

Shutterstock, Inc.
Form 10-Q
November 04, 2016
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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 September 30, 2016

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 (I.R.S. Employer
incorporation or organization) Identification No.)

Shutterstock, Inc.
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)

Indicate by check mark whether 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 and posted on its corporate Web site, if any, 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

| Class | Outstanding at October 28, 2016 |
|--|---------------------------------|
| Common Stock, \$0.01 par value per share | 35,128,513 |

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SPECIAL NOTE ON 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, and Section 21E of the Securities Exchange Act of 1934, as amended, particularly in the discussions under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. These include statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features, products or services, or management strategies) based on our management’s current beliefs and assumptions. These forward-looking statements can be identified by words such as “may”, “will”, “would”, “should”, “could”, “expect”, “anticipate”, “believe”, “es”, “intend”, “plan” and other similar expressions. However, not all forward-looking statements contain these words. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our 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 24, 2016, and in our consolidated financial statements, related notes, and the other information appearing elsewhere in such report, as well as information appearing in this report on Form 10-Q and our other filings with the SEC. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may occur and it is not possible for us to predict them all. 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. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless the context otherwise indicates, references in this Quarterly Report on Form 10-Q and our other filings with the SEC to the terms “Shutterstock”, “the Company”, “we”, “our” and “us” refer to Shutterstock, Inc. and its subsidiaries. “Shutterstock”, “Bigstock”, “Offset”, “PremiumBeat”, “Rex Features” and “WebDAM” are registered trademarks or logos appearing in this Quarterly Report on Form 10-Q 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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Shutterstock, Inc.

Consolidated Balance Sheets

(In thousands, except par value amount)

(unaudited)

| | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 237,997 | \$ 241,304 |
| Short-term investments | 52,407 | 47,078 |
| Credit card receivables | 4,230 | 2,811 |
| Accounts receivable, net | 34,064 | 25,653 |
| Prepaid expenses and other current assets | 16,553 | 11,713 |
| Deferred tax assets, net | 6,654 | 7,116 |
| Total current assets | 351,905 | 335,675 |
| Property and equipment, net | 49,814 | 32,094 |
| Intangible assets, net | 30,763 | 29,781 |
| Goodwill | 50,523 | 50,934 |
| Deferred tax assets, net | 21,521 | 18,691 |
| Other assets | 2,807 | 1,946 |
| Total assets | \$ 507,333 | \$ 469,121 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 15,303 | \$ 6,816 |
| Accrued expenses | 39,126 | 30,696 |
| Contributor royalties payable | 19,286 | 17,822 |
| Income taxes payable | 845 | 953 |
| Deferred revenue | 117,877 | 98,239 |
| Other liabilities | 10,385 | 6,258 |
| Total current liabilities | 202,822 | 160,784 |
| Deferred tax liability, net | 2,199 | 3,778 |
| Other non-current liabilities | 8,967 | 15,994 |
| Total liabilities | 213,988 | 180,556 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value; 200,000 shares authorized; 36,854 and 36,146 shares issued and 35,115 and 35,686 shares outstanding as of September 30, 2016 and December 31, 2015, respectively | 368 | 361 |
| Treasury stock, at cost; 1,739 and 460 shares as of September 30, 2016 and December 31, 2015, respectively | (59,728 |) (15,635) |
| Additional paid-in capital | 244,333 | 213,851 |
| Accumulated comprehensive loss | (10,838 |) (6,449) |
| Retained earnings | 119,210 | 96,437 |
| Total stockholders' equity | 293,345 | 288,565 |
| Total liabilities and stockholders' equity | \$ 507,333 | \$ 469,121 |
| See Notes to Unaudited Consolidated Financial Statements. | | |

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Shutterstock, Inc.

Consolidated Statements of Operations

(In thousands, except for per share data)

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | \$123,073 | \$107,260 | \$364,144 | \$309,147 |
| Operating expenses: | | | | |
| Cost of revenue | 50,184 | 44,512 | 150,492 | 126,582 |
| Sales and marketing | 32,977 | 27,393 | 91,636 | 79,927 |
| Product development | 11,604 | 10,827 | 34,800 | 31,700 |
| General and administrative | 17,020 | 16,441 | 54,629 | 44,949 |
| Total operating expenses | 111,785 | 99,173 | 331,557 | 283,158 |
| Income from operations | 11,288 | 8,087 | 32,587 | 25,989 |
| Other income (expense), net | 102 | (767) | (122) | (3,386) |
| Income before income taxes | 11,390 | 7,320 | 32,465 | 22,603 |
| Provision for income taxes | 1,999 | 3,217 | 9,692 | 9,920 |
| Net income | \$9,391 | \$4,103 | \$22,773 | \$12,683 |
| Less: Undistributed earnings to participating stockholder | — | — | — | 2 |
| Net income available to common stockholders | \$9,391 | \$4,103 | \$22,773 | \$12,681 |
| Net income per share available to common stockholders: | | | | |
| Basic | \$0.27 | \$0.11 | \$0.65 | \$0.35 |
| Diluted | \$0.26 | \$0.11 | \$0.64 | \$0.35 |
| Weighted average shares outstanding: | | | | |
| Basic | 35,036 | 36,040 | 35,123 | 35,848 |
| Diluted | 35,824 | 36,270 | 35,855 | 36,269 |
| See Notes to Unaudited Consolidated Financial Statements. | | | | |

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Shutterstock, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)

(unaudited)

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|-----------------------------------|--|----------|---|----------|
| Net income | \$9,391 | \$4,103 | \$22,773 | \$12,683 |
| Foreign currency translation loss | (2,236) | (3,620) | (4,641) | (3,240) |
| Unrealized gain on investments | 34 | 13 | 252 | 30 |
| Other comprehensive loss | (2,202) | (3,607) | (4,389) | (3,210) |
| Comprehensive income | \$7,189 | \$496 | \$18,384 | \$9,473 |

See Notes to Unaudited Consolidated Financial Statements.

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Shutterstock, Inc.

Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$22,773 | \$12,683 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,181 | 10,363 |
| Deferred taxes | (3,453) | (4,587) |
| Non-cash equity-based compensation | 21,110 | 22,771 |
| Change in fair value of contingent consideration | 2,600 | 1,440 |
| Settlement of contingent consideration liability in excess of acquisition-date fair value | (1,640) | — |
| Tax effect from exercise/vesting of equity awards, net | 558 | (1,741) |
| Bad debt reserve | 3,338 | 1,165 |
| Chargeback and sales refund reserves | (15) | (215) |
| Changes in operating assets and liabilities: | | |
| Credit card receivables | (1,401) | (1,501) |
| Accounts receivable | (12,164) | (8,574) |
| Prepaid expenses and other current and non-current assets | (2,882) | 1,521 |
| Accounts payable and other current and non-current liabilities | 15,546 | 3,680 |
| Contributor royalties payable | 1,702 | 2,589 |
| Income taxes payable | (2,960) | 1,365 |
| Deferred revenue | 19,443 | 18,490 |
| Net cash provided by operating activities | \$76,736 | \$59,449 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (26,747) | (9,873) |
| Purchase of investments | (202,282) | (203,469) |
| Sale and maturities of investments | 197,100 | 205,851 |
| Acquisition of business, net of cash acquired | — | (62,379) |
| Acquisition of digital content | (6,214) | (2,192) |
| Security deposit (payment)/release | (799) | 93 |
| Net cash used in investing activities | \$(38,942) | \$(71,969) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Purchase of treasury shares | (44,916) | — |
| Proceeds from exercise of stock options | 8,235 | 6,881 |
| Proceeds from issuance of common stock under 2012 Employee Stock Purchase Plan | 809 | 1,052 |
| Settlement of contingent consideration liability | (2,360) | — |
| Tax effect from exercise/vesting of equity awards, net | (558) | 1,741 |
| Net cash (used in) provided by financing activities | \$(38,790) | \$9,674 |
| Effect of foreign exchange rate changes on cash | (2,311) | (1,000) |
| Net decrease in cash and cash equivalents | (3,307) | (3,846) |
| Cash and cash equivalents, beginning of period | 241,304 | 233,453 |
| Cash and cash equivalents, end of period | \$237,997 | \$229,607 |

Supplemental Disclosure of Cash Information:

| | | |
|----------------------------|----------|----------|
| Cash paid for income taxes | \$16,316 | \$11,737 |
|----------------------------|----------|----------|

See Notes to Unaudited Consolidated Financial Statements.

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Shutterstock, Inc.

Notes to Consolidated Financial Statements

(unaudited)

(1) Summary of Operations and Significant Accounting Policies

Summary of Operations

Shutterstock, Inc., together with its subsidiaries (collectively, the “Company” or “Shutterstock”), operates a global marketplace and is a leading provider of high-quality creative content including: (a) digital imagery, which consists of licensed photographs, vectors, illustrations and video clips that customers use in their visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and video content; and (b) commercial music, which consists of high-quality music tracks and sound effects, and is often used to complement the digital imagery. The Company licenses creative content to its customers. Contributors upload their creative content to the Company’s websites in exchange for royalty payments based on customer download activity. The Company also offers digital asset management services through its cloud-based digital asset management platform, WebDAM. This service provides tools for customers to better manage creative content and brand management assets.

In recent years, the Company has grown, in part, through acquisitions, most notably through the acquisition of WebDAM in 2014 and the acquisitions of Rex Features and PremiumBeat in 2015. The Company is headquartered in New York City with offices in Amsterdam, Berlin, Chicago, Dallas, Denver, London, Los Angeles, Montreal, Paris, San Francisco and Silicon Valley.

