	$	(9,294)
Trade name		6,229		(5,712)	7		6,517		(5,941)
Developed technology		4,673		(4,214)	4		4,841		(4,226)
Contributor content		23,905		(7,207)	10		23,510		(6,626)
Patents		259		(104)	18		259		(100)
Total	$	52,026	$	(26,527)		$	52,856	$	(26,187)

Amortization expense was $1.2 million and $1.3 million for the three months ended March 31, 2020 and 2019, respectively. Of these amounts, $0.6 million and $0.5 million are included in cost of revenue for the three months ended March 31, 2020 and 2019, respectively, and $0.6 million and $0.8 million are included in general and administrative expense for the three months ended March 31, 2020 and 2019, respectively.

The Company determined that there was no indication of impairment of the intangible assets for any period presented. Estimated amortization expense is: $4.2 million for the remaining nine months of 2020, $4.8 million in 2021, $4.5 million in 2022, $3.8 million in 2023, $3.2 million in 2024, $1.9 million in 2025 and $3.1 million thereafter.

(5) Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	As of March 31, 2020		As of December 31, 2019	
Compensation	$	17,300	$	20,776
Non-income taxes		15,728		15,332
Website hosting and marketing fees		11,308		8,657
Other expenses		8,958		9,099
Total accrued expenses	$	53,294	$	53,864

(6) Stockholders' Equity and Equity-Based Compensation

Stockholders' Equity

Common Stock

During the three months ended March 31, 2020 and 2019, the Company issued approximately 64,000 and 141,000 shares of common stock, respectively, primarily related to the exercise of stock options and the vesting of Restricted Stock Units ("RSUs").

Treasury Stock

In October 2015, the Company's Board of Directors approved a share repurchase program, authorizing the Company to purchase up to $100 million of its common stock. In February 2017, the Company's Board of Directors approved an increase to the share repurchase program, authorizing the Company to repurchase up to an additional $100 million of its outstanding common stock. During the three months ended March 31, 2020 and 2019, the Company did not repurchase any shares of its common stock under the share repurchase program. As of March 31, 2020, the Company had $100 million of remaining authorization for purchases under the share repurchase program.

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

Dividends

The Company declared and paid cash dividends of $0.17 per share of common stock, or $6.0 million during the three months ended March 31, 2020.

On April 20, 2020, the Company's Board of Directors declared a quarterly cash dividend of $0.17 per share of outstanding common stock payable on June 18, 2020 to stockholders of record at the close of business on June 4, 2020. Future declaration of dividends are subject to the final determination of the Board of Directors, and will depend on, among other things, the Company's future financial condition, results of operations, capital requirements, capital expenditure requirements, contractual restrictions, anticipated cash needs, business prospects, provisions of applicable law and other factors the Board of Directors may deem relevant.

Equity-Based Compensation

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

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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, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
Cost of revenue	$ 51	$ 85
Sales and marketing	460	582
Product development	1,125	1,175
General and administrative	4,124	2,782
Total	$ 5,760	$ 4,624

The following table summarizes non-cash equity-based compensation expense, net of forfeitures, by award type included in the accompanying Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
Stock options	$ 1,316	$ 891
RSUs	4,444	3,733
Total	$ 5,760	$ 4,624

Stock Option Awards

During the three months ended March 31, 2020, the Company granted 53,022 options to purchase shares of its common stock with a weighted average exercise price of $42.96. As of March 31, 2020, there were approximately 358,000 options vested and exercisable with a weighted average exercise price of $34.10. As of March 31, 2020, the total unrecognized compensation charge related to non-vested options was approximately $2.7 million, which is expected to be recognized through 2023.

Restricted Stock Unit Awards

During the three months ended March 31, 2020, the Company had RSU grants, net of forfeitures, of approximately 36,000. As of March 31, 2020, there are approximately 1,040,000 non-vested RSUs (including performance-based restricted stock units, or PRSUs) outstanding with a weighted average grant-date fair value of $44.96. As of March 31, 2020, the total unrecognized non-cash equity-based compensation charge related to the non-vested RSUs was approximately $23.2 million, which is expected to be recognized through 2023.

During the three months ended March 31, 2020, shares of common stock with an aggregate value of $1.8 million were withheld upon vesting of RSUs and paid in connection with related remittance of employee withholding taxes to taxing authorities.

On April 1, 2020, the Company granted approximately 412,000 RSUs with a grant date fair value of $12.2 million.

(7) Revenue

The Company distributes its content offerings through two primary channels:

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

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

The Company's revenues by distribution channel for the three months ended March 31, 2020 and 2019 are as follows (in thousands):

	Three Months Ended March 31,	
	2020	2019
E-commerce	$ 99,736	$ 98,113
Enterprise	61,549	65,219
Total Revenues	$ 161,285	$ 163,332

The March 31, 2020 deferred revenue balance will be earned as content is downloaded or upon the expiration of subscription-based products, and nearly all is expected to be earned within the next twelve months. $59.1 million of total revenue recognized for the three months ended March 31, 2020 was reflected in deferred revenue as of December 31, 2019.

(8) Other Income, net

The following table presents a summary of the Company's other income and expense activity included in the accompanying Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
Foreign currency loss	$ (598)	$ (161)
Interest income	1,111	1,057
Total other income	$ 513	$ 896

(9) Income Taxes

The Company's effective tax rates yielded a net expense of 31.4% and 16.4% for the three months ended March 31, 2020 and 2019, respectively. During the three months ended March 31, 2020, the effective tax rate increased by 6.9% as a result of a loss jurisdiction with no tax benefit. Discrete items further increased the effective tax rate by 3.0%. During the three months ended March 31, 2019, the impact of discrete items decreased the effective tax rate by 1.2%.

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

During the three months ended March 31, 2020 and 2019, 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, 2020 and 2019.

During the three months ended March 31, 2020 and 2019, the Company paid net cash taxes of $0.5 million and $0.3 million, respectively.

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(10) Net Income Per Share

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

The following table sets forth the computation of basic and diluted net income per share for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
Net income	$ 4,318	$ 7,522
Shares used to compute basic net income per share	35,521	35,114
Dilutive potential common shares		
Stock options	67	105
Unvested restricted stock awards	294	272
Shares used to compute diluted net income per share	35,882	35,491
Basic net income per share	$ 0.12	$ 0.21
Diluted net income per share	$ 0.12	$ 0.21
Dilutive shares included in the calculation	856	979
Anti-dilutive shares excluded from the calculation	1,144	1,135

(11) Geographic Information

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

	Three Months Ended March 31,	
	2020	2019
North America	$ 57,018	$ 57,514
Europe	53,796	55,485
Rest of the world	50,471	50,333
Total revenue	$ 161,285	$ 163,332

The United States, included in North America in the above table, accounted for 32% and 32% of consolidated revenue for the three months ended March 31, 2020 and 2019, 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, 2020	As of December 31, 2019
North America	$ 50,126	$ 51,954
Europe	6,438	6,541
Rest of the world	332	339
Total long-lived tangible assets	$ 56,896	$ 58,834

The United States, included in North America in the above table, accounted for 78% and 79% of total long-lived tangible assets as of March 31, 2020 and December 31, 2019, respectively. No other country accounts for more than 10% of the Company's long-lived tangible assets in any period presented.

