

Shutterstock, Inc.  
Form 10-Q  
August 07, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2015

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

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**SHUTTERSTOCK, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**80-0812659**  
(I.R.S. Employer  
Identification No.)

**Jonathan Oringer**

**Chief Executive Officer**

**Shutterstock, Inc.**

**350 Fifth Avenue, 21st Floor**

**New York, NY 10118**

(Address of principal executive offices, including zip code)

**(646) 419-4452**

(Registrant's telephone number, including area code)

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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.

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Large accelerated filer  X

Accelerated filer  O

Non-accelerated filer  O  
(Do not check if a smaller reporting company)

Smaller reporting company  O

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

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

Class	Outstanding at August 5, 2015
Common Stock, \$0.01 par value per share	36,047,792

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**SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology such as believe, may, estimate, continue, anticipate, intend, expect, predict, potential, project, guidance, target, forecast,

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements as a result of certain factors, as more fully described in Part II, Item 1A (Risk Factors) of this Quarterly Report on Form 10-Q and in the reports and documents filed from time to time by us with the Securities and Exchange Commission, or the SEC.

Forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Unless the context otherwise indicates, references in this report to the terms Shutterstock, the Company, we, our and us refer to Shutterstock, Inc. and its subsidiaries.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Shutterstock, Inc.****Consolidated Balance Sheets****(In thousands, except par value amount)****(unaudited)**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 211,479	\$ 233,453
Short-term investments	54,891	54,844
Credit card receivables	3,791	2,451
Accounts receivable, net	23,735	15,251
Prepaid expenses and other current assets	13,987	12,141
Deferred tax assets, net	5,507	5,390
Total current assets	313,390	323,530
Property and equipment, net	28,964	26,744
Intangible assets, net	32,159	4,934
Goodwill	54,740	10,186
Deferred tax assets, net	18,132	16,484
Other assets	1,974	1,899
Total assets	\$ 449,359	\$ 383,777
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,298	\$ 5,334
Accrued expenses	26,301	25,073
Contributor royalties payable	17,435	11,933
Income taxes payable	1,171	
Deferred revenue	89,279	75,789
Other liabilities	4,226	2,198
Total current liabilities	147,710	120,327
Deferred tax liability, net	4,338	
Other non-current liabilities	13,689	12,017
Total liabilities	165,737	132,344
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000 shares authorized; 35,981 and 35,603 shares outstanding as of June 30, 2015 and December 31, 2014, respectively	360	356
Additional paid-in capital	198,029	174,821
Accumulated comprehensive loss	(232)	(629)

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Retained earnings	85,465	76,885
Total stockholders' equity	283,622	251,433
Total liabilities and stockholders' equity	\$ 449,359	\$ 383,777

See Notes to Unaudited Consolidated Financial Statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenue	\$ 104,365	\$ 80,238	\$ 201,887	\$ 153,016
Operating expenses:				
Cost of revenue	42,545	32,047	82,070	61,159
Sales and marketing	27,429	20,492	52,534	39,768
Product development	10,189	9,275	20,873	17,052
General and administrative	14,536	10,013	28,508	17,552
Total operating expenses	94,699	71,827	183,985	135,531
Income from operations	9,666	8,411	17,902	17,485
Other (expense) income, net	(57)		(2,619)	46
Income before income taxes	9,609	8,411	15,283	17,531
Provision for income taxes	4,272	3,550	6,703	7,753
Net income	\$ 5,337	\$ 4,861	\$ 8,580	\$ 9,778
Less:				
Undistributed earnings to participating stockholder		10	2	21
Net income available to common stockholders	\$ 5,337	\$ 4,851	\$ 8,578	\$ 9,757
Net income per basic share available to common stockholders:				
Undistributed	\$ 0.15	\$ 0.14	\$ 0.24	\$ 0.28
Basic	\$ 0.15	\$ 0.14	\$ 0.24	\$ 0.28
Net income per diluted share available to common stockholders:				
Undistributed	\$ 0.15	\$ 0.14	\$ 0.24	\$ 0.27
Diluted	\$ 0.15	\$ 0.14	\$ 0.24	\$ 0.27
Weighted average shares outstanding:				
Basic	35,864,051	35,148,876	35,750,077	35,089,254
Diluted	36,339,517	35,874,789	36,266,989	35,857,899

See Notes to Unaudited Consolidated Financial Statements.



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**Shutterstock, Inc.**

**Consolidated Statements of Comprehensive Income**

**(In thousands)**

**(unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 5,337	\$ 4,861	\$ 8,580	\$ 9,778
Foreign currency translation gain	3,478	18	380	19
Unrealized gain on investments	9	15	17	16
Other comprehensive income	3,487	33	397	35
Comprehensive income	\$ 8,824	\$ 4,894	\$ 8,977	\$ 9,813

See Notes to Unaudited Consolidated Financial Statements

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## Shutterstock, Inc.

## Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Six Months Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 8,580	\$ 9,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,494	3,632
Write-off of property and equipment		367
Deferred taxes	(1,825)	(2,474)
Non-cash equity-based compensation	15,088	9,393
Change in fair value of contingent consideration	900	40
Excess tax benefit from the exercise of stock options	(1,700)	(8,721)
Bad debt reserve	814	189
Chargeback and sales refund reserves	20	105
Changes in operating assets and liabilities:		
Credit card receivables	(1,356)	(815)
Accounts receivable	(6,202)	(5,227)
Prepaid expenses and other current and non-current assets	3,056	8,963
Accounts payable and other current and non-current liabilities	1,669	6,638
Contributor royalties payable	2,288	1,665
Income taxes payable	(1,203)	
Deferred revenue	13,476	13,254
Net cash provided by operating activities	\$ 40,099	\$ 36,787
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(6,084)	(14,780)
Purchase of investments	(130,982)	(141,788)
Sale and maturities of investments	130,953	141,235
Acquisition of businesses, net of cash	(62,379)	(10,056)
Acquisition of digital content	(1,473)	
Security deposit payment	(71)	(76)
Net cash used in investing activities	\$ (70,036)	\$ (25,465)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of stock options	5,697	4,486
Proceeds from issuance of common stock under 2012 Employee Stock Purchase Plan	1,052	945
Excess tax benefit from the exercise of stock options	1,700	8,721
Net cash provided by financing activities	\$ 8,449	\$ 14,152
Effect of foreign exchange rate changes on cash	(486)	22
Net (decrease) increase in cash and cash equivalents	(21,974)	25,496
Cash and cash equivalents Beginning	233,453	155,355
Cash and cash equivalents Ending	\$ 211,479	\$ 180,851
<b>Supplemental Disclosure of Cash Information:</b>		
Cash paid for:		
Income taxes	\$ 7,807	\$ 159

**Supplemental Disclosure of Non-Cash Investing and Financing Activities:**

Capital expenditures in accounts payable and other liabilities	\$	\$	936
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See Notes to Unaudited Consolidated Financial Statements.

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**Shutterstock, Inc.**

**Notes to Unaudited Consolidated Financial Statements**

**(In thousands, except share and per share data)**

**(1) Summary of Operations and Significant Accounting Policies**

*Summary of Operations*

Shutterstock, Inc. (the Company or Shutterstock) operates an industry-leading global marketplace for commercial digital content, including images, video and music. Commercial digital imagery consists of licensed photographs, illustrations and video clips that companies use in their visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and video content while commercial music consists of high-quality music tracks which are often used to complement the digital imagery. The Company licenses commercial digital imagery and music to its customers. Contributors upload their digital imagery and music tracks to the Company's website in exchange for a royalty payment based on customer download activity. The Company is headquartered in New York City with offices in Amsterdam, Berlin, Chicago, Dallas, Denver, London, Los Angeles, Montreal, Paris, and San Francisco.

*Principles of Consolidation*

The consolidated financial statements reflect the operations of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current presentation.

*Unaudited Interim Financial Statements*

The interim consolidated balance sheet as of June 30, 2015, the consolidated statements of operations and, comprehensive income for the three and six months ended June 30, 2015 and 2014, and the consolidated statements of cash flows for the six months ended June 30, 2015 and 2014 are unaudited. The 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 June 30, 2015 and its results of consolidated operations, comprehensive income and cash flows for the three and six months ended June 30, 2015 and 2014. The financial data and the other financial information disclosed in these notes to the financial statements related to these periods are also unaudited. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2015 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, 2014 filed with the SEC on February 27, 2015. These financial statements should also be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014. Certain information and note disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) have been omitted pursuant to such rules and regulations. The consolidated balance sheet as of December 31, 2014 included herein was derived from the audited financial statements as of that date, but does not include all disclosures required by GAAP.

#### *Acquisition Activity in 2015*

##### *Rex Features (Holdings) Limited*

On January 19, 2015, the Company acquired all of the shares of Rex Features (Holdings) Limited ( Rex Features ) pursuant to a stock purchase 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.

Rex Features is a photographic press agency in Europe that offers media companies and advertisers images and videos, including a live feed of edited celebrity, entertainment, sports and news images and videos, along with access to a multi-decade archive of iconic images. With Rex Features' editorial expertise and Shutterstock's technical capabilities and position in the market place, the Company believes that this acquisition will strengthen its strategic position and bring a comprehensive offering to market across both editorial and commercial content.

The fair value of consideration transferred in this business combination 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 allocation of the purchase price for this acquisition has been prepared on a preliminary basis, and changes to those allocations may occur as additional information becomes available.

The total purchase price consisted of a cash payment of \$32,727 subject to certain working capital adjustments. The aggregate purchase price was allocated to the assets acquired and liabilities assumed as follows:

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Assets:	
Cash	\$ 1,525
Accounts receivables	2,908
Other assets	356
Fixed assets	92
Intangible Assets:	
Customer relationships	13,768
Trade name	4,993
Developed technology	3,026
Photo library	484
Goodwill	14,918
Total assets acquired	\$ 42,070
Liabilities:	
Accounts payable	\$ (253)
Contributor payable	(2,249)
Accrued expenses	(2,387)
Deferred tax liability	(4,454)
Total liabilities assumed	\$ (9,343)
Total	\$ 32,727

The identifiable intangible assets have a weighted average life of approximately eight years and are being amortized on a straight-line basis. The fair value of the customer relationships was determined using a variation of the income approach known as the multiple-period excess earnings method. The fair value of the trade name was determined using the relief-from-royalty method. The fair values of the developed technology and photo library were both determined using the replacement cost method. The goodwill arising from the transaction is primarily attributable to expected operational synergies and is not deductible for income tax purposes. As a result of the acquisition, the Company recorded approximately \$13 and \$143, respectively, of professional fees for the three and six months ended June 30, 2015, which is included in general and administrative expense.