Basis of Presentation

The unaudited consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. 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 U.S. GAAP for complete financial statements. The interim consolidated balance sheet as of September 30, 2016, the consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2016 and 2015, and the consolidated statement of cash flows for the nine months ended September 30, 2016 and 2015 are unaudited. The consolidated balance sheet as of December 31, 2015, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures required by U.S. 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 only normal recurring adjustments necessary to state fairly the Company’s financial position as of September 30, 2016 and its consolidated results of operations, comprehensive income and cash flows for the three and nine months ended September 30, 2016 and 2015. 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 and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2016 or for any other future annual or interim period.

There have been no material changes in the significant accounting policies from those that were disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC on February 24, 2016. These financial statements should also be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2015.

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.

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Shutterstock, Inc.

Notes to Consolidated Financial Statements

(unaudited)

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the Company's management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. The Company evaluates its significant estimates on an ongoing basis, including, but not limited to allowance for doubtful accounts, sales refund reserve, accruals related to self-insurance, the fair value of goodwill, intangible assets and other long-lived assets, non-cash equity-based compensation, the fair value of contingent consideration, the provision for income taxes and the amount of certain non-income tax accruals. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Restricted Cash

The Company's restricted cash relates to security deposits for its office leases. As of September 30, 2016 and December 31, 2015, the Company had restricted cash of approximately \$2.6 million and \$1.8 million, respectively, in other assets that related to the lease for its headquarters in New York City, which expires in 2029. In January 2016, this lease was amended to provide additional space and extend the lease term, which required an increased security deposit. The carrying value of restricted cash approximates fair value.

Allowance for Doubtful Accounts

The Company's accounts receivable consist 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. As of September 30, 2016 and December 31, 2015, the Company's allowance for doubtful accounts was approximately \$6.2 million and \$3.8 million, respectively, which was included as a reduction of accounts receivable.

Deferred Rent

The Company records rent expense on a straight-line basis over the term of the related lease. The difference between the rent expense recognized and the actual payments made in accordance with the lease agreement is recognized as a deferred rent liability on the Company's balance sheet. As of September 30, 2016, the Company had deferred rent of \$8.1 million which was included in other non-current liabilities. As of December 31, 2015, the Company had deferred rent of \$8.0 million, of which \$0.7 million was included in other liabilities and \$7.3 million was included in other non-current liabilities.

Chargeback and Sales Refund Allowance

The majority of the Company's customers purchase products by making an electronic payment with a credit card at the time of a transaction. 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 both September 30, 2016 and December 31, 2015, the Company's combined allowance for chargebacks and sales refunds was \$0.7 million, which was included in other liabilities.

Medical Self-insurance Costs

The Company is partially self-insured for claims relating to employee medical benefit programs. The medical self-insurance program is administered by a third party and contains stop-loss provisions on both an individual claim basis and in aggregate. The Company records claims incurred as an expense each period, including an estimate of

claims incurred but not yet reported. The Company uses claims data and historical experience, as applicable, to estimate the liability for unreported claims and believes that the methodologies used to estimate insurance liabilities result in an accurate reflection of the liabilities as of the date of the balance sheet.

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Shutterstock, Inc.

Notes to Consolidated Financial Statements

(unaudited)

Contingent Consideration

The Company records a liability for contingent consideration at the date of a business combination and reassesses the fair value of the liability each period until it is settled. Upon settlement of these liabilities, the portion of the contingent consideration payment that is attributable to the initial amount recorded as part of the business combination is classified as a cash flow from financing activities and the portion of the settlement that is attributable to subsequent changes in the fair value of the contingent consideration is classified as a cash flow from operating activities in the consolidated statement of cash flows.

Income Taxes

The Company's income tax expense includes U.S. (federal and state) and foreign income taxes. Significant management judgment is required in projecting ordinary income in order to determine the Company's estimated effective tax rate.

The Company has assessed the realizability of deferred tax assets and determined that based on the available evidence, including a history of taxable income and estimates of future taxable income, it is more likely than not that the deferred tax assets will be realized. Quarterly, the Company will continue to evaluate its ability to realize deferred tax assets. Significant management judgment is required in determining the provision for income taxes and deferred tax assets and liabilities. In the event that actual results differ from these estimates, the Company will adjust these estimates in future periods, which may result in a change in the effective tax rate in a future period.

Recently Issued Accounting Standard Updates

In August 2016, the Financial Accounting Standards Board ("FASB") issued new guidance related to the statement of cash flows. The new guidance is intended to provide clarification and reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and should be applied retrospectively. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In June 2016, the FASB issued new guidance which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. The update 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 is evaluating the impact of adopting this new accounting standard on its financial statements.

In March 2016, the FASB issued new guidance related to stock-based compensation. The new standard changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as the classification of certain related items in the statement of cash flows. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective approach; amendments related to the recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively; and amendments related to the presentation of excess tax benefits on the statement of cash flows may be applied prospectively or retrospectively. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In February 2016, the FASB issued new guidance related to leases. The new standard requires that the rights and obligations created by leases with a duration greater than 12 months be recorded as assets and liabilities on the balance sheet of the lessee. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and can be applied using a modified retrospective approach for all leases entered into before the effective date. Early adoption is permitted. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In November 2015, the FASB issued new guidance related to income taxes. The new standard requires that all deferred tax assets and liabilities, and any related valuation allowance, be classified as non-current on the balance sheet. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, although early adoption is permitted and can be applied either prospectively or retrospectively to all periods presented. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

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Shutterstock, Inc.

Notes to Consolidated Financial Statements

(unaudited)

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and will eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB approved the deferral of the effective date of this guidance by one year. As a result, this new guidance will be effective for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company may choose to adopt the standard as of the original effective date for annual reporting periods beginning after December 15, 2016; if it does so, the Company is required to apply the standard beginning in the first interim period within the year of adoption. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

(2) Fair Value Measurements

The following tables present the Company's fair value hierarchy for its assets and liabilities (in thousands):

| | As of September 30, 2016 | | | |
|-------------------------------------|--------------------------|----------|----------|---------|
| | Aggregate Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Money market accounts | \$84,095 | \$84,095 | \$— | \$— |
| Commercial paper | 52,407 | — | 52,407 | — |
| Total assets measured at fair value | \$136,502 | \$84,095 | \$52,407 | \$— |

Liabilities:

| | | | | |
|--|---------|-----|-----|---------|
| Acquisition-related contingent consideration | \$9,700 | \$— | \$— | \$9,700 |
| Total liabilities measured at fair value | \$9,700 | \$— | \$— | \$9,700 |

As of December 31, 2015

| | Aggregate Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------------------------|----------------------|----------|----------|---------|
| Assets: | | | | |
| Money market accounts | \$89,153 | \$89,153 | \$— | \$— |
| Commercial paper | 47,078 | — | 47,078 | — |
| Total assets measured at fair value | \$136,231 | \$89,153 | \$47,078 | \$— |

Liabilities:

| | | | | |
|--|----------|-----|-----|----------|
| Acquisition-related contingent consideration | \$11,075 | \$— | \$— | \$11,075 |
| Total liabilities measured at fair value | \$11,075 | \$— | \$— | \$11,075 |

Money Market Accounts

Cash equivalents include money market accounts and are classified as a level 1 measurement based on quoted prices in active markets for identical assets that the reporting entity can access at the measurement date.

Commercial Paper

The Company's short-term investments consist of commercial paper with original maturity dates of 90 days or less, which are available to support current operations and are classified as available-for-sale securities. Commercial paper is classified as a level 2 measurement based on quoted market prices for identical assets, which are subject to infrequent transactions.

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Shutterstock, Inc.

Notes to Consolidated Financial Statements

(unaudited)

Short-term investments are summarized as follows (in thousands):

| | As of September 30, 2016 | As of December 31, 2015 |
|---|--------------------------------|-------------------------------|
| Commercial Paper: | | |
| Amortized cost | \$ 52,417 | \$ 47,084 |
| Unrealized gains | — | — |
| Unrealized losses | (10 |) (6 |
| Total short-term investments measured at fair value | \$ 52,407 | \$ 47,078 |

Acquisition-Related Contingent Consideration

The Company reassesses the fair value of contingent consideration to be settled in cash related to certain of the Company's acquisitions using the Black-Scholes model until the settlement amount of the cash flow is determinable. These contingencies are considered level 3 measurements. Significant assumptions used in measuring the fair value include probabilities of achieving certain revenue milestones based on the Company's expectations and a discount rate which is based on an unobservable input that is supported by little or no market activity.

As of December 31, 2015, the settlement amount of the contingent consideration related to the Company's acquisition of WebDAM was determined to be \$4.0 million and was included in other liabilities. No changes in fair value were recorded during the nine months ended September 30, 2016. The contingent consideration of \$4.0 million was paid in April 2016, and there was no remaining liability as of September 30, 2016.

During the first quarter of fiscal 2016, the settlement amount of the contingent consideration related to the PremiumBeat acquisition was determined to be \$10.0 million, which will be paid during 2017. As of September 30, 2016, the present value of the amount to be paid was \$9.7 million and was included in other liabilities. As of December 31, 2015, the fair value of the contingent consideration was \$7.1 million, and was included in other non-current liabilities.

Other Fair Value Measurements

Cash, accounts receivable, restricted cash, accounts payable, accrued expenses and deferred revenue carrying amounts 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 certain triggering events occur, or if an annual impairment test is required and the Company is required to evaluate the non-financial asset for impairment, a resulting asset impairment would require that non-financial assets be recorded at fair value.