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(12) Commitments and Contingencies

As of March 31, 2020, the Company had total other non-lease obligations in the amount of approximately $41.3 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, 2020, the Company's other non-lease obligations for the remainder of 2020 and for the years ending December 31, 2021 and 2022 were approximately $20.5 million, $16.4 million and $4.4 million, respectively.

Legal Matters

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

Indemnification and Employment Agreements

In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to provide indemnification of varying scope and terms to customers with respect to certain matters, including, but not limited to, losses arising out of the breach of the Company's intellectual property warranties for damages to the customer directly attributable to the Company's breach. The Company is not responsible for any damages, costs, or losses to the extent such damages, costs or losses arise as a result of any modifications made by the customer, or the context in which content is used. The standard maximum aggregate obligation and liability to any one customer for any single claim is generally limited to ten thousand dollars but can range to $250,000, with certain exceptions for which our indemnification obligation are uncapped. As of March 31, 2020, the Company had recorded no material liabilities related to indemnification obligations for loss contingencies. Additionally, the Company believes that it has the appropriate insurance coverage in place to adequately cover such indemnification obligations, if necessary.

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

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

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

The following discussion and analysis of our financial condition and results of operations should be read together with our interim consolidated unaudited financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q and with information contained in our other filings, including the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 13, 2020.

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

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

Overview and Recent Developments

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

The content licensed by our customers include:

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

Our platform brings together users and contributors of content by providing readily-searchable content that our customers pay to license and by compensating contributors as their content is licensed. For customers seeking specialized content that goes beyond our library of stock content, our platform also connects customers with contributors who can produce custom branded content. Over 1.9 million active, paying customers contributed to our revenue for the twelve-month period ended March 31, 2020. As of March 31, 2020, more than 1.2 million approved contributors made their images, footage and music tracks available in our collection, which has grown to more than 330 million images and more than 18 million footage clips. This makes our collection of content one of the largest of its kind, and we delivered more than 46 million paid downloads to our customers across all of our brands during the three months ended March 31, 2020.

During the three months ended March 31, 2020, the Company had the following significant events:

- In January 2020, we launched our ninth annual Creative Trends Report, identifying global and local trends that will influence design aesthetics and visual culture in 2020. This data-led report predicts image, video and music styles set to dominate marketing campaigns, advertising creative and video projects throughout the year.
- In January 2020, we announced that Shutterstock has been renewed as the official photographer of the 2020 EE British Academy Film Awards, which recognizes the best in film over the past year.
- In February 2020, we launched our eighth annual Oscar Pop! poster series, which celebrates the best picture nominees in the 92nd Academy Awards.
- In March 2020, we announced Footage library availability for mobile users. Mobile application users can now search, save and license over 17 million videos on-the-go with Shutterstock mobile apps.

Through our platform, we generate revenue by licensing content to our customers. During the three months ended March 31, 2020, 62% of our revenue and the majority of our content licenses came from our E-commerce sales channel. E-commerce customers have the flexibility of choosing content subscription plans that provide a large volume of content for their creative process. We also offer simple, affordable, smaller subscriptions and those where customers have an option to pay for individual content licenses at the time of delivery. Customers in our Enterprise sales channel generally have unique content, licensing and workflow needs. Our dedicated Enterprise sales, service, client success and research teams are able to provide a number of enhancements to their creative workflows including non-standard licensing rights, multi-seat access, multi-brand licensing packages and content licensed for use-cases outside of those available for license on our E-commerce platform. Customers in our Enterprise sales channel may also benefit from editorial content and the creation of custom branded content. Our Enterprise sales channel provided approximately 38% of our revenue during the three months ended March 31, 2020.

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

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

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

COVID-19 Update

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

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. The following table summarizes our key operating metrics, which are unaudited, for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
	(in millions, except revenue per download)	
Paid downloads (during the period)	46.8	47.2
Revenue per download (during the period)	$ 3.42	$ 3.42
Content in our collection (end of period):		
Images	330	260
Footage Clips	18	14

Paid Downloads

Measuring the number of paid downloads that our customers make in any given period is important because downloads are the primary method of delivering licensed content, which drives a significant portion of our revenue and contributor royalties. We define paid downloads as the number of downloads that our customers make in a given period of our photographs, vectors, illustrations, footage or music tracks. Paid downloads exclude custom content, re-downloads of content that a customer has downloaded in the past (which do not generate incremental revenue or contributor royalty expense) and downloads of content that is offered to customers for no charge, including our free image of the week.

Revenue per Download

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

Content in our Collection

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

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q, including this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains a calculation of period-over-period revenue growth (including by distribution channel) on a constant-currency basis, which is a financial measure that has not been calculated in accordance with generally accepted accounting principles in the United States, or GAAP, and should be considered in addition to our results prepared in accordance with GAAP and should not be considered as a substitute for, or superior to, our results prepared in accordance with GAAP.

Revenue growth (including by distribution channel) on a constant-currency basis (expressed as a percentage) is calculated by determining 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.

Our management uses this non-GAAP financial measure, in conjunction with GAAP financial measures, as an operating measure to help evaluate our business and in making financial and operational decisions. Management believes that providing a measure of period-over-period revenue growth (including by distribution channel) on a constant-currency basis is useful to investors because it enables them to analyze and compare our revenue trends and overall business on the same basis as that which is used by management and because this metric eliminates the effect of foreign currency fluctuations that are not directly attributable to our underlying operating performance and are outside management’s control. Additionally, management believes that providing this non-GAAP financial measure enhances the comparability for investors in assessing our financial reporting.

However, we caution investors that non-GAAP financial information, by its nature, departs from traditional accounting conventions, and similarly-titled non-GAAP financial measures vary among companies. 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.

Critical Accounting Policies and Estimates

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

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

A description of our critical accounting policies that involve significant management judgments appears in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 that was filed with the SEC on February 13, 2020 (our “2019 Form 10-K”), under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.”