***Arbour Interactive Inc.***

On January 22, 2015, the Company acquired substantially all of the assets and certain liabilities of Arbour Interactive Inc. ( PremiumBeat ) pursuant to an asset purchase 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.

PremiumBeat is a leading provider of exclusive, high-quality music and sound effects for use in videos, films, television, applications, games, and other creative projects. PremiumBeat works with composers to offer a high-quality library of exclusive music primarily to businesses, including advertising and media agencies, as well as Fortune 500 companies. The Company plans to continue to operate the acquired assets under the PremiumBeat brand but also intends to combine PremiumBeat with the existing Shutterstock Music business in order to leverage PremiumBeat's experience in the music market.

The fair value of consideration transferred in this business combination 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 allocation of the purchase price for this acquisition has been prepared on a preliminary basis, and changes to those allocations may occur as additional information becomes available.

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The total purchase price of \$35,445 consisted of a cash payment of \$31,700 and \$3,745 in contingent consideration based on certain performance criteria of post-acquisition revenue related to the Company's music business. The fair value of the contingent consideration was determined using a Black-Scholes model with subsequent changes in the fair value expensed in earnings. The Company is obligated to pay a cash payment of up to \$10,000 in early 2017 contingent upon the achievement of the performance criteria. The aggregate purchase price was allocated to the assets acquired and liabilities assumed as follows:

Assets:	
Other assets	\$ 963
Fixed assets	205
Intangible Assets:	
Customer relationships	3,000
Trade name	1,400
Music catalog	584
Developed technology	178
Goodwill	29,849
Deferred tax asset	229
Total assets acquired	\$ 36,408
Liabilities:	
Contributor payable	\$ (896)
Accrued expenses	(44)
Deferred revenue	(23)
Total liabilities assumed	\$ (963)
Total	\$ 35,445

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The identifiable intangible assets have a weighted average life of approximately six years and are being amortized on a straight-line basis. The fair value of the customer relationships was determined using a variation of the income approach known as the multiple-period excess earnings method. The fair value of the trade name was determined using the relief-from-royalty method. The fair values of the music catalog and developed technology were both determined using the replacement cost method. The goodwill arising from the transaction is primarily attributable to expected operational synergies and is deductible for income tax purposes. As a result of the acquisition, the Company recorded approximately \$14 and \$244, respectively, of professional fees for the three and six months ended June 30, 2015, which is included in general and administrative expense.

*Unaudited Pro forma consolidated financial information*

The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the three and six months ended June 30, 2015 and 2014, as if the Rex Features and PremiumBeat acquisitions completed during fiscal 2015 had closed on January 1, 2014, after giving effect to certain purchase accounting adjustments. These pro forma results are not necessarily indicative of what the Company's operating results would have been had the acquisitions actually taken place at the beginning of the period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	\$ 104,365	\$ 86,365	\$ 203,159	\$ 164,899
Net income	\$ 5,337	\$ 4,956	\$ 8,584	\$ 10,130

*Acquisition Activity in 2014**Virtual Moment, LLC*

On March 14, 2014, the Company acquired certain assets and certain liabilities of Virtual Moment, LLC ( WebDAM ) pursuant to an asset purchase 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.

WebDAM sells digital asset management software services through its cloud-based platform to marketing and creative enterprise organizations. WebDAM's products help organizations manage, search, distribute and collaborate on creative digital files in order to grow their brands and reach new audiences. WebDAM's offerings are particularly attractive to large enterprises, which make up a significant portion of its client base. The Company believes that this acquisition will strengthen its strategic position with its enterprise customers as well as broaden its product offerings to larger companies.



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The fair value of consideration transferred in this business combination 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 total purchase price of \$12,416 consisted of a cash payment of \$10,056 and \$2,360 in contingent consideration based on certain performance criteria of post-acquisition revenue with subsequent changes expensed in earnings as the performance criteria is achieved. The Company is obligated to pay a cash payment of up to \$4,000 in early 2016 contingent upon the achievement of the performance criteria. The fair value of the contingent consideration was determined using a Monte Carlo simulation model. The aggregate purchase price was allocated to the assets acquired and liabilities assumed as follows:

Assets:	
Intangible assets:	
Trade name	500
Customer relationships	2,800
Developed technology	600
Goodwill	8,763
Total assets acquired	\$ 13,499
Total liabilities assumed	(1,083)
Total	\$ 12,416

The identifiable intangible assets have a weighted average life of approximately seven years and are being amortized on a straight-line basis. The fair value of the customer relationships was determined using a variation of the income approach known as excess earnings method. The fair values of the trade name and developed technology were both determined using the relief-from-royalty method. The goodwill arising from the transaction is primarily attributable to expected operational synergies and is deductible for income tax purposes. As a result of the acquisition, the Company recorded approximately \$300 of professional fees for the six months ended June 30, 2014. There were no professional fees related to the deal for the three months ended June 30, 2014. The professional fees are included in general and administrative expense.