(3) Property and Equipment

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

| | As of September 30, 2016 | As of December 31, 2015 |
|---------------------------------|--------------------------------|-------------------------------|
| Computer equipment and software | \$ 55,628 | \$ 37,502 |
| Furniture and fixtures | 3,329 | 2,933 |
| Leasehold improvements | 18,769 | 14,471 |
| Property and equipment | 77,726 | 54,906 |
| Less accumulated depreciation | (27,912 |) (22,812 |
| Property and equipment, net | \$ 49,814 | \$ 32,094 |

Depreciation expense related to property and equipment was \$3.9 million and \$2.6 million for the three months ended September 30, 2016 and 2015, respectively, and \$10.4 million and \$6.9 million for the nine months ended September 30, 2016 and 2015, respectively. Depreciation expense is included in cost of revenue and general and administrative expense based on the nature of the asset being depreciated.

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Capitalized Internal-Use Software

The Company capitalized costs related to the development of internal-use software of \$6.5 million and \$0.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$12.8 million and \$0.6 million for the nine months ended September 30, 2016 and 2015, respectively. Capitalized amounts are included as a component of property and equipment under computer equipment and software.

The portion of total depreciation expense related to capitalized internal-use software was \$1.0 million and \$0.1 million for the three months ended September 30, 2016 and 2015, respectively, and \$2.1 million and \$0.3 million for the nine months ended September 30, 2016 and 2015, respectively. Depreciation expense related to capitalized internal-use software is included in cost of revenue and general and administrative expense.

As of September 30, 2016 and December 31, 2015, the Company had capitalized internal-use software of \$14.5 million and \$3.9 million, respectively, net of accumulated depreciation, which was included in property and equipment, net.

(4) Goodwill, Intangible Assets and Acquisition Activity**Goodwill**

The Company's goodwill balance is attributable to its Bigstock, Editorial, Music and WebDAM reporting units and is tested for impairment at least annually on October 1 or upon a triggering event. Bigstock, Music and Editorial are included in the Company's "Content Business" reporting segment while WebDAM is included in the non-reportable "Other Category". The following table summarizes the changes in the Company's goodwill balance by reportable and non-reportable segments through September 30, 2016 (in thousands):

| | Consolidated | Content Business | Other Category |
|--|--------------|------------------|----------------|
| Balance as of December 31, 2015 | \$ 50,934 | \$ 42,171 | \$ 8,763 |
| Foreign currency translation adjustment (411) | (411) | (411) | — |
| Balance as of September 30, 2016 | \$ 50,523 | \$ 41,760 | \$ 8,763 |

No triggering events were identified during the nine months ended September 30, 2016.

Intangible Assets

Intangible assets consisted of the following as of September 30, 2016 and December 31, 2015 (in thousands):

| | As of September 30, 2016 | | | As of December 31, 2015 | | |
|-------------------------------|-----------------------------|-----------------------------|-------------------------------------|-----------------------------|-----------------------------|--|
| | Gross Carrying Amount | Accumulated Amortization | Weighted Average Life (Years) | Gross Carrying Amount | Accumulated Amortization | |
| Amortizing intangible assets: | | | | | | |
| Customer relationships | \$17,366 | \$ (3,950) | 9 | \$19,523 | \$ (3,089) | |
| Trade name | 6,993 | (1,851) | 7 | 7,111 | (1,188) | |
| Developed technology | 3,364 | (1,773) | 4 | 3,734 | (1,129) | |
| Contributor content | 11,411 | (1,083) | 11 | 5,138 | (567) | |
| Patents | 222 | (49) | 18 | 193 | (40) | |
| Domain name | 160 | (47) | 11 | 120 | (25) | |
| Total | \$39,516 | \$ (8,753) | | \$35,819 | \$ (6,038) | |

Amortization expense was \$1.2 million and \$1.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$3.8 million and \$3.5 million for the nine months ended September 30, 2016 and 2015, respectively. The Company determined that there was no indication of impairment of the intangible assets for any period presented. Estimated amortization expense for the next five years is: \$1.3 million for the remaining three months of 2016,

\$5.3 million in 2017, \$4.4 million in 2018, \$4.3 million in 2019, \$3.6 million in 2020, \$3.2 million in 2021 and \$8.6 million thereafter.

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Acquisition Activity

The Picture Desk

On September 1, 2016, the Company acquired content assets and intellectual property of The Picture Desk Limited, which includes over 700,000 images from two image collections: The Art Archive and The Kobal Collection, pursuant to an asset purchase agreement. The total purchase price consisted of a cash payment of \$3.9 million including transaction costs, which has been recorded as an addition to intangible assets, of which \$0.3 million has been recorded under trade name with an estimated useful life of 7 years, and the remainder has been recorded under contributor content with an estimated useful life of 15 years.

Rex Features

On January 19, 2015, the Company acquired all of the shares of Rex Features (Holdings) Limited, or Rex Features, pursuant to a stock purchase agreement. The total purchase price consisted of a cash payment of \$32.7 million subject to certain working capital adjustments. The transaction was accounted for using the acquisition method and, accordingly, the results of the acquired business have been included in the Company's results of operations from the acquisition date.

Goodwill related to the acquisition of Rex Features is attributable to its ability to serve as the foundation of the Company's editorial offering, serving as a base for accelerating the growth of the offering by leveraging Rex Features' editorial expertise and the Company's technical capabilities and position in the marketplace, and is not deductible for tax purposes.

PremiumBeat

On January 22, 2015, the Company acquired substantially all of the assets and certain liabilities of Arbour Interactive, Inc., or PremiumBeat, pursuant to an asset purchase agreement. The total purchase price of \$35.4 million consisted of a cash payment of \$31.7 million and \$3.7 million in contingent consideration based on certain performance criteria. As of September 30, 2016, the fair value of the contingent consideration related to the PremiumBeat acquisition was \$9.7 million, which represents the present value of the amount that will be paid, and is included in other liabilities. During the nine months ended September 30, 2016, the Company recorded a change in the fair value of the contingent consideration in the amount of \$2.6 million, of which \$1.0 million was recorded as a component of other (expense) income, net related to the passage of time and \$1.7 million was recorded as a component of general and administrative expense related to a modification of the terms of the contingent consideration agreement. The transaction was accounted for using the acquisition method and, accordingly, the results of the acquired business have been included in the Company's results of operations from the acquisition date.

Goodwill related to the acquisition of PremiumBeat is attributable to expected synergies from future growth and the ability to accelerate the growth of the Company's music offering by leveraging PremiumBeat's experience in the music market, and is deductible for tax purposes.

2015 Acquisition Activity

The fair value of consideration transferred in the acquisitions of Rex Features and PremiumBeat was allocated to the intangible and tangible assets acquired and liabilities assumed at the acquisition date, with the remaining unallocated amount recorded as goodwill. The fair values of intangible assets were determined primarily using the income approach.

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The aggregate purchase price was allocated to the assets acquired and liabilities assumed as follows (in thousands):

| | Acquisition Activity |
|----------------------------------|-------------------------|
| Assets acquired: | |
| Cash | \$ 1,525 |
| Accounts receivable | 2,908 |
| Other assets | 1,319 |
| Fixed assets | 297 |
| Intangible assets ⁽¹⁾ | 27,433 |
| Goodwill | 44,767 |
| Deferred tax asset | 229 |
| Total assets acquired | \$ 78,478 |
| Liabilities assumed: | |
| Accounts payable | \$ (253) |
| Contributor payable | (3,145) |
| Accrued expenses | (2,431) |
| Deferred revenue | (23) |
| Deferred tax liability | (4,454) |
| Total liabilities assumed | \$ (10,306) |
| Total | \$ 68,172 |

(1) Identifiable intangible assets include customer relationships, trade names, developed technology and content libraries and are being amortized on a straight-line basis over a weighted average life of approximately eight years. As a result of the acquisitions of Rex Features and PremiumBeat, the Company recorded \$0.4 million of professional fees in the nine months ended September 30, 2015. There were no professional fees related to these acquisitions in the three and nine months ended September 30, 2016 or the three months ended September 30, 2015. The professional fees are included in general and administrative expense.

Pro forma results of operations have not been presented because the effect of these business combinations was not material to the Company's pro forma consolidated results of operations for any of the periods presented.

(5) Accrued Expenses

Accrued expenses consist of the following (in thousands):

| | As of September 30, 2016 | As of December 31, 2015 |
|--------------------------|--------------------------------|-------------------------------|
| Compensation | \$ 10,186 | \$ 8,995 |
| Non-income taxes | 6,831 | 7,095 |
| Royalty tax withholdings | 6,768 | 6,439 |
| Payroll tax withholdings | 4,476 | 426 |
| Professional fees | 2,428 | 902 |
| Marketing expenses | 542 | 237 |
| Other expenses | 7,895 | 6,602 |
| Total accrued expenses | \$ 39,126 | \$ 30,696 |

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(6) Commitments and Contingencies

The Company leases facilities under agreements accounted for as operating leases. Rental expense for operating leases was \$2.1 million and \$1.2 million for the three months ended September 30, 2016 and 2015, respectively, and \$5.0 million and \$3.6 million for the nine months ended September 30, 2016 and 2015, respectively. Some leases have defined escalating rent provisions, which are expensed over the term of the related lease on a straight-line basis commencing with the date of possession. Any rent allowance or abatement is netted in this calculation. All leases require payment of real estate taxes and operating expense increases.

In 2016, the Company's lease for its office facility in New York City was amended to, among other things, provide for the lease of approximately 25,000 square feet of additional office space and extend the term of the lease. In connection with the underlying lease agreement, the Company entered into a letter of credit as a security deposit for the leased facilities, which was increased to \$2.6 million in connection with the January 2016 amendment. The letter of credit was collateralized by \$2.6 million of cash as of September 30, 2016, which is recorded as restricted cash and is included in other assets in the consolidated balance sheet. As amended, the lease is scheduled to expire in 2029 and aggregate future minimum payments under the amended lease are approximately \$83.8 million.