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

Key Components of Our Results of Operations

Revenue

We distribute our content offerings through two primary channels:

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

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

The Company’s revenues by distribution channel for the three months ended March 31, 2020 and 2019 are as follows (in thousands):

	Three Months Ended March 31,	
	2020	**2019**
E-Commerce	$ 99,736	$ 98,113
Enterprise	61,549	65,219
Total Revenues	$ 161,285	$ 163,332

Costs and Expenses

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

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

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

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

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

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

Results of Operations

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

	Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Consolidated Statements of Operations:		
Revenue	$ 161,285	$ 163,332
Operating expenses:		
Cost of revenue	69,123	69,218
Sales and marketing	42,660	44,446
Product development	13,069	14,986
General and administrative	30,652	26,583
Total operating expenses	155,504	155,233
Income from operations	5,781	8,099
Other income, net	513	896
Income before income taxes	6,294	8,995
Provision for income taxes	1,976	1,473
Net income	$ 4,318	$ 7,522

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,	
	2020	2019
Consolidated Statements of Operations:		
Revenue	100 %	100 %
Operating expenses:		
Cost of revenue	43 %	42 %
Sales and marketing	26 %	27 %
Product development	8 %	9 %
General and administrative	19 %	16 %
Total operating expenses	96 %	95 %
Income from operations	4 %	5 %
Other income, net	— %	1 %
Income before income taxes	4 %	6 %
Provision for income taxes	1 %	1 %
Net income	3 %	5 %

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

Comparison of the Three Months Ended March 31, 2020 and 2019

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

	Three Months Ended March 31,			
	2020	2019	$ Change	% Change
	(in thousands)			
Consolidated Statements of Operations:				
Revenue	$ 161,285	$ 163,332	$ (2,047)	(1)%
Operating expenses:				
Cost of revenue	69,123	69,218	(95)	—
Sales and marketing	42,660	44,446	(1,786)	(4)
Product development	13,069	14,986	(1,917)	(13)
General and administrative	30,652	26,583	4,069	15
Total operating expenses	155,504	155,233	271	—
Income from operations	5,781	8,099	(2,318)	(29)
Other income, net	513	896	(383)	(43)
Income before income taxes	6,294	8,995	(2,701)	(30)
Benefit for income taxes	1,976	1,473	503	34
Net income	$ 4,318	$ 7,522	$ (3,204)	(43)%

* Percentage change is not meaningful

Revenue

Revenue decreased by $2.0 million, or 1%, to $161.3 million in the three months ended March 31, 2020 compared to the same period in 2019. On a constant currency basis, revenue decreased approximately 0.5%, in the three months ended March 31, 2020, compared to the same period in 2019.

The Company’s E-commerce revenues increased by 2%, to $99.7 million in the three months ended March 31, 2020, compared to the same period in 2019, and was not significantly impacted by foreign currency fluctuations. During the three months ended March 31, 2020, growth in our E-commerce sales channel was driven by shifting resources to more efficient performance marketing channels as well as expanding free trial offerings, which tend to drive new customers toward recurring subscription products.

The Company’s Enterprise revenues decreased by 6%, to $61.5 million in the three months ended March 31, 2020, compared to the same period in 2019. On a constant currency basis, the Company’s Enterprise revenues decreased by approximately 5% in the three months ended March 31, 2020, compared to the same period in 2019. We continue to face headwinds in our Enterprise sales channel and we are implementing changes, including optimizing the sales organization and making revisions to compensation plans, which we believe will improve our Enterprise sales channel operations.

Revenue growth for the three months ended March 31, 2020 was also unfavorably affected by the global COVID-19 pandemic and its impact on our customers and their ability to spend marketing budgets on our products. We expect COVID-19 to continue to have an unfavorable impact on our 2020 revenues.

In the three months ended March 31, 2020 and 2019, we delivered 46.8 million and 47.2 million paid downloads, respectively, and our revenue per download remained flat at $3.42 for the three months ended March 31, 2020 and 2019. During the three months ended March 31, 2020, the 0.8% decrease in the number of paid downloads compared to the same period in 2019, is correlated with the year over year decline in revenues.

Changes in our revenue by region were as follows: revenue from North America decreased by $0.5 million, or 1%, to $57.0 million, revenue from Europe decreased by $1.7 million, or 3%, to $53.8 million and revenue from outside Europe and North America remained relatively flat at $50.5 million, in the three months ended March 31, 2020 compared to the same period in 2019.

Costs and Expenses

Cost of Revenue . Cost of revenue decreased by $0.1 million, to $69.1 million in the three months ended March 31, 2020 compared to the same period in 2019. Royalties expense, which is primarily incurred as content is downloaded, decreased $2.2 million, or 5% for the three months ended March 31, 2020, compared to the same period in 2019. The Company's royalty rate was approximately 25.6% and 26.6% for the three months ended March 31, 2020 and 2019, respectively, and fluctuates based on customer usage and the mix of products sold. These declines were partially offset by $1.1 million in higher employee related costs, substantially consisting of severance charges. We expect that our cost of revenue will fluctuate in line with changes in revenue.

Sales and Marketing. Sales and marketing expenses decreased by $1.8 million, or 4%, to $42.7 million in the three months ended March 31, 2020 compared to the same period in 2019. As a percent of revenue, sales and marketing expenses decreased to 26% for the three months ended March 31, 2020, from 27% for the same period in 2019. This decrease was primarily driven by a $1.4 million decline in marketing spend as we focused resources on more efficient customer acquisition and improved marketing return on investment. We expect sales and marketing expenses to fluctuate as we optimize our sales channels and invest in new customer acquisition, products and geographies.

Product Development . Product development expenses decreased by $1.9 million, or 13%, to $13.1 million in the three months ended March 31, 2020 compared to the same period in 2019. This decrease was primarily driven by a reduction in software and other technology costs for the three months ended March 31, 2020, as compared to the same period in the prior year. Employee and third-party contractor related costs, net of capitalized labor, remained relatively flat for the three months ended March 31, 2020 compared to the same period in the prior year. We expect product development expenses, of which a portion will be capitalized, to continue in the foreseeable future, as we pursue opportunities to invest in developing new products and internal tools and enhance the functionality of our existing products and technologies.

General and Administrative . General and administrative expenses increased by $4.1 million, or 15%, to $30.7 million in the three months ended March 31, 2020 compared to the same period in 2019. This increase was primarily driven by: (i) higher employee-related costs of $3.1 million for the three months ended March 31, 2020 as compared to the same period in 2019, primarily associated with increased headcount related to ensuring the stability and security of the Company's technology infrastructure; (ii) severance charges of approximately $1.2 million incurred during the three months ended March 31, 2020; and (iii) a year over year increase of $1.3 million in bad debt expense, driven by $0.7 million of bad debt expense recorded for the three months ended March 31, 2020 and a benefit of $0.6 million recorded in the same quarter in 2019. The increase in general and administrative expenses was partially offset by a reduction in expense of $0.9 million, associated with the 2019 accrual of long-term incentives, related to our 2017 acquisition of Flashstock Technology, Inc. ("Flashstock"). We expect to continue to incur general and administrative expenses to support our global operational growth and enhancements to support our reporting and planning functions.

Other Income, Net . In the three months ended March 31, 2020, approximately $1.1 million of other income consisted of interest income which was partially offset by $0.6 million of unfavorable foreign currency fluctuations.

During the three months ended March 31, 2019, approximately $1.1 million of other income consisted of interest income which was partially offset by $0.2 million of unfavorable foreign currency fluctuations. As we increase the volume of business transacted in foreign currencies resulting from international expansion and as currency rates fluctuate, we expect foreign currency gains and losses to continue to fluctuate.

Income Taxes . Income tax expense increased by $0.5 million for the three months ended March 31, 2020 as compared to the same period in 2019. Our effective tax rates yielded an expense of 31.4% and 16.4% for the three months ended March 31, 2020 and 2019, respectively.