Pro forma results of operations have not been presented because the effect of this business combination was not material to the Company's consolidated results of operations.

*Use of Estimates*

The preparation of the consolidated financial statements in conformity with 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, contingent consideration, sales refund reserve, goodwill, intangibles, non-cash equity-based compensation, income tax provision and for 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.



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***Restricted Cash***

The Company's restricted cash relates to security deposits for leased office locations. As of June 30, 2015 and December 31, 2014, the Company had \$182 of restricted cash recorded in prepaid expenses and other current assets that related to a leased office location that expires in the next twelve months and had \$1,829 of restricted cash recorded in other assets that related to a leased office location that expires in 2024. The carrying value of restricted cash approximates fair value.

***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 June 30, 2015, the Company recorded a deferred rent balance of \$7,845, of which \$231 is included in other liabilities and \$7,614 is included in other non-current liabilities. As of December 31, 2014, the Company recorded deferred rent of \$8,036, of which \$693 was included in other liabilities and \$7,343 was included in other non-current liabilities.

***Revenue Recognition***

The vast majority of the Company's revenue, net of chargebacks and refunds, is generated from the license of digital content through subscription or usage based plans. The Company recognizes revenue when all of the following basic criteria are met: there is persuasive evidence of an arrangement, performance or delivery of services has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. The Company considers persuasive evidence of an arrangement to be an electronic order form, or a signed contract, both of which must contain or communicate the fixed and agreed upon pricing terms. Performance or delivery is considered to have occurred upon the ratable passage of time for subscription plans, the download and in certain cases the usage of digital content or the expiration of a contract period for which there are unused downloads or credits. Collectability is reasonably assured since most of the Company's customers purchase products by making electronic payments at the time of a transaction with a credit card. 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 June 30, 2015 and December 31, 2014, the Company recorded a combined chargeback allowance and sales refund allowance of \$680 and \$660, respectively, which is included in other liabilities. Collectability is assessed for customers who pay on credit based on a credit evaluation for new customers, when necessary, and transaction history with existing customers. Any cash received in advance of revenue recognition is recorded as deferred revenue.

Subscription plans range in length from thirty days to one year. Revenue from subscription plans with daily limits are recognized on a straight-line basis using a daily convention method over the plan term. Revenue from subscription plans with monthly limits are recognized on a per usage basis or when the right to download expires. On Demand plans are typically for a one-year term and permit the customer to download up to a fixed amount of digital content. Revenue from On Demand products are generally recognized at the time the customer downloads the digital content on a per unit basis. Revenue related to unused digital content, if any, is recognized in full at the end of the plan term assuming no further Company obligation remains. Credit pack plans are generally for a one-year term and enable the customer to purchase a fixed number of credits which can then be utilized to pay for downloaded digital content. The number of credits utilized for each download depends on the digital content size and format. Credit pack revenue is recognized based on customer usage on a per credit basis as digital content is downloaded. Revenue related to unused credits, if any, is recognized in full at the end of the plan term assuming no further Company obligation remains. Most plans automatically renew at the end of the plan term unless the customer elects not to renew. The Company recognizes revenue from its three types of plans on a gross basis in accordance with the authoritative guidance on principal-agent considerations as the Company is the

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primary obligor in the arrangement, has control in establishing the product's price, performs a detailed review of the digital content before accepting it to its collection to ensure it is of high quality before it may be purchased by the customers, can reject contributor's images in its sole discretion, and has credit risk.

Customers typically pay in advance (or upon commencement of the term) via credit card, wire or check. Fees paid or invoiced in advance are deferred and recognized as described above. Customers that do not pay in advance are invoiced and are required to make payment under standard credit terms. The Company does not generally offer refunds or a right of return to customers. There are situations in which a customer may receive a refund but the determination is made on a case-by-case basis.

The Company also licenses digital content to customers through third party resellers. The Company contracts with third party resellers around the world to access markets where the Company does not have a significant presence. Third party resellers sell the Company's products directly to end-user customers and remit a fixed amount to the Company based on the type of content sold. The terms of the reseller program indicate that the third party reseller is the primary obligor to the end-user customer and bears the risks and rewards as principal in the transaction. In assessing whether the Company's revenue should be reported on a gross or net basis with respect to its reseller program, the Company follows the authoritative guidance of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 605-45, Principal Agent Considerations. The Company recognizes revenue net of reseller commission in accordance with the type of content sold, consistent with the plan descriptions above. The Company generally does not offer refunds or a right of return to resellers.