Capital Expenditures

As of September 30, 2016, the Company had outstanding commitments to purchase approximately \$0.2 million of data servers and other equipment related to the expansion of its existing business and infrastructure.

Other Obligations

As of September 30, 2016, the Company had other obligations in the amount of approximately \$26.9 million, which consisted primarily of minimum royalty guarantees and unconditional purchase obligations related to contracts for infrastructure and other business services. As of September 30, 2016, the Company's other obligations for the remainder of 2016 and for the years ending December 31, 2017, 2018, 2019 and 2020 were approximately \$1.2 million, \$9.7 million, \$8.1 million, \$4.0 million and \$3.8 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, as such, no material reserves related to litigation.

Indemnification

In the ordinary course of business, the Company enters into contractual agreements 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 an image is used. The Company's license agreements generally cap indemnification obligations at amounts ranging from \$10,000 to \$250,000, with certain exceptions for which the Company's indemnification obligations are uncapped. As of September 30, 2016, the Company had recorded no material liabilities related to indemnification obligations in accordance with the authoritative guidance for loss contingencies. Additionally, the Company believes that it has the appropriate insurance coverage in place to adequately cover such indemnification obligations, if necessary.

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Employment Agreements and Indemnification Agreements

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

(7) Stockholders' Equity and Equity-Based Compensation**Stockholders' Equity****Common Stock**

During the nine months ended September 30, 2016, the Company issued approximately 708,000 shares of common stock, related primarily 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, pursuant to which the Company is authorized to purchase up to \$100 million of its common stock. The Company expects to fund repurchases through a combination of cash on hand, cash generated by operations and future financing transactions, if needed. Accordingly, the Company's share repurchase program is subject to the Company having available cash to fund repurchases. Under the program, the Company is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors.

During the nine months ended September 30, 2016, the Company repurchased approximately 1,280,000 shares of its common stock under the share repurchase program at an average per-share cost of approximately \$34.44. As of September 30, 2016, the Company had \$40.3 million remaining for purchases under the share repurchase program.

Equity-Based Compensation

The Company recognizes stock-based compensation expense for all share-based payment awards including employee stock options and RSUs granted under the 2012 Omnibus Equity Incentive Plan and sales of shares of common stock under the 2012 Employee Stock Purchase Plan (the "2012 ESPP") based on each award's fair value on the grant date. The following table summarizes non-cash equity-based compensation expense, net of forfeitures, by financial statement line item included in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 (in thousands):

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|----------------------------|--|---------|---|----------|
| Cost of revenue | \$498 | \$496 | \$1,552 | \$1,444 |
| Sales and marketing | 1,524 | 1,364 | 4,072 | 4,110 |
| Product development | 1,580 | 1,743 | 5,732 | 5,863 |
| General and administrative | 2,903 | 4,080 | 9,754 | 11,354 |
| Total | \$6,505 | \$7,683 | \$21,110 | \$22,771 |

The following table summarizes non-cash equity-based compensation expense, net of forfeitures, by award type included in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 (in thousands):

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|--|--|---------------------------------------|
| | | |

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| | 2016 | 2015 | 2016 | 2015 |
|---|---------|---------|----------|----------|
| Stock options | \$1,751 | \$2,663 | \$5,379 | \$6,486 |
| RSUs | 4,602 | 4,724 | 15,211 | 15,244 |
| ESPP shares | 152 | 169 | 477 | 589 |
| RSUs related to the acquisition of WebDAM | — | 127 | 43 | 452 |
| Total | \$6,505 | \$7,683 | \$21,110 | \$22,771 |

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Stock Option Awards

During the nine months ended September 30, 2016, the Company granted options to purchase approximately 515,000 shares of its common stock with a weighted average exercise price of \$37.06. As of September 30, 2016, there were approximately 215,000 options vested and exercisable with a weighted average exercise price of \$32.01. As of September 30, 2016, the total unrecognized compensation charge related to non-vested options was approximately \$24.3 million, which is expected to be recognized through the fiscal year 2021.

Restricted Stock Units

During the nine months ended September 30, 2016, the Company granted approximately 847,000 RSUs. As of September 30, 2016 there are approximately 1,301,000 non-vested RSUs outstanding. As of September 30, 2016, the total unrecognized non-cash equity-based compensation charge related to the non-vested RSUs was approximately \$46.6 million, which is expected to be recognized through fiscal year 2021.

Included in the total number of RSUs granted during the nine months ended September 30, 2016 was approximately 31,000 RSUs granted and issued in satisfaction of the Company's liability to certain WebDAM executives to provide a fixed-dollar amount of RSUs in connection with the acquisition. As of September 30, 2016, the Company had no additional stock-based compensation awards which require liability accounting.

ESPP Shares

During the nine months ended September 30, 2016, approximately 26,000 shares of the Company's common stock were issued under the 2012 ESPP.

(8) Employee Benefit Plans

The Company has a 401(k) defined contribution plan and provides for annual discretionary employer matching contributions not to exceed 3% of employees' base compensation per year. Matching contributions are fully vested and non-forfeitable at all times. The Company recorded expenses related to employer matching contributions of \$0.5 million and \$0.4 million for the three months ended September 30, 2016 and 2015, respectively, and \$1.5 million and \$1.0 million for the nine months ended September 30, 2016 and 2015, respectively.

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(9) Other Expense, Net

The following table presents a summary of the Company's other income and expense activity included in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 (in thousands):

| | Three Months | | Nine Months | |
|--|---------------|---------|---------------|-----------|
| | Ended | | Ended | |
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Foreign currency gain (loss) | \$192 | \$(244) | \$739 | \$(2,005) |
| Change in fair value of contingent consideration | (130) | (540) | (974) | (1,440) |
| Interest income | 40 | 17 | 113 | 59 |
| Total income (expense) | \$102 | \$(767) | \$(122) | \$(3,386) |

(10) Income Taxes

The Company's effective tax rates were 17.6% and 43.9% for the three months ended September 30, 2016 and 2015, respectively, and 29.9% and 43.9% for the nine months ended September 30, 2016 and 2015, respectively.

The Company incurred discrete tax items, the net effect of which decreased the effective tax rate by 22.3% and 1.6% for the three months ended September 30, 2016 and 2015, respectively, and decreased the effective rate by 10.0% and increased the effective rate by 0.6% for the nine months ended September 30, 2016 and 2015, respectively. In the third quarter of fiscal 2016, the Company completed a study which determined the amount of the U.S. Research and Development tax credit for the years 2013 to 2015 to which it was entitled. The 2015 tax credit was reflected in the 2015 federal tax return filed in the third quarter of 2016 and the 2013 and 2014 tax credits will be reflected in an amended federal tax return.

The Company has computed the provision for income taxes based on the estimated annual effective tax rate and the application of discrete items, if any, in the applicable period. The estimated annual effective tax rate differs from the statutory tax rate due primarily to non-deductible expenses related to non-cash equity-based compensation.

During the three months ended September 30, 2016, unrecognized tax benefits recorded by the Company for uncertain tax positions taken in prior years were \$1.0 million. During the nine months ended September 30, 2016, the unrecognized tax benefits recorded by the Company of \$1.0 million were offset by a recognized tax benefit of \$1.0 million related to the release of a reserve for uncertain tax positions due to a lapse in the statute of limitations, resulting in a net amount recorded that was not material. During the three and nine months ended September 30 2015, unrecognized tax benefits recorded by the Company for uncertain tax positions taken in prior years were not material. To the extent the remaining unrecognized tax benefits 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 each of three and nine months ended September 30, 2016 and 2015.

As of September 30, 2016, the Company had approximately \$2.3 million of undistributed earnings attributable to its foreign subsidiaries. It is the Company's practice and intention to indefinitely reinvest the earnings of its foreign subsidiaries in those operations. The Company has not provided deferred U.S. income taxes or foreign withholding taxes on temporary differences resulting from the earnings indefinitely reinvested outside the United States. It is currently not practicable for the Company to calculate the associated unrecognized deferred tax liability.

(11) Net Income Per Share

Basic net income per share is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Any potential issuance of common shares, including those that are contingent and do not participate in dividends, is excluded from weighted average number of common shares outstanding. Income available to common stockholders is computed by deducting income allocated to participating securities, if any, including unvested shares for the restricted award holder since these unvested shares have participating rights.

Diluted net income per share is computed by dividing the net income attributable to common stockholders by the weighted average common shares outstanding and all potential common shares, if they are dilutive.