For the three months ended March 31, 2020, the effective tax rate increased by 6.9% as a result of a loss jurisdiction with no tax benefit. Discrete items further increased the effective tax rate by 3.0%. Excluding these items, our effective tax rate would have been 21.5% for the three months ended March 31, 2020. For the three months ended March 31, 2019, the net effect of discrete items decreased the effective tax rate by 1.2%.

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

Quarterly Trends

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

In addition, customers' expenditure on content tends to be discretionary in nature and has been impacted by COVID-19. We cannot estimate when a recovery will occur and therefore, the results of any prior quarterly or annual period should not be relied upon as indicators of our future operating performance. See Part II, "Item 1A.—Risk Factors—The effect of the COVID-19 pandemic on our operations, and the operations of our customers, partners and suppliers, could have a material adverse effect on our business, financial condition, cash flows and results of operations."

Liquidity and Capital Resources

As of March 31, 2020, we had cash and cash equivalents totaling $295.7 million which primarily consisted of bank balances. Since inception, we have financed our operations primarily through cash flows generated from operations.

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

Dividends

We declared and paid cash dividends of $0.17 per share of common stock, or $6.0 million during the three months ended March 31, 2020.

On April 20, 2020, our Board of Directors declared a quarterly cash dividend of $0.17 per share of outstanding common stock payable on June 18, 2020 to stockholders of record at the close of business on June 4, 2020. Future declaration of dividends are subject to the final determination of our Board of Directors, and will depend on, among other things, our future financial condition, results of operations, capital requirements, capital expenditure requirements, contractual restrictions, anticipated cash needs, business prospects, provisions of applicable law and other factors our Board of Directors may deem relevant.

Share Repurchase Program

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

As of March 31, 2020, we have repurchased approximately 2,558,000 shares of our common stock under the share repurchase program at an average per-share cost of $39.09. During the three months ended March 31, 2020, we did not repurchase any shares of our common stock under the share repurchase program. As of March 31, 2020, we had $100 million of remaining authorization for share repurchases under the share repurchase program.

Equity-Based Compensation

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

During the three months ended March 31, 2020, shares with an aggregate value of $1.8 million were withheld upon vesting of RSUs and paid in connection with related remittance to taxing authorities.

Sources and Uses of Funds

We believe, based on our current operating plan, that our cash and cash equivalents, and cash from operations, will be sufficient to meet our anticipated cash needs for at least the next 12 months. Future capital expenditures could relate to building enhancements to the functionality of our current platform, the acquisition of additional storage, servers, network connectivity hardware, security apparatus and software, leasehold improvements and furniture and fixtures related to office expansion and relocation, content and general corporate infrastructure. See Note 12 to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding our existing capital commitments as of March 31, 2020.

Cash Flows

The following table summarizes our cash flow data for the three months ended March 31, 2020 and 2019 (in thousands).

	Three Months Ended March 31,	
	2020	2019
Net cash provided by operating activities	$ 6,859	$ 19,709
Net cash used in investing activities	$ (8,411)	$ (5,298)
Net cash used in financing activities	$ (7,801)	$ (3,876)

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 $6.9 million for the three months ended March 31, 2020, compared to $19.7 million for the three months ended March 31, 2019. In the three months ended March 31, 2020, operating cash flows were unfavorably impacted by $7.8 million of one-time payments associated with long-term incentives related to our 2017 acquisition of Flashstock. Operating cash flows were also unfavorably impacted by the reduction in revenues and other changes in the timing of payments pertaining to operating expenses, which can cause operating cash flow to fluctuate from period to period.

In addition, the Company paid net cash taxes of $0.5 million and $0.3 million, for the three months ended March 31, 2020 and 2019, respectively.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2020 was $8.4 million, consisting primarily of capital expenditures of $7.7 million for internal-use software and website development costs and purchases of software and equipment and $0.7 million paid to acquire the rights to distribute certain digital content in perpetuity.

Cash used in investing activities in the three months ended March 31, 2019 was $5.3 million, consisting primarily of capital expenditures of $7.3 million for internal-use software and website development costs and purchases of software and equipment, partially offset by $2.5 million of cash received during the three months ended March 31, 2019 from escrowed funds related to the sale of Webdam, our former digital asset management business, which was sold in February 2018.

Financing Activities

Cash used in financing activities in the three months ended March 31, 2020 was $7.8 million, consisting primarily of $6.0 million related to the payment of the quarterly cash dividend and $1.8 million, which was 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, 2019 was $3.9 million, consisting primarily of $4.1 million, which was paid in settlement of tax withholding obligations related to employee stock-based compensation awards. These amounts were partially offset by proceeds of approximately $0.2 million from the issuance of common stock in connection with the exercise of stock options.

Contractual Obligations and Commitments

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

On March 21, 2013, we entered into an operating lease agreement to lease our headquarters in New York City, which was amended in 2016. The aggregate undiscounted future minimum lease payments under the lease, as amended, are approximately $60.6 million. We are also party to a letter of credit as a security deposit for this leased facility, which was reduced from $2.6 million to $1.7 million in February 2020. As of March 31, 2020, the Company is no longer required to provide cash collateral for its letter of credit, and, accordingly, these funds are no longer restricted.

Additionally, as of March 31, 2020, aggregate undiscounted future minimum lease payments under other operating leases are approximately $9.9 million.

We enter into unconditional purchase obligations related to contracts for cloud-based services, infrastructure and other business services as well as minimum royalty guarantees in connection with certain content licenses. As of March 31, 2020, our guaranteed royalty payments and unconditional purchase obligations for the remainder of 2020 and for the fiscal years ending December 31, 2021 and 2022 were approximately $20.5 million, $16.4 million and $4.4 million, respectively.

Off-Balance Sheet Arrangements

As of March 31, 2020, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign Currency Exchange Risk

Our sales to international customers are denominated in multiple currencies, including but not limited to the U.S. dollar, the euro, the British pound, the Australian dollar and the Japanese yen. Revenue denominated in foreign currencies as a percentage of total revenue was approximately 36% and 35% for the three months ended March 31, 2020 and 2019, 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, 2020, we estimate that a 10% change in the exchange rate of the U.S. dollar against all foreign currency denominated revenues would result in an approximately 3% impact on our revenue.

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

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

	Three Months Ended March 31,			
	2020		2019	
	U.S. Dollars	Originating Currency	U.S. Dollars	Originating Currency
Euro	$ 33,692	€ 30,378	$ 33,075	€ 28,671
British pounds	12,203	£ 9,470	12,114	£ 9,256
All other non-U.S. currencies (1)	11,795		11,761	
Total foreign currency	57,690		56,950	
U.S. dollar	103,595		106,382	
Total revenue	$ 161,285		$ 163,332	

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

Interest Rate Fluctuation Risk

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

We did not have any long-term borrowings as of March 31, 2020.

Inflation Risk

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2020. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. However, any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objective.