The Company also generates revenue related to WebDAM from licensing its hosted software services through its cloud-based platform and related implementation and professional services. The Company enters into multiple element revenue arrangements in which a customer purchases a combination of hosted software, implementation and optional value added professional services. The Company recognizes revenue for the hosted services monthly provided that there is persuasive evidence of an arrangement, the service has been delivered, the fees are fixed and determinable, and collection is reasonably assured. ASC 605-25 establishes a selling price hierarchy for determining the selling price of a deliverable in multiple-element arrangements, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) best estimated selling price. The hosted software services are recognized ratably over the contractual period as this service is on-going over the hosting period which is generally a one-year term. The Company recognizes any setup or implementation revenue ratably over the longer of the contractual term or the estimated customer relationship period which is currently three years. Any value added professional services are recognized upon completion.

### *Equity-Based Compensation*

The Company measures and recognizes non-cash equity-based compensation expense for all equity-based awards granted to employees based on estimated fair values. The value portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period. For awards with a change of control condition, an evaluation is made at the grant date and

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future periods as to the likelihood of the condition being met. Compensation expense is adjusted in subsequent periods for changes, if any, in the expected outcome of the change of control conditions until the vesting date. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Compensation expense related to awards with a market condition is recognized ratably over the requisite service period regardless of the achievement of the market condition.

The Company uses the Black Scholes option pricing model, the closing price of the Company's common stock on the date of grant, and the Monte Carlo simulation model, if the award has a market condition, to determine the fair value of stock options and restricted stock units (RSUs) granted pursuant to the Value Appreciation Rights Plan (the VAR Plan), the 2012 Omnibus Equity Incentive Plan (the 2012 Plan) and stock purchased pursuant to the 2012 Employee Stock Purchase Plan (the 2012 ESPP), which are discussed further in Note 10, Equity-Based Compensation.

The determination of the grant date fair value using an option-pricing model and simulation model requires judgment as well as assumptions regarding a number of other complex and subjective variables. These variables include the fair value of the Company's common ownership interest pre-initial public offering (IPO), the Company's closing market price at the grant date post-IPO, the expected unit price volatility over the expected term of the awards, awards' exercise and cancellation behaviors, risk-free interest rates, and expected dividends, which are estimated as follows:

- ***Fair Value of Common Membership Unit.*** Prior to completion of the IPO, the Company's fair value of common ownership interest was estimated internally and approved by the Board of Managers (BOM) because the Company was not publicly traded. The Company's intention upon granting VAR Plan awards was for the granted award to have exercisable price per unit that was not less than the per unit fair value of the Company's common equity on the date of grant. The valuations of the Company's common equity unit were prepared in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services 1: *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*. The assumptions used in the valuation model were based on future expectations combined with the Company's judgment. In the absence of a public trading market, the Company exercised significant judgment and considered numerous objective and subjective factors to determine the fair value of the common equity unit as of the date of each VAR Plan award grant. Some but not all of these factors included operating and financial performance, current business conditions and projections, the hiring of key personnel, the Company's history and introduction of new functionality and services, the Company's stage of development, the likelihood of achieving a liquidity event for the common ownership interests, any adjustment necessary to recognize a lack of marketability for the common ownership interests, the market performance of comparable publicly traded companies, and U.S. and global capital market conditions. The Company also obtained independent third party valuations on a periodic basis. After October 11, 2012, the date the Company's common stock began trading on the New York Stock Exchange (NYSE), the grant date fair value for stock-based awards is based on the closing price of the Company's common stock on the NYSE on the date of grant and fair value for all other purposes related to stock-based awards shall be the closing price of the Company's common stock on the NYSE on the relevant date.

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- **Expected Term.** The expected term is estimated using the simplified method allowed under SEC guidance.
- **Volatility.** As the Company does not have a trading history for its common ownership interest pre-IPO, the expected price volatility for the common ownership interest and common stock was estimated by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the VAR Plan awards and stock options granted post-IPO. Industry peers consist of several public companies similar in size, stage of life cycle and financial leverage. The Company did not rely on implied volatilities of traded options in the industry peers' common stock because the volume of activity was relatively low. The Company intends to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of the Company's own common stock becomes available, or unless circumstances change such that the identified companies are no longer similar to the Company, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.
- **Risk-free Interest Rate.** The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of each award group.
- **Dividend Yield.** Prior to October 5, 2012, the date at which the Company reorganized from Shutterstock Images LLC, a New York limited liability company (the "LLC"), to Shutterstock, Inc., a Delaware corporation (the "Reorganization"), the Company had historically paid cash dividends or distributions to its members. Following the Reorganization, the Company has not paid cash distributions to its stockholders and it does not intend to do so for the foreseeable future. As a result, the Company used an expected dividend yield of zero.

If any of the assumptions used in the Black-Scholes pricing model or Monte Carlo simulation model changes significantly, the fair value for future awards may differ materially compared with the awards granted previously. The awards granted pursuant to the VAR Plan, the 2012 Plan, and the 2012 ESPP are subject to a time-based vesting requirement and for certain award grants are also based on a market condition. The majority of stock option awards granted under the 2012 Plan vest over four years while the majority of the restricted stock units granted under the 2012 Plan vest over three years. The 2012 ESPP provides for purchase periods approximately every six months and a participant must be employed on the purchase date to participate. The VAR Plan awards had a condition that a change of control (as defined in the VAR Plan) must occur for a payment to trigger with respect to the VAR Plan awards. In connection with the Reorganization, all of the VAR Plan awards were exchanged for options to purchase shares of common stock of Shutterstock, Inc. As a result of the completion of the IPO in October 2012, the Company began recording equity-based compensation expense using the accelerated attribution method, net of forfeitures, based on the grant date fair value of the VAR Plan awards that were exchanged for options to purchase shares of common stock of Shutterstock, Inc. as part of the Reorganization.