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A reconciliation of assumed exercised shares used in calculating basic and diluted net income per share available to common stockholders follows (in thousands):

| | Three Months | | Nine Months | |
|--|---------------|--------|---------------|--------|
| | Ended | | Ended | |
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Basic | 35,036 | 36,040 | 35,123 | 35,848 |
| Stock options and ESPP shares | 315 | 230 | 298 | 337 |
| Unvested RSUs and restricted stock awards | 473 | — | 434 | 84 |
| Diluted | 35,824 | 36,270 | 35,855 | 36,269 |
| Dilutive securities included in the calculation | 2,097 | 681 | 1,940 | 1,538 |
| Anti-dilutive securities excluded from the calculation | 856 | 1,793 | 1,061 | 1,056 |

(12) Geographic Information

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

| | Three Months | | Nine Months Ended | |
|-------------------|---------------|-----------|-------------------|-----------|
| | Ended | | September 30, | |
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| North America | \$49,221 | \$42,153 | \$145,928 | \$120,848 |
| Europe | 39,382 | 35,453 | 119,662 | 104,499 |
| Rest of the world | 34,470 | 29,654 | 98,554 | 83,800 |
| Total revenue | \$123,073 | \$107,260 | \$364,144 | \$309,147 |

The United States, included in North America in the above table, accounted for 34% of consolidated revenue for both of the three months ended September 30, 2016 and 2015, and 35% and 34% for the nine months ended September 30, 2016 and 2015, respectively. The United Kingdom, included in Europe in the above table, accounted for 9% and 10% of total revenue for the three and nine months ended September 30, 2016, respectively, and 11% of consolidated revenue for both of the three and nine months ended September 30, 2015. 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):

| | September 30, December 31, | |
|----------------------------------|----------------------------|-----------|
| | 2016 | 2015 |
| North America | \$ 48,631 | \$ 31,699 |
| Europe | 1,183 | 395 |
| Total long-lived tangible assets | \$ 49,814 | \$ 32,094 |

(13) Subsequent Events

On October 20, 2016, the Company entered into a multi-part transaction (the "Transaction") with an unrelated third-party contributor (the "Transaction Party"). The Transaction included three primary components: (a) a revolving credit facility pursuant to which the Company would be obligated to lend up to \$4.6 million (the "Facility") to the Transaction Party. The Facility has a term of five years and requires the Transaction Party to make quarterly payments of principal to the Company beginning on the fourth anniversary of the Facility. The facility bears interest at 10.0%, with all interest payments deferred until maturity, and the entire unpaid balance of principal and accrued

interest due upon maturity; (b) the Company will be the exclusive distributor of the Transaction Party's content in certain markets subject to certain limitations; and (c) the Company, at its option, may acquire the Transaction Party at any time after the third anniversary of the Facility or match any third-party acquisition offer at any time until the fifth anniversary of the Facility.

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

The following discussion 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, 2015 filed with the SEC on February 24, 2016.

In addition to historical consolidated financial information, this discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. These statements involve risks and uncertainties and our actual results could differ materially from those discussed below. See the "Special Note on Forward Looking Statements" disclosure included above for a discussion of the uncertainties, risks and assumptions associated with these statements. See also the "Risk Factors" disclosure of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for additional discussion of such risks.

Overview and Recent Developments

We are a leading global provider of high quality creative content including: (a) digital imagery, which consists of licensed photographs, illustrations, vectors and video clips that customers use in their visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and video content; and (b) commercial music, which consists of high-quality music tracks and sound effects and which is often used to complement the digital imagery. We also offer digital asset management services through WebDAM, our cloud-based digital asset management platform. This service provides tools for customers to better manage content and brand management assets.

Our global marketplace brings together users of creative content with content producers from around the world by providing a freely searchable collection of content that our customers can pay to license, download and incorporate into their work. More than 1.6 million active, paying customers contributed to our revenue for the twelve-month period ended September 30, 2016. As of September 30, 2016, more than 160,000 approved contributors made their creative content available in our collection, which grew to more than 100 million images for the first time in September of 2016, and has grown to include more than 5 million video clips. This makes our collection of creative content one of the largest of its kind, and we delivered more than 125 million paid downloads to our customers from that collection during the nine months ended September 30, 2016. We believe that we delivered the highest volume of commercial image downloads in this period of any single brand in our industry.

In September 2016, we announced our acquisition of over 700,000 images from two prominent image collections: The Art Archive and The Kobal Collection. Both collections, previously held by The Picture Desk, are now available to Shutterstock customers globally.

In September 2016, we announced the release of a plugin for Adobe Photoshop® which provides creators around the world with instant access to our vast collection of high-quality images for license directly within the Adobe Creative Cloud® desktop application.

As a global marketplace, we generate revenue by licensing creative content to our customers and paying royalties to our contributors each time their content is delivered to a customer for use. Currently, the majority of our revenue and downloads come from our e-commerce platforms, which allow customers the flexibility of high-volume content subscriptions or a variety of other purchase options. In addition to sales through our e-commerce platform, we offer a number of other purchase options, primarily to enterprise customers, that can be customized to meet their specific needs. As we continue to grow the business, we anticipate these other purchase options will grow as a share of our overall business.

Each time content is delivered to a customer for use, we record a royalty expense for the amount due to the associated contributor. Royalties are calculated using either a fixed dollar amount or a fixed percentage of revenue as described on our websites, and are typically paid to contributors on a monthly basis, subject to withholding taxes and certain payout minimums. Royalties represent the largest component of our operating expenses and tend to increase proportionally with revenue.

Our cost of revenue is substantially similar as a percentage of revenue across our various purchase options. While contributors earn a fixed amount per download for some of our plans, we have set the per-download amount paid to

our contributors for each of our purchase options so that contributors earn more per download from plans where we collect higher revenue per download. Under this cost structure, changes in revenue activity are the primary drivers of changes in our cost of revenue, and we expect that shifts in the relative popularity of our purchase options will not materially impact our proportional cost of revenue.

As a provider of digital asset management technology, we generate revenue by licensing the use of our WebDAM platform to customers on a contractual basis, typically with a one-year term.

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An important driver of our growth is customer acquisition, which we achieve primarily through online marketing efforts, including paid search, organic search, online display advertising, email marketing, affiliate marketing, social media and strategic partnerships. We manage customer acquisition costs based on the expected blended customer lifetime value across our purchase options so that we are able to manage our marketing expenses to achieve certain desired growth targets. As a result, we do not believe that shifts in the mix between our purchase options will materially impact our operating margins.

Over the past several years, we have invested amounts in marketing that represent a significant percentage of revenue. Since we believe the market for creative content will continue to grow globally, we plan to continue to invest aggressively in customer acquisition through our various global channels to achieve revenue and market share growth. We believe that another important driver of growth is the quality of the user experience we provide on our websites, especially the efficiency with which our search interfaces and algorithms help customers find the content that they need, the degree to which we make use of the large quantity of data we collect about content and search patterns, and the degree to which we have been able to localize the overall experience for international audiences. In pursuit of these growth objectives, we have also invested aggressively in product development and we plan to broaden our investments in this area. Finally, the quality and quantity of content that we make available in our collection is another key driver of our growth. Approved and licensable high-quality content in the Shutterstock collection exceeded 100 million images and 5 million video clips as of September 30, 2016, making it one of the largest libraries of its kind.

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 and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|---------|------------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions, except revenue per download) | | | |
| Paid downloads (during the period) | 41.2 | 38.1 | 125.8 | 107.4 |
| Revenue per download (during the period) | \$ 2.91 | \$ 2.76 | \$ 2.83 | \$ 2.83 |
| Images in collection (end of period) | 102.7 | 63.7 | 102.7 | 63.7 |

Paid Downloads

Measuring the number of paid downloads that our customers make in any given period is important because our revenue and contributor royalties are driven primarily by paid download activity. For customers that choose our On Demand purchase options, each incremental download results in incremental recognition of revenue. For customers that choose our subscription purchase options, we do not recognize revenue from each incremental download, but we believe that download activity is an important measure of the value that we deliver to subscription customers and the likelihood that the customer will renew. We define paid downloads as the number of downloads of our creative content by customers in a given period, excluding 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 promotional images (which we make available at no cost as a means of acquiring new customers and attracting existing customers to return to our websites more frequently).

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 the impact of revenue that is not derived from or associated with the download of content. This metric captures changes in our pricing, if any, as well as the mix of purchase options that our customers choose and the impact of changes in foreign currency rates on our pricing. Over the last three years, revenue from each of our purchase options has grown; however our fastest growing purchase options have been those that generate more revenue per download, most notably our On Demand purchase options. As our business grows and expands into

other products and regions around the world, this metric may become less important as a tool for evaluating the business.

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Images in Collection

We define images in our collection as the total number of photographs, vectors and illustrations available to customers for commercial license on shutterstock.com at any point in time. We exclude from this collection metric content that is not uploaded directly to our site but is available to our customers through an application program interface and certain content that may be licensed for editorial use only. We record this metric as of the end of a period. Offering a large selection of images allows us to attract and retain customers and, therefore, we believe that broadening our selection of high-quality images is an important driver of our revenue growth.

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains a calculation of period-over-period revenue growth on a fixed-currency basis, which is a financial measure that has not been calculated in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, and should be considered in addition to our results prepared in accordance with U.S. GAAP and should not be considered as a substitute for, or superior to, our results prepared in accordance with U.S. GAAP.

Revenue growth on a fixed-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 both periods.

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 on a fixed-currency basis is useful to investors to provide them with disclosures of Shutterstock’s 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 Shutterstock’s 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 Shutterstock’s financial reporting. However, non-GAAP financial information, by its nature, departs from traditional accounting conventions; accordingly, its use can make it difficult to compare our current results with our results from other reporting periods and with the results of other companies.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The preparation of the consolidated financial statements in conformity with U.S. 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, medical self-insurance accruals, chargeback and sales refund reserve, the fair value of goodwill, intangibles and other long-lived assets, non-cash equity-based compensation expense, the fair value of contingent consideration, the provision for income taxes and the amount of certain non-income tax accruals. 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, chargeback and sales refund reserve, stock-based compensation, self-insurance accruals, accounting for non-income and income taxes, goodwill and intangible assets and advertising costs 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, 2015 that we filed with the SEC on February 24, 2016, or the 2015 Form 10-K, under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.” There have been no material changes to our critical accounting

policies and estimates as compared to our critical accounting policies and estimates included in the 2015 Form 10-K.

Key Components of Our Results of Operations

Revenue

The majority of our revenue, net of chargebacks and refunds, is generated through the licensing of creative content.

The majority of our licensing revenue is generated by sales through our e-commerce platform.

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We generate revenue through our e-commerce platform from the sale of subscriptions which provide customers the flexibility of high-volume content subscriptions or from a variety of other purchase options. Our subscriptions typically vary in length from one month to one year. In addition to sales through our e-commerce platform, we offer a number of other purchase options, primarily to enterprise customers, that can be customized to meet our customers' specific needs.