Based on the evaluation of our disclosure controls and procedures as of March 31, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2019 Form 10-K, which could materially affect our business, financial condition or future results. During the three months ended March 31, 2020, there were no material changes to these risk factors as described in our 2019 Form 10-K except as noted below.

The effect of the COVID-19 pandemic on our operations, and the operations of our customers, partners and suppliers, could have a material adverse effect on our business, financial condition, cash flows and results of operations.

In December 2019, a novel coronavirus disease ("COVID-19") was initially reported and on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. COVID-19 has had a widespread and detrimental effect on the global economy as a result of the continued increase in the number of cases and affected countries and actions by public health and governmental authorities, businesses, other organizations and individuals to address the outbreak, including travel bans and restrictions, quarantines, shelter in place, stay at home or total lock-down orders and business limitations and shutdowns. The duration and severity of COVID-19 and the degree of its impact on our business is uncertain and difficult to predict. The continued spread of the outbreak could result in one or more of the following conditions that could have a material adverse impact on our business operations and financial condition: decreased business spending by our customers and prospective customers, reduced demand for our products, lower renewal rates by our customers; increased customer losses/churn; increased challenges in or cost of acquiring new customers; reduction in the amount of content uploaded by our contributors and/or reduction in the number of contributors on our site because of reduced royalties earned by our contributors; inability of our Custom contributors to complete assignments because of travel restrictions; increased competition; increased risk in collectability of accounts receivable; reduced productivity due to remote work arrangements; lost productivity due to illness and/or illness of family members; inability to hire key roles; adverse effects on our strategic partners' businesses; impairment charges; extreme currency exchange-rate fluctuations; inability to recover costs from insurance carriers; business continuity concerns for us and our third-party vendors; increased risk of privacy and cybersecurity breaches from increased remote working; and challenges with Internet infrastructure due to high loads. If we are not able to respond to and manage the potential impact of such events effectively, our business could be harmed.

As we generally recognize revenue from our customers as content is downloaded, the impact to our reported revenue resulting from recent and near-term changes in our sales activity due to COVID-19 may not be fully apparent until future periods. Our efforts to help mitigate the negative impact of the outbreak on our business may not be effective, and we may be affected by a protracted economic downturn. Furthermore, while many governmental authorities around the world have and continue to enact legislation to address the impact of COVID-19, including measures intended to mitigate some of the more severe anticipated economic effects of the virus, we may not benefit from such legislation or such legislation may prove to be ineffective in addressing COVID-19's impact on our and our customer's businesses and operations. Even after the COVID-19 outbreak has subsided, we may continue to experience impacts to our business as a result of the coronavirus' global economic impact and any recession that has occurred or may occur in the future. Further, as the COVID-19 situation is unprecedented and continuously evolving, COVID-19 may also affect our operating and financial results in a manner that is not presently known to us or in a manner that we currently do not consider to present significant risks to our operations.

In addition, the overall uncertainty regarding the economic impact of the COVID-19 pandemic and the impact on our revenue growth, could impact our cash flows from operations and liquidity. Material changes to our cash flows, liquidity and the volatility of the stock market and our stock price could impact our capital allocation strategy, including our recently introduced quarterly dividend program and our outstanding authorization under our stock repurchase program.

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	Mutual Separation Agreement and General Release, dated February 25, 2020, between the Company and Lisa Nadler
10.2	Mutual Separation Agreement and General Release, dated March 23, 2020, between the Company and Lou Weiss (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 15, 2020 (File No. 001-35699))
31.1#	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2#	Certification of Interim 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 Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Filed herewith.

SIGNATURES

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

SHUTTERSTOCK, INC.

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

Confidential Separation Agreement and General Release
Dated as of February 25, 2020

Lisa Nadler
XXXXXXXXX
XXXXXXXXX

Dear Lisa,

When signed below in the places indicated, the following shall constitute an agreement (the "Agreement") between you ("you" or "Executive") and Shutterstock, Inc. ("Shutterstock" or the "Company"). Please initial and date each page of this Agreement where indicated in the footer.

WHEREAS, the Executive is a party to an Amended and Restated Employment Agreement with the Company dated November 5, 2019 (the "Employment Agreement");

WHEREAS, pursuant to the Employment Agreement, the Executive has been employed as the Chief Human Resources Officer;

WHEREAS, the Parties wish to document the Executive's separation from the Company and establish the terms of the Executive's severance arrangement;

NOW, THEREFORE, in consideration of the promises and conditions set forth herein, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows

1. Your employment will terminate no later than the close of business on March 27, 2020 (the "Separation Date"). You will be paid your current salary and accrued benefits, including accrued paid time off, through the close of business on the Separation Date. As of the Separation Date, all salary payments from the Company will cease and any benefits the Executive had as of the Separation Date under Company-provided benefit plans, programs, or practices will terminate, except as required by federal or state law or as otherwise provided in this Agreement, incorporating by reference as necessary any related agreements (including without limitation the stock option plan, 401K and medical benefits as provided under Company plans).

2. **Severance** . Provided the Executive executes this Agreement and does not revoke acceptance of this Agreement as set forth in Section 4(b) of this Agreement, the Company will provide the Executive with the following severance benefits (the "Severance Benefits"):

    a. **Severance Pay** : Commencing on sixtieth day after the Separation Date, the Company shall pay an amount equal to the Executive's base salary, at the rate in effect immediately prior to the Separation Date, less all required tax withholdings and other applicable deductions, in substantially equal installments for a period of twelve (12) months following the Separation Date, which installments shall be paid in accordance with the Company's regular payroll procedures; provided, however, that any such installments otherwise payable during the 60 day period immediately following the Separation Date shall be paid to you in the first payroll cycle after the sixtieth day following the Separation Date.

b. **COBRA** : If you elect continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (" ***COBRA*** ") for you and your eligible dependents, within the time period prescribed pursuant to COBRA, the Company will reimburse you for the COBRA premiums for such coverage (at the coverage levels in effect immediately prior to Employee's termination or resignation) until the earlier of (A) twelve]months from the Separation Date, or (B) the date upon which you and/or your eligible dependents become covered under similar plans. COBRA reimbursements will be made by the Company to you consistent with the Company's normal expense reimbursement policy and will be taxable to the extent required to avoid adverse consequences to Employee or the Company under either Code Section 105(h) or the Patient Protection and Affordable Care Act of 2010.

c. **Equity** : Except as described below for any outstanding Performance Stock Unit awards, one hundred percent (100%) of Executive's unvested and outstanding equity awards that would have become vested had Executive remained in the employ of the Company for the twelve (12)-month period following the Separation Date shall immediately vest and become exercisable. The acceleration of vesting shall occur on the Effective Date (as defined below). In accordance with the terms of the applicable award agreement, the Executive will remain eligible to vest in a pro-rata portion of those unvested performance stock units granted to the Executive on April 1, 2019 that are determined to vest in the normal course for such award's second performance year under the terms of the applicable award agreement. In no event may any equity award be exercised beyond the earlier of (x) the original maximum term of such equity award (unrelated to termination), and (y) ten (10) years from the original grant date of such equity award. For the sake of clarity, as of the Separation Date, Executive shall cease to be a Service Provider for purposes of the applicable Equity Plan and award agreements.

d. **Additional Equity** : The Company agrees to accelerate the vesting of 2,888 restricted stock units that are scheduled to vest on April 1, 2021. The acceleration of vesting shall occur on the Effective Date.