For pre-IPO equity based awards that qualified for liability classification, the Company has elected to use the intrinsic value method to value the common membership interest in accordance with authoritative guidance on stock compensation. See Note 10, Equity-Based Compensation, for further information.

*Income Taxes*

The Company is a Delaware corporation and is therefore subject to federal and state income tax. Significant management judgment is required in projecting ordinary income in order to determine the Company's estimated effective tax rate.

The Company accounts for unrecognized tax benefits using a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes may be due. The Company records an income tax liability, if any, for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on the Company's tax returns. To the extent that the assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. The reserves are adjusted in light of changing facts and circumstances, such as the outcome of a tax audit or lapses in statutes of limitations. Any reserve for uncertain tax provisions, if any, and related penalties and interest, if any, are included in the income tax provision.

The Company 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. The Company will continue to evaluate its ability to realize deferred tax assets on a quarterly basis. 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.

The Company is subject to compliance requirements for certain non-income taxes, including value added taxes, sales taxes and royalty withholding taxes. Where appropriate, the Company has made accruals for these taxes, which are reflected in the Company's consolidated financial statements.

Table of Contents***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. The Company applies the two-class method for calculating and presenting income per share. Under the two-class method, net income is allocated between shares of common stock and other participating securities based on their contractual participating rights to share in the earnings as if all of the earnings for the period have been distributed. Participating securities are defined as securities that participate in dividends with common stock according to a pre-determined formula or a contractual obligation to share in the income of the entity. Any potential issuance of common shares, including those that are contingent and do not participate in dividends, are excluded from weighted average number of common shares outstanding. Undistributed net income (loss) for a given period is apportioned to participating stockholders based on the weighted average number of shares for each class of securities outstanding during the applicable period as a percentage of the combined weighted average number of these securities outstanding during the period. Income available to common stockholders is computed by deducting dividends paid to preferred stockholders, accretion to redemption value on preferred members shares, less income allocated to participating securities including unvested shares for the restricted award holder since these unvested shares have participating rights. See Note 10, Equity-Based Compensation, for further discussion.

Diluted net income per share is computed by dividing the net income available to common stockholders adjusted for any changes in income that would result from the assumed conversion of the potential common shares by the weighted average common shares outstanding and all potential common shares, if they are dilutive. Diluted net income available to common stockholders for the three and six months ended June 30, 2015 includes the effect of 1,927,657 and 1,966,932 shares, respectively, while 685,998 and 687,506 shares, respectively, were excluded since they were anti-dilutive. Diluted net income available to common stockholders for the three and six months ended June 30, 2014 includes the effect of 2,258,623 and 2,173,402 shares, respectively, while 621,799 and 400,842 shares, respectively, were excluded since they were anti-dilutive.

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Basic	35,864,051	35,148,876	35,750,077	35,089,254
Stock options and employee stock purchase plan shares	362,986	625,273	390,460	665,628
Unvested restricted stock awards	112,480	100,640	126,452	103,017
Diluted	36,339,517	35,874,789	36,266,989	35,857,899

***Recently Issued Accounting Standard Updates***

In May 2014, the FASB issued new accounting guidance related to revenue recognition ( ASU 2014-09 ). This new standard will replace all current 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 ASU 2014-09 by one year. As a result, ASU 2014-09 will be effective for the Company's fiscal year beginning January 1, 2018. 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.



**(2) Short Term Investments and Fair Value Measurements**

Short term investments are summarized as follows:

	As of June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Market Value
Commercial paper	\$ 54,895	\$	\$ (4)	\$ 54,891
Total	\$ 54,895	\$	\$ (4)	\$ 54,891

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	As of December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Market Value
Commercial paper	\$ 54,848	\$	\$ (4)	\$ 54,844
Total	\$ 54,848	\$	\$ (4)	\$ 54,844

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

	As of June 30, 2015			
	Aggregate Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>				
Money market accounts	\$ 81,276	\$ 81,276	\$	\$
Commercial paper	54,891		54,891	
Total assets measured at fair value	\$ 136,167	\$ 81,276	\$ 54,891	\$
<b>Liabilities:</b>				
Acquisition related contingent consideration	\$ 7,105	\$	\$	\$ 7,105
Total liabilities measured at fair value	\$ 7,105	\$	\$	\$ 7,105

	As of December 31, 2014			
	Aggregate Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>				
Money market accounts	\$ 81,244	\$ 81,244	\$	\$
Commercial paper	54,844		54,844	
Total assets measured at fair value	\$ 136,088	\$ 81,244	\$ 54,844	\$
<b>Liabilities:</b>				
Acquisition related contingent consideration	\$ 2,560	\$	\$	\$ 2,560
Total liabilities measured at fair value	\$ 2,560	\$	\$	\$ 2,560