We typically receive the full amount of e-commerce purchases at the time of sale; however, revenue is recognized ratably over the course of a subscription or as content is downloaded. Some of our larger custom and enterprise accounts are invoiced and pay us on credit terms. For certain of these accounts, we receive payment in installments over the course of an annual commitment.

We also generate revenue through WebDAM, which we acquired in March 2014. WebDAM licenses digital asset management software services to marketing and creative teams and enterprise organizations through its cloud-based software platform. Software licensing fees are recognized ratably as revenue over the course of the contractual term, which is typically one year. Any setup or implementation fees are recognized ratably over the longer of the contractual term or the estimated customer relationship period, which is currently three years. Fees for on-boarding and other professional services, which typically take place over a period of time less than one year and provide immediate benefit to customers upon completion, are recorded as revenue when services are substantially complete and all other revenue recognition criteria have been met.

Our deferred revenue consists of amounts paid by customers for which revenue recognition criteria have not been met. For content revenue, deferred revenue is recognized as revenue through the passage of time, when content is downloaded or when the credits or the right to download content expires, and all other revenue recognition criteria have been met. For WebDAM, deferred revenue is recognized as revenue through passage of time (subscriptions) or when a project is substantially complete (professional services) and all other revenue recognition criteria have been met.

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, the infrastructure and hosting costs related to maintaining our e-commerce platform and cloud-based software platform and associated employee compensation, including non-cash equity-based compensation, bonuses and benefits, amortization of content and technology intangible assets, allocated facility costs and other supporting overhead costs. We expect that our cost of revenue will increase in absolute dollars in the foreseeable future as our revenue grows.

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. We expect sales and marketing expenses to increase in absolute dollars in the foreseeable future as we continue to invest in new customer acquisition.

Product Development. Product development expenses consist of employee compensation, including non-cash equity-based compensation, bonuses and benefits, and expenses related to contractors 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. We expense product development expenses as incurred, except for costs that are capitalized for internal-use software development projects and subsequently depreciated over the expected useful life of the developed software. Beginning in the fourth quarter of 2015 and continuing in 2016, we have experienced an increase in capitalized costs for internal-use software development related primarily to our efforts to launch new and innovative products. We expect product development expenses, of which a portion will be capitalized, to increase in absolute dollars in the foreseeable future as we continue to invest in developing new products and internal tools and enhancing the functionality of our existing products and technology.

General and Administrative. General and administrative expenses include employee compensation, including non-cash equity-based compensation, bonuses and benefits for executive, finance, business development, accounting, legal, human resources, internal information technology, 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 and other supporting overhead costs. We expect to incur incremental general and administrative expenses to support our global operational growth and enhancements to support our reporting and planning functions.

Other Expense, Net. Other expense consists of non-operating costs such as foreign currency transaction gains and losses, changes in fair value of contingent consideration related to acquisitions and interest income and expense. We expect to incur incremental expense related to changes in fair value of contingent consideration related to our PremiumBeat acquisition as we reach the measurement date. Additionally, as we increase the volume of business transacted in foreign currencies as a result of international expansion and as currency rates fluctuate, we expect foreign currency gains and losses to continue to fluctuate.

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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.

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.

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 | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| (in thousands) | | | | |
| Consolidated Statements of Operations: | | | | |
| Revenue | \$123,073 | \$107,260 | \$364,144 | \$309,147 |
| Operating expenses: | | | | |
| Cost of revenue | 50,184 | 44,512 | 150,492 | 126,582 |
| Sales and marketing | 32,977 | 27,393 | 91,636 | 79,927 |
| Product development | 11,604 | 10,827 | 34,800 | 31,700 |
| General and administrative | 17,020 | 16,441 | 54,629 | 44,949 |
| Total operating expenses | 111,785 | 99,173 | 331,557 | 283,158 |
| Income from operations | 11,288 | 8,087 | 32,587 | 25,989 |
| Other income (expense), net | 102 | (767) | (122) | (3,386) |
| Income before income taxes | 11,390 | 7,320 | 32,465 | 22,603 |
| Provision for income taxes | 1,999 | 3,217 | 9,692 | 9,920 |
| Net income | \$9,391 | \$4,103 | \$22,773 | \$12,683 |

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

| | Three | | Nine Months | |
|---|-----------|---------------|---------------|---------------|
| | Months | | Ended | |
| | Ended | | September 30, | |
| | September | September 30, | September 30, | September 30, |
| | 2016 | 2015 | 2016 | 2015 |
| Consolidated Statements of Operations: | | | | |
| Revenue | 100% | 100% | 100% | 100% |
| Operating expenses: | | | | |
| Cost of revenue | 41 | 41 | 41 | 41 |
| Sales and marketing | 27 | 26 | 25 | 26 |
| Product development | 9 | 10 | 10 | 10 |
| General and administrative | 14 | 15 | 15 | 15 |
| Total operating expenses | 91 | 92 | 91 | 92 |
| Income from operations | 9 | 8 | 9 | 8 |
| Other income (expense), net | — | (1) | — | (1) |
| Income before income taxes | 9 | 7 | 9 | 7 |
| Provision for income taxes | 2 | 3 | 3 | 3 |
| Net income | 8 | 4 | 6 | 4 |

Note: Percent totals may not sum exactly, due to rounding

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Comparison of the Three Months Ended September 30, 2016 and 2015

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

| | Three Months Ended September 30, | | | |
|--|----------------------------------|-----------|-----------|----------|
| | 2016 | 2015 | \$ Change | % Change |
| (in thousands) | | | | |
| Consolidated Statements of Operations: | | | | |
| Revenue | \$123,073 | \$107,260 | \$15,813 | 15 % |
| Operating expenses: | | | | |
| Cost of revenue | 50,184 | 44,512 | 5,672 | 13 |
| Sales and marketing | 32,977 | 27,393 | 5,584 | 20 |
| Product development | 11,604 | 10,827 | 777 | 7 |
| General and administrative | 17,020 | 16,441 | 579 | 4 |
| Total operating expenses | 111,785 | 99,173 | 12,612 | 13 |
| Income from operations | 11,288 | 8,087 | 3,201 | 40 |
| Other income (expense), net | 102 | (767) |) 869 | * |
| Income before income taxes | 11,390 | 7,320 | 4,070 | 56 |
| Provision for income taxes | 1,999 | 3,217 | (1,218) | *) |
| Net income | \$9,391 | \$4,103 | \$5,288 | 129 % |

* Not meaningful

Revenue

Revenue increased by \$15.8 million, or 15%, to \$123.1 million in the three months ended September 30, 2016 compared to the same period in 2015. Excluding the impact of foreign currency fluctuations, revenue increased 17% compared to the third quarter of 2015. We continue to grow our customer base and undertake initiatives focused on broadening our subscription product offerings, which has resulted in increased customer utilization and provides customers an effective price per content download that is more economical at higher volumes. We believe these offerings will lead to sustained customer engagement over longer periods. As a result of these initiatives, the increase in revenue during the quarter was primarily attributable to the 8% increase in the number of paid downloads, the acquisition of new customers and increased activity by our enterprise customers, which in turn has driven a 5.4% increase in revenue per download as compared to the prior year's quarter. In the three months ended September 30, 2016 and 2015, we delivered 41.2 million and 38.1 million paid downloads, respectively, and our average revenue per download during these periods was \$2.91 and \$2.76, respectively.

In the three months ended September 30, 2016 compared to the same period in 2015, as a percentage of total revenue, revenue from North America increased slightly to 40% from 39% while revenue from Europe and the rest of the world remained relatively flat at 32% and 28%, respectively.

Costs and Expenses

Cost of Revenue. Cost of revenue increased by \$5.7 million, or 13%, to \$50.2 million in the three months ended September 30, 2016 compared to the same period in 2015. Royalties increased \$3.3 million, or 10%, due to increased download activity and changes in the mix of content downloads toward content types with higher revenue per download and higher corresponding royalties. We anticipate royalties will continue growing in absolute dollars as revenue grows, although royalties as a percentage of revenue may vary somewhat from period to period, primarily due to customer usage, product mix and to a lesser extent due to the contributors' achievement of royalty target thresholds.

Costs associated with website hosting, content consulting and allocated depreciation and amortization expense increased by \$0.9 million, or 20%, to \$5.3 million in the three months ended September 30, 2016 compared to the same period in 2015, driven in large part by increases in the depreciation of capitalized internal-use software.

Employee-related expenses increased \$0.4 million, or 11%, driven by an increase in headcount in customer service, content and website operations to support increased customer volume and a more robust hosting infrastructure.

Sales and Marketing. Sales and marketing expenses increased by \$5.6 million, or 20%, to \$33.0 million in the three months ended September 30, 2016 compared to the same period in 2015. The change was driven by a \$3.9 million

increase in performance and brand advertising expenses, which represents a 29% increase over the prior year. These advertising expenses have historically been the most significant component of sales and marketing expenses and can vary based on the timing of our strategic initiatives. Employee-related expenses, including travel and entertainment, increased by \$1.0 million, or 9%, driven by

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an increase in sales and marketing headcount to support our expansion into new markets and increased sales commissions as a result of growing revenue from our direct sales. We anticipate that our global sales and marketing spend will continue to increase in absolute dollars for the foreseeable future as we continue to pursue growth through new products and geographies as well as growth from new customers.

Product Development. Product development expenses increased by \$0.8 million, or 7%, to \$11.6 million in the three months ended September 30, 2016 compared to the same period in 2015. Employee-related and consulting-related expenses increased by \$4.8 million, or 53%, driven by an increase in human capital requirements in product, engineering and quality assurance to support our increasing number of product development initiatives for our e-commerce platform, including ongoing efforts to improve our search capabilities. The increase in employee-related and consulting-related expenses was offset by an increase in capitalized labor costs of \$4.5 million for internal-use software development projects. We anticipate product development expenses will continue to increase in absolute dollars in the future, of which a portion will continue to be capitalized, as we continue to invest in developing new products and internal tools and enhancing the functionality of our existing products and technology.