3. If this Agreement does not become effective and irrevocable by the sixtieth (60th) day following the Separation Date, Executive will forfeit and will not be entitled to any of the severance benefits set forth herein, including those under Paragraph 2.

4. **OWBPA .** This Agreement is intended to satisfy the requirements of the Older Workers' Benefit Protection Act (the "OWBPA"), 29 U.S.C. sec. 626(f).

i. You acknowledge and agree that (i) you have read and understand the terms of this Agreement; (ii) you are advised to consult with an attorney before executing this Agreement, and you have been represented by legal counsel in connection with the signing of this Agreement or you have waived your right to such representation; (iii) you understand that the Company hereby gives you a period of twenty-one (21) days to review and consider this Agreement before signing it. You further understand that you may use as much of this review and consideration period as you wish prior to signing. The Executive understands that she may revoke this Agreement for a period of seven (7) days after she signs each respective agreement, and that neither agreement shall be

Initials: /s/ LN
Date: March 27, 2020

effective or enforceable until the expiration of each respective seven (7) day revocation period. Changes to this Agreement, material or otherwise, will not extend the aforementioned review and consideration period. You also agree and acknowledge that the consideration provided to you under this Agreement is in addition to anything of value to which you are already entitled.

ii. You may revoke this Agreement for a period of seven (7) days following the day you sign same (the "Revocation Period"). Any revocation must be submitted, in writing, to Shutterstock, Inc. 350 Fifth Avenue, 21 st Floor, New York, New York 10118 Attention: General Counsel, and must state, "I hereby revoke my acceptance of my Separation Agreement and General Release". This Agreement shall not become effective or enforceable until the expiration of the Revocation Period (the "Effective Date"). If the last day of the Revocation Period is a Saturday, Sunday or such legal holiday, then the Revocation Period shall not expire until the next following day which is not a Saturday, Sunday or legal holiday. If you revoke this Agreement, it shall not be effective or enforceable, and you will receive no further benefits under this Agreement.

iii. Preserved Rights of Executive. This Agreement does not waive or release any rights or claims that you may have under the Age Discrimination in Employment Act of 1967 (the "ADEA") that arise after your execution of this Agreement. In addition, this Agreement does not prohibit you from challenging the validity of this Agreement's waiver and release of claims under the ADEA or the OWBPA or commencing an arbitration to enforce this Agreement, in accordance with Paragraph 16 below.

2. **No Other Compensation** . Except as expressly set forth in this Agreement, Executive shall not be entitled to any other compensation or benefits, including but not limited to salary, front pay, back pay, vacation pay, severance, commissions or bonuses from Releasees, as defined below, with respect to your employment with or termination from Shutterstock. The severance payments and benefits provided for in this Paragraph 2 shall be subject to the provisions of Section 6(a) of the Employment Agreement and such provisions are hereby incorporated herein.

3. **Release** .

i. For and in consideration of the payments and benefits enumerated in Paragraph 2, and for other valuable consideration to be provided to Executive pursuant to this Agreement, the receipt and sufficiency of which you hereby acknowledge, you, for yourself, your heirs, executors, administrators, trustees, legal representatives, successors and assigns (collectively referred to as "Releasors"), hereby forever release and discharge Shutterstock and any of its employees, officers, shareholders, investors, subsidiaries, joint ventures, affiliates, divisions, employee benefit and/or pension plans or funds, successors and assigns and any of their past, present or future directors, officers, attorneys, agents, trustees, administrators, employees, or assigns (whether acting as agents or in their individual capacities) (collectively referred to as "Releasees"), from any and all claims, demands, causes of action, contracts, suits, proceedings, debts, damages and liabilities, in law or equity, known or unknown, whether asserted or not, arising out of or relating to your employment by or performance of services for Shutterstock or the termination of such employment or services, including without limitation any claims relating to a wrongful, premature or

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discriminatory termination of your employment and/or any and all claims under any and all federal, state or local laws including, but not limited to the fair employment practice laws of all jurisdictions, states, municipalities and localities, including, but not limited to Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. **§** 2000 et seq ., the Civil Rights Act of 1991, the Older Workers Benefit Protection Act, the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C **. §** 621 et seq ., the Americans With Disabilities Act of 1990, 42 U.S.C. **§** 12101 et seq ., the Consolidated Omnibus Budget Reconciliation Act of 1985, the Immigration Reform and Control Act of 1986, the Civil Rights Act of 1866, 42 U.S.C. **§** 1981, the Employee Retirement Income Security Act of 1974; the Family and Medical Leave Act of 1993, the Genetic Information Non-Discrimination Act of 2008; the Worker Adjustment and Retraining Notification Act, 29 U.S.C. **§** 2101 et seq ., the New York Executive Law, Article 15, **§** 290 et seq ., the New York State Labor Law, the New York City Human Rights law, the New York City Earned Sick Time Act; all as amended; and any claims relating to rights under federal, state or local laws prohibiting discrimination on the basis of race, color, creed, ancestry, national origin, age, sex, or other basis prohibited by law, and any other applicable federal, state or local laws or regulations. You expressly waive any and all entitlement you have now, to any relief, such as back pay (to the exclusion of any references in this Agreement), front pay, reinstatement, compensatory damages, punitive damages, as well as all claims, demands, causes of action, and liabilities of any kind whatsoever (upon any legal or equitable theory, whether contractual, common-law, statutory, federal, state, local or otherwise including but not limited to tortious conduct), whether known or unknown, by reason of any act, omission, transaction or occurrence which Releasors ever had, now have or hereafter can, shall or may have arising out of your employment or separation from employment with Shutterstock against the Releasees up to and including the date of your execution of this Agreement. Notwithstanding the foregoing, you will not release or discharge the Releasees from any of Shutterstock's obligations to you under or pursuant to (1) Paragraph 1 and/or 2 of this Agreement (or any benefit plans referenced therein), (2) any tax qualified pension plan of Shutterstock pertaining to vested and accrued benefits, or (3) any obligations of indemnification in your capacity as an employee, officer or director of the Company, whether under insurance policies, contract, Company by-laws or certification of incorporation or under applicable law.

ii. Executive understands and agrees that this is a full and general release covering all unknown, undisclosed and unanticipated losses, wrongs, injuries, debts, claims or damages to you which may have arisen, or may arise from any act or omission prior to the date of your execution of this Agreement, including, without limitation, any claim arising out of or related, directly or indirectly, to your employment, compensation or termination of employment, as well as those losses, wrongs, injuries, debts, claims or damages now known or disclosed which may arise as a result of any act or omission as described above.

iii. The Company hereby fully, forever, irrevocably and unconditionally releases, remises and discharges the Executive from any and all claims arising out of acts undertaken by the Executive in good faith and in a manner the Executive reasonably believed to be in or not opposed to the best interests of the Company; provided, however, that this release does not include any claims arising out of or related to any fraudulent, criminal, or willful misconduct by the Executive.