The Company's investments classified as level 2 are priced using quoted market prices for identical assets which are subject to infrequent transactions. Cash equivalents consist of balances in money market accounts which are classified as a level 1 measurement based on bank reporting. The Company reassesses the fair value of contingent consideration to be settled in cash related to the PremiumBeat and WebDAM acquisitions on a quarterly basis using the Black-Scholes and Monte Carlo simulation models, respectively. These contingencies are considered a level 3 measurement. Significant assumptions used in the measurement include probabilities of achieving certain milestones and discount rates which are based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. As a result of a shorter discounting period, the Company recorded changes in the fair value of the contingent consideration in the amount of \$385 and \$900 during the three and six months ended June 30, 2015 and recorded changes in the fair value of the contingent consideration in the amount of \$40 and \$40 during the three and six months ended June 30, 2014. The Company records changes in the fair value of the contingent consideration in other (expense) income, net. As of June 30, 2015, the fair value of the contingent consideration increased to \$7,105 based on its current fair value of which \$2,760 related to the WebDAM acquisition is included in other liabilities and \$4,345 related to the PremiumBeat acquisition is included in other non-current liabilities.

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Cash, accounts receivable, restricted cash, accounts payable, accrued expenses and deferred revenue carrying amounts approximate fair value because of the short-term maturity 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 the non-financial asset be recorded at the fair value.

Table of Contents**(3) Revenue By Geographic Area**

The following table presents the Company's revenue based on customer location:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
North America	\$ 41,189	\$ 29,212	\$ 78,695	\$ 55,777
Europe	34,944	28,596	69,046	55,212
Rest of the world	28,232	22,430	54,146	42,027
Total revenue	\$ 104,365	\$ 80,238	\$ 201,887	\$ 153,016

Included in North America is the United States which comprised 34% and 32% of total revenue for the three months ended June 30, 2015 and 2014, respectively, and 34% and 32% of total revenue for the six months ended June 30, 2015 and 2014, respectively. Included in Europe is the United Kingdom which comprised 10% and 11% of total revenue for the three and six months ended June 30, 2015. For the three and six months ended June 30, 2014, the United Kingdom revenue was less than 10% of total revenue. No other country accounts for more than 10% of the Company's revenue in any period.

The Company's long-lived tangible assets were located as follows:

	June 30, 2015	December 31, 2014
North America	\$ 28,568	\$ 26,651
Europe	396	93
Rest of the world		
Total long-lived tangible assets	\$ 28,964	\$ 26,744

**(4) Goodwill and Intangible Assets**

The Company's goodwill balance is attributable to its Bigstockphoto ( Bigstock ), WebDAM, Rex Features and PremiumBeat reporting units and is tested for impairment at least annually on October 1 or upon a triggering event. The following table summarizes the changes in the Company's goodwill balance through June 30, 2015:

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	Content Business	Other Category	Foreign Currency Translation Adjustment	Consolidated
Balance as of December 31, 2014	\$ 1,423	\$ 8,763	\$	\$ 10,186
Goodwill related to acquisitions	44,767		(213)	44,554
Balance as of June 30, 2015	\$ 46,190	\$ 8,763	\$ (213)	\$ 54,740

Intangible assets consist of the following as of June 30, 2015 and December 31, 2014:

	As of June 30, 2015			Contractual Weighted Average Life (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Amortizing intangible assets:				
Customer relationship	\$ 20,630	\$ (2,004)	\$ 18,626	9
Trade name	7,438	(703)	6,735	7
Developed technology	3,916	(594)	3,322	4
Contributor content	3,569	(326)	3,243	9
Patents	193	(35)	158	17
Domain name	97	(22)	75	14
Total	\$ 35,843	\$ (3,684)	\$ 32,159	

	As of December 31, 2014			Weighted Average Life (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Amortizing intangible assets:				
Customer relationship	\$ 3,400	\$ (921)	\$ 2,479	6
Trade name	900	(230)	670	9
Developed technology	600	(68)	532	7
Contributor content	450	(159)	291	15
Patents	193	(30)	163	17
Domain name	97	(19)	78	14
Total (1)	\$ 5,640	\$ (1,427)	\$ 4,213	

(1) During the year ended December 31, 2014, the Company acquired the non-exclusive licensing rights to distribute certain digital content in perpetuity in the amount of \$721. The Company had not yet placed the digital content into service as of December 31, 2014 and therefore the amount is excluded from the corresponding table.

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Amortization expense was \$1,263 and \$167 for the three months ended June 30, 2015 and 2014, respectively, and \$2,206 and \$218 for the six months ended June 30, 2015 and 2014, respectively. The Company also 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: \$2,559 for the remaining six months of 2015, \$5,067 in 2016, \$5,067 in 2017, \$4,032 in 2018, \$3,879 in 2019 and \$11,555 thereafter.

**(5) Property and Equipment**

Property and equipment is summarized as follows:

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Computer equipment and software	\$ 28,848	\$ 24,179
Furniture and fixtures	2,761	2,336
Leasehold improvements	14,420	13,954
Property and equipment	46,029	40,469
Less accumulated depreciation	(17,065)	(13,725)
Property and equipment, net	\$ 28,964	\$ 26,744

Depreciation expense amounted to \$2,235 and \$1,914 for the three months ended June 30, 2015 and 2014, respectively, and \$4,288 and \$3,414 for the six months ended June 30, 2015 and 2014, respectively. Depreciation expense is included in cost of revenue and general and administrative expense based on the nature of the asset being depreciated.