General and Administrative. General and administrative expenses increased by \$0.6 million, or 4%, to \$17.0 million in the three months ended September 30, 2016 compared to the same period in 2015. The change was driven primarily by increases in professional fees and software licenses net of capitalized amounts and allocated depreciation and amortization expense of \$1.5 million primarily due to increased consulting-related services and costs related to improving our application and hardware infrastructure. Expenses related to the allowance for doubtful accounts increased by approximately \$0.2 million primarily based on the aging of accounts receivable, evaluations of specific customers during the period and an increase in the gross receivable balance due to higher sales to enterprise customers. These increases were partly offset by a decrease in non-cash equity-based compensation of \$1.2 million or 29% as compared to the prior year.

Other Income (Expense), Net. Other income and expense primarily consists of the changes in the fair value of contingent consideration related to certain of our recent acquisitions and foreign currency transaction gains and losses. In the current period, foreign currency transaction gains were partly offset by changes in fair value of contingent consideration, neither of which was significant. In the prior year's comparable period, other expense included foreign currency transaction losses in addition to charges related to contingent consideration. We expect foreign currency transaction gains and losses to continue to fluctuate as we continue to expand our international operations and increase the volume of business transacted in currencies other than the U.S. dollar.

Income Taxes. Income tax expense decreased by \$1.2 million to \$2.0 million in the three months ended September 30, 2016 compared to the same period in 2015. Our effective tax rate for the three months ended September 30, 2016 and 2015 was 17.6% and 43.9%, respectively. During the three months ended September 30, 2016, we incurred a net discrete tax benefit primarily related to the U.S. Research and Development credit claimed for the years 2013-2015, which decreased our effective tax rate by 22.3%, and during the three months ended September 30, 2015 we incurred a net discrete tax benefit which decreased our effective tax rate by 1.6%. Excluding those discrete items, our effective tax rate would have been 39.9% and 45.5% during the three months ended September 30, 2016 and 2015, respectively. As part of our regular process, we will evaluate the availability and amount of the U.S. Research and Development credit for periods beyond 2015.

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Comparison of the Nine Months Ended September 30, 2016 and 2015

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

| | Nine Months Ended September 30, | | | |
|---|---------------------------------|-----------|-----------|----------|
| | 2016 | 2015 | \$ Change | % Change |
| | (in thousands) | | | |
| Consolidated Statements of Operations Data: | | | | |
| Revenue | \$364,144 | \$309,147 | \$54,997 | 18 % |
| Operating expenses: | | | | |
| Cost of revenue | 150,492 | 126,582 | 23,910 | 19 % |
| Sales and marketing | 91,636 | 79,927 | 11,709 | 15 % |
| Product development | 34,800 | 31,700 | 3,100 | 10 % |
| General and administrative | 54,629 | 44,949 | 9,680 | 22 % |
| Total operating expenses | 331,557 | 283,158 | 48,399 | 17 % |
| Income from operations | 32,587 | 25,989 | 6,598 | 25 % |
| Other expense, net | (122) | (3,386) | 3,264 | * |
| Income before income taxes | 32,465 | 22,603 | 9,862 | 44 % |
| Provision for income taxes | 9,692 | 9,920 | (228) | * |
| Net income | \$22,773 | \$12,683 | \$10,090 | 80 % |

* Not meaningful

Revenue

Revenue increased by \$55.0 million, or 18%, to \$364.1 million in the nine months ended September 30, 2016 compared to the same period in 2015. Excluding the impact of foreign currency fluctuations, revenue for the nine months ended September 30, 2016 increased 21% as compared to the same period in the prior year. We continue to grow our customer base and undertake initiatives focused on broadening our subscription product offerings, which has resulted in increased customer utilization and provides customers an effective price per content download that is more economical at higher volumes. We believe these offerings will lead to sustained customer engagement over longer periods. As a result of these initiatives, the increase in revenue was primarily attributable to a 17% increase in the number of paid downloads, the acquisition of new customers and increased activity by our enterprise customers, with no change in revenue per download. In the nine months ended September 30, 2016 and 2015, we delivered 125.8 million and 107.4 million paid downloads, respectively, and our average revenue per download during both of these periods was \$2.83.

In the nine months ended September 30, 2016 compared to the same period in 2015, revenue from North America increased to 40% from 39% while revenue from Europe decreased to 33% from 34% and revenue from the rest of the world remained relatively flat at approximately 27% of total revenue.

Cost and Expenses

Cost of Revenue. Cost of revenue increased by \$23.9 million, or 19%, to \$150.5 million in the nine months ended September 30, 2016 compared to the same period in 2015. Royalties increased \$15.8 million, or 18%, which was in line with the increase in revenue and paid downloads during the period. We anticipate royalties will continue growing in absolute dollars as revenue grows, although royalties as a percentage of revenue may vary somewhat from period to period primarily due to customer usage, product mix and to a lesser extent due to the contributors' achievement level of royalty target thresholds. Other costs associated with website hosting, content consulting and allocated depreciation and amortization expense increased by \$3.2 million, or 26%, to \$15.4 million in the nine months ended September 30, 2016 compared to the same period in 2015. Employee-related expenses increased by \$1.9 million, or 16%, driven by an increase in headcount in customer service, content and website operations to support increased customer volume and a more robust hosting infrastructure, and other costs of revenue increased approximately \$2.0 million related to the costs related to strategic content partnerships.

Sales and Marketing. Sales and marketing expenses increased by \$11.7 million, or 15%, to \$91.6 million in the nine months ended September 30, 2016 compared to the same period in 2015. Expenses related to brand and performance

advertising, the largest component of our sales and marketing expenses, increased by \$6.2 million, or 15%, compared to the same period in 2015 as a result of increased spending on affiliate, search advertising and other new channels. We anticipate that our global advertising spend will continue to increase in absolute dollars for the foreseeable future, as we continue to expand into additional markets. Employee-related expenses, including travel and entertainment, increased by \$4.4 million, or 14%,

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driven by an increase in sales and marketing headcount to support our expansion into new markets and increased sales commissions as a result of growing revenue from our direct sales. We anticipate that our global sales and marketing spend will continue to increase in absolute dollars for the foreseeable future as we continue to pursue growth through new products and geographies as well as growth from new customers.

Product Development. Product development expenses increased by \$3.1 million, or 10%, to \$34.8 million in the nine months ended September 30, 2016 compared to the same period in 2015. Employee-related and consulting-related expenses increased by \$12.0 million, or 45%, driven by an increase in human capital requirements in product, engineering and quality assurance to support our increasing number of product development initiatives for our websites, including ongoing efforts to improve our search capabilities. The increase in employee-related and consulting-related expenses was partially offset by an increase in capitalized costs of \$10.3 million for internal-use software development projects. We anticipate product development expenses to increase in absolute dollars for the foreseeable future, of which a portion will continue to be capitalized, as we continue to invest in developing new products and internal tools and enhancing the functionality of our existing products and technology.

General and Administrative. General and administrative expenses increased by \$9.7 million, or 22%, to \$54.6 million in the nine months ended September 30, 2016 compared to the same period in 2015. As compared to the prior year, professional fees, software licenses and allocated depreciation and amortization expense increased by \$3.6 million primarily due to increased consulting-related services and costs related to improving our system infrastructure. Expenses related to the allowance for doubtful accounts increased by \$2.1 million primarily based on the aging of accounts receivable, evaluations of specific customers during the period and an increase in the gross receivable balance due to higher sales to enterprise customers. Also included in general and administrative expenses for the nine months ended September 30, 2016 is a charge of \$1.7 million related to a modification of the terms of the PremiumBeat contingent consideration arrangement.

Other Expense, Net. Other expenses primarily include foreign currency gains and losses and changes in the fair value of contingent consideration related to the passage of time. During the nine months ended September 30, 2016, expenses related to contingent consideration were almost entirely offset by foreign currency transaction gains and interest income, as compared to 2015 where foreign currency transaction losses and significant expenses related to contingent consideration caused other expenses to be significantly higher. The change in the impact of foreign currency drove a decrease in other expense of \$2.7 million in the nine months ended September 30, 2016 as compared to the prior period. We expect foreign currency transaction gains and losses to continue to fluctuate as we continue to expand our international operations and increase the volume of business transacted in currencies other than the U.S. dollar.

Income Taxes. Income tax expense decreased by \$0.2 million to \$9.7 million in the nine months ended September 30, 2016 compared to the same period in 2015. Our effective tax rate for the nine months ended September 30, 2016 and 2015 was 29.9% and 43.9%, respectively. During the nine months ended September 30, 2016, we incurred a net discrete tax benefit primarily related to the U.S. Research and Development credit claimed for the years 2013-2015, which decreased our effective tax rate by 10.0% and during the nine months ended September 30, 2015, we incurred a net discrete tax expense which increased our effective tax rate by 0.6%. Excluding these discrete items, the effective tax rate would have been 39.9% and 43.3% during the nine months ended September 30, 2016 and 2015, respectively. As part of our regular process, we will evaluate the availability and amount of the U.S. Research and Development credit for periods beyond 2015.

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 fourth quarter of each calendar year due to the year-end holiday vacation season and may increase in the first quarter of each calendar year as many customers return to work. While we believe seasonal trends have affected and will continue to affect our quarterly results, our trajectory of rapid growth 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, expenditures on digital content by customers tend to be discretionary in nature, reflecting overall economic conditions, the economic prospects of specific industries, budgeting constraints, buying patterns and a variety of other factors, many of which are outside our control. As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indicators of our future operating performance.

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Liquidity and Capital Resources

As of September 30, 2016, we had cash and cash equivalents of \$238.0 million, which consisted primarily of money market mutual funds and checking account balances. Additionally, we held short-term investments in the amount of \$52.4 million, all of which mature in 90 days or less. Since inception, we have financed our operations primarily through cash flows generated from operations.

Historically, our principal uses of cash have been funding our operations, capital expenditures, content acquisition, business combinations that enhance our strategic position 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.

Share Repurchase Program

In October 2015, our board of directors approved a share repurchase program, pursuant to which we are authorized to repurchase up to \$100 million of our common stock. We expect to fund repurchases 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 this program, management is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors.

As of September 30, 2016, we have repurchased approximately 1,739,000 shares of our common stock under the share repurchase program at an average per-share cost of \$34.33. As of September 30, 2016, we had \$40.3 million remaining for share repurchases under this program.

Share-Based Compensation

Effective October 1, 2016, we implemented a practice of net share settlement upon the vesting of RSUs to cover any required withholding taxes by retaining a number of shares with a value equal to the amount of the tax and remitting cash to the appropriate taxing authorities, rather than our previous approach of 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 will increase 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 will result in fewer shares being issued into the market as employees’ RSUs vest, thereby reducing the dilutive impact of our share-based compensation programs on shareholders.

Content Distribution and Capital Arrangement

On October 20, 2016, we entered into a multi-part transaction (the “Transaction”) with an unrelated third-party contributor (the “Transaction Party”). The Transaction included three primary components: (a) a revolving credit facility pursuant to which we would be obligated to lend up to \$4.6 million (the “Facility”) to the Transaction Party. The Facility has a term of five years and requires that the Transaction Party make quarterly payments of principal to us beginning on the fourth anniversary of the Facility. The Facility bears interest at 10.0%, with all interest payments deferred until maturity, and the entire unpaid balance of principal and accrued interest due upon maturity; (b) we will be the exclusive distributor of the Transaction Party’s content in certain markets subject to certain limitations; and (c) we, at our option, may acquire the Transaction Party at any time after the third anniversary of the Facility or match any third-party acquisition offer at any time until the fifth anniversary of the Facility. Borrowings under the Facility may be made upon request of the Transaction Party at any time, and satisfaction of such requests will increase our cash outflows.

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. Consistent with previous periods, we expect that future capital expenditures will primarily relate to acquiring additional servers and network connectivity hardware and software, enhancements to the functionality of our current platform, leasehold improvements and furniture and fixtures related to office expansion and relocation, digital content and general corporate infrastructure. We anticipate capital additions, inclusive of digital content acquisition and capitalized labor, of

approximately \$7.0 million during the remainder of 2016. In April 2016, we paid the full amount of the contingent purchase price for WebDAM of approximately \$4.0 million, and expect to pay \$10.0 million related to the contingent purchase price for PremiumBeat during the first half of 2017. See Note 6 to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding existing capital commitments as of September 30, 2016.

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Cash Flows

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 settlement of accounts payable to contributors and vendors and employee-related expenditures.

In the nine months ended September 30, 2016, net cash provided by operating activities was \$76.7 million, including net income of \$22.8 million, non-cash equity-based compensation of \$21.1 million, depreciation and amortization of \$14.2 million and the change in fair value of contingent consideration of \$2.6 million. Cash inflows from changes in operating assets and liabilities included an increase in deferred revenue of \$19.4 million, primarily related to the change in the volume of sales activity for which revenue has not been recognized, and to a lesser extent an increase in deferred revenue related to our WebDAM services. These amounts were offset by the portion of the contingent consideration payment related to the WebDAM acquisition that was classified as an operating cash flow of approximately \$1.6 million.

Investing Activities

Cash used in investing activities in the nine months ended September 30, 2016 was \$38.9 million, consisting primarily of capital expenditures of \$26.7 million to purchase software and equipment related to our data centers, capitalization of leasehold improvements and website development costs and \$6.2 million paid to acquire the rights to distribute certain digital content in perpetuity. Included in these amounts is approximately \$3.9 million related to our acquisition of the intellectual property and content assets of The Picture Desk Limited during the third quarter of 2016. In addition, we increased our position in short-term investments by \$5.2 million, net of sales.

Financing Activities

Cash used in financing activities in the nine months ended September 30, 2016 was \$38.8 million, consisting primarily of \$44.9 million paid for share repurchases during the period and \$2.4 million which was paid to the former owners of WebDAM in settlement of the contingent purchase price liability established at the acquisition date. These amounts were offset by proceeds of approximately \$9.0 million from the issuance of common stock in connection with the exercise of stock options and the sale of stock under our employee stock purchase plan.

Contractual Obligations and Commitments

We lease office facilities under operating lease agreements that expire on various dates through 2029. We also have several co-location agreements with third-party hosting facilities that expire through 2017. We do not have any material capital lease obligations, and our property, equipment and software have been purchased primarily with cash. We anticipate expanding our office and co-location facilities as our revenue and customer base continue to grow and diversify.

On March 21, 2013, we entered into an operating lease agreement to lease our headquarters in New York City. The aggregate future minimum lease payments under the lease, as amended, are approximately \$83.8 million. We are also party to a letter of credit as a security deposit for this leased facility, which was increased to \$2.6 million in January 2016 in connection with an amendment of the lease. As of September 30, 2016, the letter of credit is collateralized by \$2.6 million of cash, which is reported as restricted cash on our consolidated balance sheet as of September 30, 2016. Additionally, as of September 30, 2016, aggregate future minimum lease payments under other operating leases are approximately \$6.8 million.

As of September 30, 2016, our guaranteed royalty payments and unconditional purchase obligations for the remainder of 2016 and for the fiscal years ending December 31, 2017, 2018, 2019 and 2020 were approximately \$1.2 million, \$9.7 million, \$8.1 million, \$4.0 million and \$3.8 million, respectively.

Off-Balance Sheet Arrangements

As of September 30, 2016, 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 expenditure 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 interest rate fluctuation, foreign currency exchange rate fluctuation and inflation.

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Interest Rate Fluctuation Risk

Our investments include cash, cash equivalents and short-term investments which consist of commercial paper. 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. Because our cash, cash equivalents and short-term investments have a maximum term of ninety days, our portfolio's fair value is not particularly sensitive to interest rate changes. We do not enter into investments for speculative purposes. We determined that the nominal difference in basis points for investing our cash, cash equivalents and short-term investments in longer-term investments did not warrant a change in our investment strategy. In future periods, we will continue to evaluate our investment policy in order to ensure that we continue to meet our overall objectives. We did not have any borrowings as of September 30, 2016.

Foreign Currency Exchange Risk

Revenue derived from customers residing outside of the U.S. as a percentage of total revenue was approximately 66% for each of the three months ended September 30, 2016 and 2015 and approximately 65% and 66% for the nine months ended September 30, 2016 and 2015, respectively. 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 32% and 31% for the three months ended September 30, 2016 and 2015, respectively, and approximately 32% and 31% for the nine months ended September 30, 2016 and 2015, respectively. We have foreign currency exchange risks related to non-U.S. dollar denominated revenues. All amounts earned by and paid to our foreign contributors are denominated in the U.S. dollar and therefore do not create foreign currency exchange risk. However, 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. Based on our foreign currency denominated revenue for the nine months ended September 30, 2016, 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.

Although the majority of our revenue and expenses are incurred in the U.S. dollar, we have experienced fluctuations in our net income as a result of the volume of our business transacted in foreign currency and the changes in strength of the U.S. dollar against foreign currencies, specifically the euro and British pound. During the three months ended September 30, 2016, foreign currency gains offset foreign currency losses and during the nine months ended September 30, 2016, the impact of foreign currency transactions was a loss of \$0.4 million. 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. It is difficult to predict the impact hedging activities would have on our results of operations.

We have established foreign subsidiaries in various countries around the world and as a result the financial statements of these foreign subsidiaries are reported in the applicable foreign currencies (functional currencies). For those entities where the functional currency is the local currency, adjustments resulting from translating the financial statements into U.S. dollars are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity. Monetary assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at the weighted average exchange rates during the period. Equity transactions are translated using historical exchange rates. Foreign currency transaction gains and losses are included in other income (expense), net in the consolidated statements of operations.

Inflation Risk

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. 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

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principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, 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

Our management is in the process of implementing our internal control structure over Rex Features and PremiumBeat, both of which we acquired in January 2015. Except for the changes associated with this implementation, 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.

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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, 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 2015 Form 10-K and Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016, which could materially affect our business, financial condition or future results. During the three months ended September 30, 2016, there were no material changes to the risk factors described in our 2015 Form 10-K and our Quarterly Report on 10-Q for the quarterly period ended June 30, 2016.

Item 6. Exhibits.

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

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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: November 4, 2016 By: /s/ Jonathan Oringer
Jonathan Oringer
Chief Executive Officer
(Principal Executive Officer)

Dated: November 4, 2016 By: /s/ Steven Berns
Steven Berns
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit

| Number | Exhibit Description |
|---------|---|
| 10.1# | Shutterstock, Inc. 2012 Amended and Restated Omnibus Equity Incentive Plan Restricted Stock Unit Award Agreement, as amended September 15, 2016 |
| 10.2# | Shutterstock, Inc. 2012 Amended and Restated Omnibus Equity Incentive Plan Restricted Stock Unit Award Agreement for Canadian Employees, as amended September 15, 2016 |
| 10.3# | Shutterstock, Inc. 2012 Amended and Restated Omnibus Equity Incentive Plan Deferred Restricted Stock Unit Award Agreement, as amended September 15, 2016 |
| 31.1# | Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2# | Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32# | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 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 |

Filed herewith.