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a. Executive acknowledges that no representations have been made to you by the Company (other than in this Agreement) about the benefits that the Company might or might not offer in the future.

b. **Continuing and Post-Employment Obligations** .

   i. **Return of Property** . Executive agrees that by the termination of employment, or as soon thereafter as possible, you will return to the Company all Releasees' credit cards, files, memoranda, documents, records and copies of the foregoing, keys, all storage media containing Releasees' information and any other property of the Releasees in your possession. You represent and warrant that as of the termination of your employment, or as soon thereafter as possible, you will have deleted all files, memoranda, documents and/or records containing Releasees' information from any computer or storage device which you have utilized which is not located on Company premises. The Company acknowledges and agrees that you may retain any documents in your possession concerning employee benefits and/or compensation and personal contacts.

   ii. **Non-Disclosure and Non-Competition** . You further agree not to disclose, nor use for your benefit or the benefit of any other person or entity, any information received in connection with the Releasees which is confidential or proprietary and (i) which has not been disclosed publicly by the Releasees, (ii) which is otherwise not a matter of public knowledge or (iii) which is a matter of public knowledge but you know or have reason to know that such information became a matter of public knowledge through an unauthorized disclosure. You further understand and acknowledge that you continue to be bound by the Shutterstock, Inc. Employee Non-Disclosure, Non-Compete and Non-Solicitation Agreement executed by you on February 16, 2018 (the "Employee Obligations Agreement").

   iii. **Non-Solicitation** . In addition to the non-solicitation obligations set forth in Paragraph 10 of the Employee Obligations Agreement, for a period of one (1) year following the Separation Date hereof, you shall not, without the prior written consent of the Company's Chief Human Resources Officer: (a) directly or indirectly solicit or employ (or encourage any company or business organization in which you are an officer, manager, employee, partner, director, consultant or member, to solicit or employ) or (b) refer to any employee search firms, any person who was employed by the Company on the Separation Date. This Non-Solicitation provision does not, however, restrict any company or business organization in which you are an officer, manager, employee, partner, director, consultant or member from employing or engaging as an independent contractor, any such person whose employment or engagement you have not directly or indirectly solicited or encouraged, including but not limited to general job postings that are not directed to any person who was employed by the Company on the Separation Date.

   iv. **Non-Disparagement** .

      1. You will not disparage Releasees, or issue any communication, written or otherwise, that reflects adversely on or encourages any adverse action against Releasees, except: (a) if testifying truthfully under oath pursuant to any lawful

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court order or subpoena, (b) otherwise responding to or providing disclosures required by law, or (c) while engaging in the activities referenced in Paragraph 10 of this Agreement. This includes any statement to or response to an inquiry by any member of the press or media, whether written, verbal, electronic, or otherwise. Nothing herein shall prevent you from including your employment with Shutterstock on your resume.

2. The Company shall direct its Executive Leadership Team (specifically: Jon Oringer, Stan Pavlovsky, Heidi Garfield and Jarrod Yahes) not to disparage or induce or encourage others to disparage you at any time and that such conduct is prohibited.

3. You shall direct any potential employer seeking a reference or employment verification to Shutterstock's Human Resources Department, in response to which the Company shall state (a) dates of your employment, (b) last position held, and (c) that it is the Company's policy to only provide these details.

v. **Future Employment.** Unless otherwise determined by the Company, you shall not apply for or seek employment with the Company, and you waive and release any right to be considered for such employment.

vi. **Cooperation** . You agree to cooperate fully in any investigation Releasees undertake into matters occurring during your employment with the Company. Additionally, you agree that when requested by Releasees or third parties with Releasees' consent ("Designated Third Parties"), you will promptly, as is reasonable under the circumstances, and fully respond to all inquiries from Releasees, Designated Third Parties and its/their representatives concerning matters relating to Releasees including but not limited to any claims or lawsuits by or against Releasees or any third parties. Furthermore, you agree to testify in matters related to Releasees when requested by Releasees or Designated Third Parties and, for all matters which are not adverse to you, the Company shall reimburse your reasonable preapproved out-of-pocket expenses incident to such cooperation and provide counsel at the Company's sole expense on your behalf. In the event that you would prefer to have your own counsel, you may do so at your own cost and expense.

c. [Intentionally Omitted] .

d. Nothing in this Agreement shall prohibit or restrict you (or your attorney) without prior notice to Releasees from filing a charge, testifying, assisting, or participating in any manner in an investigation, or proceeding; responding to any inquiry; or making protected disclosures to, or otherwise communicating with, any administrative or regulatory agency or authority, including, but not limited to, the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the Commodity Futures Trading Commission (CFTC), the Consumer Financial Protection Bureau (CFPB), the US Department of Justice (DOJ), the US Congress, any agency Inspector General, the Equal Employment Opportunity Commission (EEOC) and the National Labor Relations Board (NLRB). Pursuant to the Defend Trade Secrets Act of 2016, an individual may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (a) is made (i) in confidence to a federal,

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state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. Further, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the employer's trade secrets to the attorney and use the trade secret information in the court proceeding if the individual: (a) files any document containing the trade secret under seal; and (b) does not disclose the trade secret, except pursuant to court order .

e. Confidentiality . To the extent permitted by law, you agree not to disclose the terms, contents or execution of this Agreement, the claims that have been or could have been raised against Releasees, or the facts and circumstances underlying this Agreement, except you may make such disclosures: (a) to your immediate family, tax advisors, or taxing authorities, so long as such person or entity agrees to be bound by the confidential nature of this Agreement; (b) to your legal counsel; (c) pursuant to the order of a court; (d) while engaging in the activities referenced in Paragraph 10 of this Agreement; (e) as required by applicable law; and/or (f) for purposes of securing enforcement of the terms and conditions of this Agreement, should that ever be necessary.

f. Section 409A . The Company may deduct or withhold from any compensation or benefits any applicable federal, state or local tax or employment withholdings or deductions resulting from any payments or benefits provided under this Agreement. In addition, it is the Company's intention that all payments or benefits provided under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), including without limitation the six month delay for payments of deferred compensation to "key employees" upon separation from service pursuant to Section 409A(a)(2)(B)(i) of the Code (if applicable), and this Agreement shall be interpreted, administered and operated accordingly. If under this Agreement an amount is to be paid in installments, each installment shall be treated as a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii). Notwithstanding anything to the contrary herein, the Company does not guarantee the tax treatment of any payments or benefits under this Agreement, including without limitation under the Code, federal, state, local or foreign tax laws and regulations. In no event may you, directly or indirectly, designate the calendar year of any payment under this Agreement. In the event the period of notice and payment referenced in Section 2 of this Agreement ends in the taxable year following your termination of employment, any severance payment or deferred compensation payment shall be paid or commence in such subsequent taxable year if required under Section 409A of the Code.

g. No Admission . The parties agree that this Agreement shall not constitute or operate as an acknowledgment or admission of any kind by Releasees that they have violated any federal, state, local or municipal statute, regulation or common law, or breached any other legal obligation or duty Releasees have or ever had to you.

h. Amendment; Successors . This Agreement shall be binding upon the Parties and may not be modified in any manner, except by an instrument in writing of concurrent or subsequent date signed by duly authorized representatives of the Parties hereto. This Agreement are binding upon and shall inure to the benefit of the Parties and their respective agents, assigns, heirs, executors, successors and administrators, including any corporation with which or into which

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the Company may be merged or which may succeed to its asserts or business. For the avoidance of doubt, the Executive's death or disability shall not affect his continued eligibility (or that of his estate, as applicable) to receive the Severance Benefits, subject to the terms and conditions of this Agreement.

i. **Waiver of Rights** . No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar to or waiver of any right on any other occasion.

j. **Acknowledgement** . By executing this Agreement, you affirm that you are competent and understand and accept the nature, terms and scope of this Agreement as fully resolving all differences and disputes between you and Releasees. Moreover, you acknowledge that by signing your name below you have read, understand and accept each of the terms of this Agreement, that you have had sufficient opportunity to review it, to consult with an attorney or other advisor (at your own expense), and have done so to the extent that you deem appropriate.

k. **Tax Acknowledgement** . In connection with the payments and consideration provided to the Executive pursuant to this Agreement, the Company shall withhold and remit to the tax authorities the amounts required under applicable law, and the Executive shall be responsible for all applicable taxes with respect to such payments and consideration under applicable law. The Executive acknowledges that she is not relying upon the advice or representation of the Company with respect to the tax treatment of any of the payments or benefits set forth in Paragraph 2 of this Agreement

l. **Entire Agreement** . Except for the Employee Obligations Agreement, which shall remain in full force and effect, this is the entire Agreement between you and the Company. This Agreement may not be modified or canceled in any manner except by a writing signed by both you and an authorized Company official. You acknowledge that the Company has made no promises or representations to you other than those in this Agreement. It is not necessary that the Company sign this Agreement for it to become binding upon you. To the extent there is any conflict or inconsistency between any term of this Agreement and the Employee Obligations Agreement, the term which provides the greater benefit or protection to Releasees shall control.

m. **Jurisdiction and Arbitration** . This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York, without regard to conflicts of laws. In the event that either party believes that the other party has breached this Agreement, Executive and the Company hereby agree that such dispute shall be submitted to JAMS for confidential and binding arbitration before a single arbitrator at JAMS' offices in New York City, in accordance with JAMS' Employment Arbitration Rules & Procedures. No claims may be arbitrated on a class or collective basis. Both Executive and the Company expressly waive any right to submit, initiate, or participate in a representative capacity, or as a plaintiff, claimant or member in a class action, collective action or other representative or joint action, regardless of whether the action is filed in arbitration or in court. Notwithstanding the foregoing, either you or the Company may seek injunctive relief in a lawsuit filed in a court of competent jurisdiction in order to prevent irreparable harm or preserve the status quo. Any award pursuant to said arbitration shall be accompanied by a written opinion of the arbitrator setting forth the reason

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Date: March 27, 2020

for the award, including findings of fact and conclusions of law. The award rendered by the arbitrator shall be conclusive and binding upon the parties hereto, and judgment upon the award may be entered, and enforcement may be sought in, any court of competent jurisdiction. YOU UNDERSTAND THAT, ABSENT THIS AGREEMENT, YOU AND THE COMPANY WOULD HAVE THE RIGHT TO SUE EACH OTHER IN COURT, AND THE RIGHT TO A JURY TRIAL, BUT, BY THIS AGREEMENT, BOTH PARTIES GIVE UP THAT RIGHT.

n. **Counterparts** . This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The signatures of any party to a counterpart shall be deemed to be a signature to, and may be appended to, any other counterpart. Executed originals transmitted electronically as PDF files (or their equivalent) shall have the same force and effect as signed originals.

o. **Recital Paragraphs** . The recital paragraphs at the beginning of this Agreement are incorporated by reference as if fully set forth herein.

p. YOU ACKNOWLEDGE THAT YOU HAVE CAREFULLY READ THIS AGREEMENT, UNDERSTAND IT, AND ARE VOLUNTARILY ENTERING INTO IT OF YOUR OWN FREE WILL, WITHOUT DURESS OR COERCION, AFTER DUE CONSIDERATION OF ITS TERMS AND CONDITIONS. YOU FURTHER ACKNOWLEDGE THAT EXCEPT AS STATED IN THIS AGREEMENT, NEITHER THE COMPANY NOR ANY REPRESENTATIVE OF THE COMPANY HAS MADE ANY REPRESENTATIONS OR PROMISES TO YOU. YOU FURTHER ACKNOWLEDGE THAT YOU HAVE BEEN GIVEN AN OPPORTUNITY TO CONSULT WITH COUNSEL OF YOUR CHOICE BEFORE SIGNING THIS AGREEMENT. YOU UNDERSTAND THAT WHETHER OR NOT YOU DO SO IS YOUR DECISION.

q. Should any provision of this Agreement be declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

Executive provides this Agreement as of the current date and acknowledges that execution of this Agreement is in further consideration of Paragraph 2.a, to which Executive agrees you would not be entitled if you did not sign this Agreement.

Initials: /s/ LN
Date: March 27, 2020

Executive must sign and return this Agreement to Shutterstock Inc., Chief Human Resources Officer or a similarly designated representative, 350 Fifth Avenue, 21st Floor, New York, NY 10118 no 10118 no sooner than the date your employment ends and no later than the close of business on the third (3 rd) day following the Separation Date or irrevocably lose the right to receive the consideration detailed herein. Executive intends that this Agreement will become a binding agreement between Executive and the Company if you do not revoke your acceptance in seven (7) days.

Sincerely,
Shutterstock, Inc.

By: /s/ Stan Pavlovsky March 28, 2020
Stan Pavlovsky Date
Read, Agreed to and Accepted:

/s/ Lisa Nadler March 27, 2020
Lisa Nadler Date

Initials: /s/ LN
Date: March 27, 2020

EXHIBIT 31.1

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

I, Stan Pavlovsky, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 28, 2020

By: /s/ Stan Pavlovsky
Stan Pavlovsky
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Jarrod Yahes, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 28, 2020

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

EXHIBIT 32

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

In connection with the Quarterly Report on Form 10-Q of Shutterstock, Inc., for the quarterly period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stan Pavlovsky, as Chief Executive Officer of Shutterstock, Inc., hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shutterstock, Inc.

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

In connection with the Quarterly Report on Form 10-Q of Shutterstock, Inc., for the quarterly period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jarrod Yahes, as Chief Financial Officer of Shutterstock, Inc., hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shutterstock, Inc.

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