**(6) Accrued Expenses**

Accrued expenses consist of the following:

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Royalty tax withholdings	\$ 6,506	\$ 5,987
Compensation	6,346	8,312
Non-income taxes	5,627	4,670
Payroll tax withholdings	3,011	478
Professional fees	1,042	1,708
Marketing expenses	307	794
Other expenses	3,462	3,124
Total accrued expenses	\$ 26,301	\$ 25,073

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**(7) Income Taxes**

The Company's effective tax rates for the three months ended June 30, 2015 and 2014 are 44.5% and 42.1%, respectively. The Company's effective tax rates for the six months ended June 30, 2015 and 2014 are 43.9% and 44.2%, respectively. The Company incurred discrete tax expenses primarily relating to a change in its state apportionment percentage during the three and six months ended June 30, 2015. The net effect of all the Company's discrete tax expenses increased the effective tax rate by 1.4% and 2.2% for the three and six months ended June 30, 2015, respectively. The Company has computed the provision for income taxes based on the estimated annual effective tax rates and the application of discrete items, if any, in the applicable period. The effective tax rate differs from the statutory tax rate due primarily to non-deductible expenses related to non-cash equity-based compensation, and meals and entertainment.

During the three and six months ended June 30, 2015 and 2014, the Company recorded unrecognized tax benefits in the amount of \$0 and \$11 for uncertain tax positions taken in prior years. During the three and six months ended June 30, 2014, the Company did not record additional unrecognized tax benefits. To the extent these 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 accrued interest and penalties in the amount of \$27 and \$25 related to unrecognized tax benefits for the three months ended June 30, 2015 and 2014, respectively, and during the six months ended June 30, 2015 and 2014, the Company accrued interest and penalties in the amount of \$64 and \$47, respectively, related to unrecognized tax benefits.

It is the Company's practice and intention to indefinitely reinvest the earnings of its foreign subsidiaries in those operations. As of June 30, 2015, the excess of the amount for financial reporting over the tax basis of investment in these foreign subsidiaries is insignificant and the unrecognized deferred tax liability is not material.

**(8) Commitments and Contingencies**

The Company leases facilities under agreements accounted for as operating leases. Rental expense, inclusive of operating leases, for the three months ended June 30, 2015 and 2014 was \$1,187 and \$976, respectively, and for the six months ended June 30, 2015 and 2014 was \$2,325 and \$2,167, 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.

On March 21, 2013, the Company entered into an operating lease agreement to lease its new office facility in New York, New York. In connection with the lease agreement, the Company entered into a letter of credit in the amount of \$1,829 as a security deposit for the leased facilities. The letter of credit was collateralized by \$1,829 of cash as of June 30, 2015 and December 31, 2014, and as such, is considered to be restricted cash and is included in other assets in the consolidated balance sheet. The lease term is eleven years from the commencement date and aggregate future minimum lease payments are approximately \$35,900.

*Capital Expenditures*

As of June 30, 2015, the Company had no significant purchase commitments related to capital expenditures. As of December 31, 2014, the Company had committed to purchase approximately \$1,400 of data server equipment related to expansion of the existing business.

*Unconditional Purchase Obligations*

As of June 30, 2015 and December 31, 2014, the Company had unconditional purchase obligations in the amount of approximately \$8,500 and \$9,400, respectively, which consisted primarily of contracts related to infrastructure services.

As of June 30, 2015, the Company's unconditional purchase obligations for the remainder of 2015 and for the years ending December 31, 2016, 2017 and 2018 were approximately \$3,200, \$3,900, \$1,300 and \$100, respectively. As of December 31, 2014, the Company's unconditional purchase obligations for the years ending December 31, 2015, 2016 and 2017 were approximately \$5,800, \$3,200 and \$400, 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.



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***Indemnification***

In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to provide indemnification of varying scope and terms to customers with respect to certain matters, including losses arising out of the breach of Company's intellectual property warranties for damages to the customer directly attributable to the Company's breach. The Company is not responsible for any damages, costs, or losses to the extent such damages, costs or losses arise as a result of the modifications made by the customer, or the context in which an image is used. The maximum aggregate obligation and liability for all claims related to a single downloaded image or video clip ranges from \$10 to unlimited indemnification. As of June 30, 2015 and December 31, 2014, the Company had recorded no 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.

***Employment Agreements***

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

**(9) Employee Benefit Plans**

The Company has a 401(k) defined contribution plan ( "401(k) Plan" ) and provides for annual discretionary employer matching contributions not to exceed 3% of employees' compensation per year. Matching contributions are fully vested and non-forfeitable at all times.

The Company recorded employer matching contributions of \$353 and \$237 for the three months ended June 30, 2015 and 2014, respectively, and \$677 and \$445 for the six months ended June 30, 2015 and 2014, respectively.

**(10) Equity-Based Compensation**

***Stock Option Awards***

The following table presents a summary of the Company's stock option awards activity for the six months ended June 30, 2015: