Shutterstock, Inc.
Form 10-Q
October 31, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35669

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

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

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. x Yes o 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). x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	
	Smaller reporting company o

Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x 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 October 27, 2017
Common Stock, $0.01 par value per share	34,674,947

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For the Quarterly Period Ended September 30, 2017

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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 27, 2017, 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 appea 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, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 212,782	$ 224,190
Short-term investments	22,500	54,972
Accounts receivable, net	44,896	38,107
Prepaid expenses and other current assets	35,878	22,569
Total current assets	316,056	339,838
Property and equipment, net	77,770	56,101
Intangible assets, net	43,015	30,157
Goodwill	90,524	49,271
Deferred tax assets, net	18,342	23,013
Other assets	6,842	3,398
Total assets	$ 552,549	$ 501,778
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,210	$ 7,305
Accrued expenses	51,989	41,106
Contributor royalties payable	20,072	20,473
Deferred revenue	146,430	122,235
Other liabilities	1,665	12,378
Total current liabilities	230,366	203,497
Deferred tax liability, net	1,664	2,147
Other non-current liabilities	13,139	9,438
Total liabilities	245,169	215,082
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, $0.01 par value; 200,000 shares authorized; 37,219 and 36,926 shares issued and 34,660 and 34,816 shares outstanding as of September 30, 2017 and December 31, 2016, respectively	373	369
Treasury stock, at cost; 2,559 and 2,110 shares as of September 30, 2017 and December 31, 2016, respectively	(100,027)	(77,567)
Additional paid-in capital	268,565	251,890
Accumulated comprehensive loss	(4,601)	(17,061)
Retained earnings	143,070	129,065
Total stockholders' equity	307,380	286,696
Total liabilities and stockholders' equity	$ 552,549	$ 501,778

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	$141,063	$123,073	$405,282	$364,144
Operating expenses:				
Cost of revenue	58,812	50,184	168,512	150,492
Sales and marketing	36,008	32,977	105,620	91,636
Product development	13,340	11,604	37,276	34,800
General and administrative	27,333	17,020	74,716	54,629
Total operating expenses	135,493	111,785	386,124	331,557
Income from operations	5,570	11,288	19,158	32,587
Other income (expense), net	130	102	2,095	(122)
Income before income taxes	5,700	11,390	21,253	32,465
Provision for income taxes	698	1,999	6,582	9,692
Net income	$5,002	$9,391	$14,671	$22,773
Net income per share:				
Basic	$0.14	$0.27	$0.42	$0.65
Diluted	$0.14	$0.26	$0.42	$0.64
Weighted average shares outstanding:				
Basic	34,643	35,036	34,607	35,123
Diluted	35,177	35,824	35,339	35,855

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,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$5,002	$9,391	$14,671	$22,773
Foreign currency translation gain (loss)	4,325	(2,236)	12,460	(4,641)
Unrealized gain on investments	—	34	—	252
Other comprehensive income (loss)	4,325	(2,202)	12,460	(4,389)
Comprehensive income	$9,327	$7,189	$27,131	$18,384

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, 2017			2016		
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income	$	14,671		$	22,773	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	24,948			14,181		
Deferred taxes	4,346			(3,453		)
Non-cash equity-based compensation	20,128			21,110		
Change in fair value of contingent consideration	—			2,600		
Settlement of contingent consideration liability in excess of acquisition-date fair value	(6,255		)	(1,640		)
Bad debt expense	981			3,338		
Chargeback and sales refund reserves	—			(15		)
Changes in operating assets and liabilities:						
Accounts receivable	(5,361		)	(13,565		)
Prepaid expenses and other current and non-current assets	(10,551		)	(2,882		)
Accounts payable and other current and non-current liabilities	11,282			12,586		
Contributor royalties payable	(681		)	1,702		
Deferred revenue	18,002			19,443		
Net cash provided by operating activities	$	71,510		$	76,178	
CASH FLOWS FROM INVESTING ACTIVITIES						
Capital expenditures	(37,626		)	(26,747		)
Investment sales (purchases), net	32,786			(5,182		)
Acquisition of business, net of cash acquired	(49,512		)	—		
Other investments/advances	(3,101		)	—		
Acquisition of digital content	(2,568		)	(6,214		)

Security deposit (payment)/release	30			(799		)
Net cash used in investing activities	$	(59,991	)	$	(38,942	)
CASH FLOWS FROM FINANCING ACTIVITIES						
Purchase of treasury shares	(24,977		)	(44,916		)
Proceeds from exercise of stock options	1,369			8,235		
Proceeds from issuance of common stock under 2012 Employee Stock Purchase Plan	—			809		
Cash paid related to settlement of employee taxes related to RSU vesting	(5,791		)	—		
Settlement of contingent consideration liability	(3,745		)	(2,360		)
Net cash (used in) provided by financing activities	$	(33,144	)	$	(38,232	)
Effect of foreign exchange rate changes on cash	10,217			(2,311		)
Net decrease in cash and cash equivalents	(11,408		)	(3,307		)
Cash and cash equivalents, beginning of period	224,190			241,304		
Cash and cash equivalents, end of period	$	212,782		$	237,997	
Supplemental Disclosure of Cash Information:						
Cash paid for income taxes	$	4,137		$	16,316	

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"), is a global technology company that has created a two-sided marketplace for creative professionals to license content. The Company's library of creative content includes: (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. This service provides tools for customers to better manage creative content and brand management assets.

Basis of Presentation

The unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all information and footnotes required by GAAP for complete financial statements. The interim consolidated balance sheet as of September 30, 2017, consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017 and 2016, and consolidated statement of cash flows for the nine months ended September 30, 2017 and 2016 are unaudited. The consolidated balance sheet as of December 31, 2016, included herein, was derived from the audited financial statements as of that date, but does not include all disclosures required by GAAP. These unaudited interim financial statements have been prepared on a basis consistent with the Company's annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary to state fairly the Company's financial position as of September 30, 2017 and its consolidated results of operations, comprehensive income and cash flows for the three and nine months ended September 30, 2017 and 2016. 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, 2017 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2017 or for any other future annual or interim period.

These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on February 27, 2017. 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.

During the second quarter of 2017, the Company recorded immaterial adjustments to its unaudited condensed consolidated financial statements to: (1) reduce revenue by approximately $0.6 million and (2) increase general and administrative expense by approximately $0.1 million, related to prior periods. During the third quarter of 2017, the Company recorded an immaterial adjustment to its unaudited condensed consolidated financial statements to increase revenue by approximately $0.9 million, related to prior periods. The Company has concluded that the impact of these adjustments is not material to the results of operations or financial position for the periods in which these adjustments were recorded nor any prior quarterly or annual period financial statements.

Certain changes in presentation have been made to conform the prior period presentation to current period reporting.

Use of Estimates

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

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(unaudited)

Restricted Cash

The Company’s restricted cash relates to security deposits for its office leases. As of September 30, 2017 and December 31, 2016, the Company had restricted cash of approximately $2.6 million in other assets that related to the lease for its headquarters in New York City, which expires in 2029. 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. During the nine months ended September 30, 2017, bad debt expense, which increased the allowance for doubtful accounts, was $1.0 million, and write-offs and other adjustments, which decreased the allowance for doubtful accounts, were $2.5 million. As of September 30, 2017 and December 31, 2016, the Company’s allowance for doubtful accounts was approximately $4.0 million and $5.5 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, 2017 and December 31, 2016, the Company had deferred rent of $11.1 million and $8.6 million, respectively, which 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 September 30, 2017 and December 31, 2016, the Company’s combined allowance for chargebacks and sales refunds was $0.6 million, which was included in other liabilities.

Recently Adopted Accounting Standard Updates

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employees Share-Based Payment Accounting (“ASU 2016-09”). This ASU changes how companies account for certain aspects of share-based payment awards to employees, including the requirement for all income tax effects related to settlements of share-based payment awards be reported in earnings as an increase or decrease to income tax expense, providing the Company an accounting policy election to either recognize forfeitures as they occur or record an estimate, and requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows.

The Company adopted ASU 2016-09 on January 1, 2017. All income tax effects related to settlements of share-based payment awards will be reported as an increase or decrease to the provision for income taxes. In addition, starting January 1, 2017, the Company will account for forfeitures as they occur and, as of January 1, 2017, recognized a $0.7 million reduction to retained earnings as the cumulative effect of the change in accounting principle. The Company adopted the cash flow presentation component of ASU 2016-09 retrospectively, and accordingly, decreased cash flows from operating activities by $0.6 million and increased cash flows from financing activities by $0.6 million for the nine months ended September 30, 2016.

Recently Issued Accounting Standard Updates

In November 2016, the FASB issued ASU 2016-18, Statements of Cash Flows (Topic 230): Restricted Cash, which requires entities to present restricted cash with cash and cash equivalents on the statement of cash flows when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. ASU 2016-18 is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the impact of adopting this new accounting standard on its financial statements. The balance of the Company’s restricted cash was $2.6 million as of September 30, 2017.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments. ASU 2016-13 replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. The ASU is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Adoption of this guidance is required, prospectively, for annual periods beginning after December 15, 2019, with early adoption permitted for annual periods beginning after December 15, 2018. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 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 May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09, and its related amendments, provides a unified model to determine when and how revenue is recognized and requires certain additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from customers. 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 to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. This new guidance may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective).

The Company expects to adopt this guidance in the first quarter of fiscal 2018 and apply the modified retrospective approach. The Company is evaluating the impact of adopting this new accounting standard on its financial statements. Management is progressing with its implementation plan and is considering relevant guidance and industry interpretations as it concludes on its performance obligations, variable consideration, and timing of revenue recognition.

(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, 2017			
	Aggregate Fair Value	Level 1	Level 2	Level 3
Assets:				
Money market accounts	$33,141	$33,141	$—	$ —
Commercial paper	22,500	—	22,500	—
Total assets measured at fair value	$55,641	$33,141	$22,500	$ —

	As of December 31, 2016			
	Aggregate Fair Value	Level 1	Level 2	Level 3
Assets:				
Money market accounts	$81,623	$81,623	$—	$—
Commercial paper	$54,972	—	54,972	—

Total assets measured at fair value	$136,595	$81,623	$54,972	$—
Liabilities:				
Acquisition related contingent consideration	$10,000	$—	$—	$10,000
Total liabilities measured at fair value	$10,000	$—	$—	$10,000

Money Market Accounts

Cash equivalents include money market accounts which are classified as a level 1 measurement based on quoted prices in active markets for identical assets that the Company can access at the measurement date. The total amount of money market accounts included in cash and cash equivalents was $33.1 million and $81.6 million as of September 30, 2017 and December 31, 2016, respectively.

Commercial Paper

The Company’s short-term investments consist of commercial paper with original maturities of 90 days or less. Commercial paper is classified as a level 2 measurement based on quoted market prices for identical assets, which are subject to infrequent transactions. The total amount of commercial paper included in short-term investments was $22.5 million and $55.0 million as of September 30, 2017 and December 31, 2016, respectively.

Acquisition-Related Contingent Consideration

As of December 31, 2016, the settlement amount of the contingent consideration related to the Company’s acquisition of PremiumBeat was determined to be $10.0 million and was included in other liabilities. This contingency was considered a level 3 measurement. No changes in fair value were recorded during the nine months ended September 30, 2017. The contingent consideration of $10.0 million was paid in March 2017, and there was no remaining liability as of September 30, 2017.

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, 2017	As of December 31, 2016
Computer equipment and software	$ 101,496	$ 63,711
Furniture and fixtures	9,948	3,434
Leasehold improvements	18,280	20,944
Property and equipment	129,724	88,089
Less accumulated depreciation	(51,954)	(31,988)
Property and equipment, net	$ 77,770	$ 56,101

Depreciation expense related to property and equipment was $7.9 million and $3.9 million for the three months ended September 30, 2017 and 2016, respectively, and $19.9 million and $10.4 million for the nine months ended September 30, 2017 and 2016, respectively. Depreciation expense is included in cost of revenue and general and administrative expense based on the nature of the asset being depreciated.

Capitalized Internal-Use Software

The Company capitalized costs related to the development of internal-use software of $11.2 million and $6.5 million for the three months ended September 30, 2017 and 2016, respectively, and $25.8 million and $12.8 million for the nine months ended September 30, 2017 and 2016, 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 $4.1 million and $1.0 million for the three months ended September 30, 2017 and 2016, respectively, and $9.2 million and $2.1 million for the nine months ended September 30, 2017 and 2016, respectively. Depreciation expense related to capitalized internal-use software is included in cost of revenue and general and administrative expense.

As of September 30, 2017 and December 31, 2016, the Company had capitalized internal-use software of $37.0 million and $20.3 million, respectively, net of accumulated depreciation, which was included in property and equipment, net.

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Shutterstock, Inc.
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(unaudited)

(4) Goodwill, Intangible Assets and Acquisition Activity

Goodwill

The Company's goodwill balance is attributable to its Image (formerly, "Bigstock"), Editorial, Music and Webdam reporting units and is tested for impairment at least annually on October 1 or upon a triggering event. Image, 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, 2017 (in thousands):

	Consolidated	Content Business	Other Category
Balance as of December 31, 2016	$ 49,271	$ 40,508	$ 8,763
Goodwill related to acquisitions	$ 37,834	37,834	—
Foreign currency translation adjustment	3,419	3,419	—
Balance as of September 30, 2017	$ 90,524	$ 81,761	$ 8,763

No triggering events were identified during the nine months ended September 30, 2017.

Intangible Assets

Intangible assets consisted of the following as of September 30, 2017 and December 31, 2016 (in thousands):

	As of September 30, 2017			As of December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life (Years)	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets:					
Customer relationships	$23,314	$ (6,404)	9	$16,712	$ (4,344)
Trade name	7,093	(3,000)	7	6,677	(2,030)
Developed technology	11,399	(3,472)	3	3,224	(1,934)
Contributor content	16,452	(2,648)	11	12,958	(1,386)
Patents	259	(64)	18	227	(52)
Domain name	160	(73)	12	160	(55)
Total	$58,677	$ (15,662)		$39,958	$ (9,801)

Amortization expense was $2.3 million and $1.2 million for the three months ended September 30, 2017 and 2016, respectively, and $5.1 million and $3.8 million for the nine months ended September 30, 2017 and 2016, 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: $2.2 million for the remaining three months of 2017, $7.8 million in 2018, $7.7 million in 2019, $5.5 million in 2020, $3.7 million in 2021, $3.0 million in 2022 and $13.1 million thereafter.

Acquisition Activity

2017 Acquisition Activity

Flashstock Technology, Inc.

On July 7, 2017, the Company acquired all of the shares of Flashstock Technology, Inc. ("Flashstock") 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. Flashstock is a Toronto-based company that enables the creation of custom content through a propriety software platform. The Company believes this acquisition will strengthen the Company's strategic position and serve as the foundation for the Company to bring a comprehensive custom content offering to 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 total purchase price was $51.2 million of which $50.9 million was paid with existing cash on hand in the three months ended September 30, 2017 and an estimated $0.3 million is to be paid in the fourth quarter of 2017 for the settlement of working capital adjustments. The unpaid portion of the purchase price is included in accrued expenses as of September 30, 2017. As required by the stock purchase agreement, the Company is in the process of finalizing the working capital adjustments; accordingly, management has used their best estimate in the initial purchase price allocation as of the date of these financial statements.

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

Assets:	
Cash and cash equivalents	$1,330
Accounts receivable	2,439
Prepaid expenses and other current assets	205
Intangible Assets:	
Customer relationships	5,400
Developed technology	8,100
Goodwill	37,834
Total assets acquired	55,308
Liabilities:	
Accrued expenses	(279)
Accounts payable	(99)
Deferred tax liability, net	(164)
Deferred revenue	(3,540)
Total liabilities acquired	(4,082)
Net assets acquired	$51,226

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 developed technology was determined using the relief-from-royalty method.

The goodwill arising from the transaction is primarily attributable to expected operational synergies and approximately 9% will be deductible for income tax purposes.

In connection with the acquisition, the Company recorded approximately $0.1 million and $0.8 million of professional fees in the three and nine months ended September 30, 2017, respectively. The professional fees are included in general and administrative expense.

The operations of the acquired entity have been integrated into the Company's operations from the acquisition date. The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the three and nine months ended September 30, 2017 and 2016, as if the Flashstock acquisition was had been completed on January 1, 2016, after giving effect to certain purchase accounting adjustments, primarily related to intangible assets and deferred revenue. These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of what the Company's operating results would have been, had the acquisitions actually taken place at the beginning of the period (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue				
As reported	$141,063	$123,073	$405,282	$364,144

Pro forma	141,888	123,735	409,618	365,720
Income before income taxes				
As reported	$5,700	$11,390	$21,253	$32,465
Pro forma	6,729	10,013	19,105	28,969

The Company has performance-based bonus arrangements with certain Flashstock employees who are now employees of Shutterstock. These employees are entitled to additional compensation if: (i) the custom content business achieves certain financial targets for the 2019 calendar year and (ii) the individual is employed by Shutterstock as of December 31, 2019. These

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performance-based bonuses will be reported as period expenses within "Other (expense) income, net" in the consolidated statements of operations, and are not considered part of the Flashstock purchase price.

2016 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 $3.6 million has been recorded under contributor content with an estimated useful life of 15 years, and the remainder has been recorded under trade name with an estimated useful life of 7 years.

(5) Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	As of September 30, 2017	As of December 31, 2016
Compensation	$ 19,844	$ 13,732
Non-income taxes	6,520	7,383
Royalty tax withholdings	7,587	6,921
Other expenses	18,038	13,070
Total accrued expenses	$ 51,989	$ 41,106

(6) Commitments and Contingencies

The Company leases facilities under agreements accounted for as operating leases. Rental expense for operating leases was $2.3 million and $2.1 million for the three months ended September 30, 2017 and 2016, respectively, and $6.5 million and $5.0 million for the nine months ended September 30, 2017 and 2016, 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. In addition to contractual rent amounts, the Company's lease payments are also subject to adjustments in real estate taxes and operating expenses.

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 2016 amendment. The letter of credit was collateralized by $2.6 million of cash as of September 30, 2017, 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 $79.2 million.

Other Commitments

On October 20, 2016, the Company entered into a multi-part 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 under certain conditions (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 with respect to the Transaction Party at any time until the fifth anniversary of the Facility.

On March 27, 2017, the Facility was amended to reduce the maximum lending amount to $3.0 million. The Transaction Party has borrowed $1.3 million under the Facility, all of which remains outstanding as of September 30, 2017. The Company has reported this amount in other non-current assets.

Simultaneously, the Company invested $1.6 million in a convertible note issued by the Transaction Party, which matures on October 20, 2021. The convertible note bears interest at 10%, with all interest payments deferred until maturity, and the entire unpaid balance of principal and accrued interest due upon maturity. The principal amount of the convertible note and any accrued and unpaid interest may be converted into equity of the Transaction Party at the Company's option on the maturity date, or earlier upon certain events. The $1.6 million investment in the convertible note is reported in other non-current assets.

Other Obligations

As of September 30, 2017, the Company had other obligations in the amount of approximately $42.1 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, 2017, the Company's other obligations for the remainder of 2017 and for the years ending December 31, 2018, 2019 and 2020 were approximately $5.6 million, $16.2 million, $11.7 million and $8.6 million, respectively.

Legal Matters

From time to time, the Company may become party to litigation in the ordinary course of business, including direct claims brought by or against the Company with respect to intellectual property, contracts, employment and other matters, as well as claims brought against the Company's customers for whom the Company has a contractual indemnification obligation. The Company assesses the likelihood of any adverse judgments or outcomes with respect to these matters and determines loss contingency assessments on a gross basis after assessing the probability of 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 and Employment Agreements

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 exceptions for certain products for which the Company's indemnification obligations are uncapped. As of September 30, 2017, 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.

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

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

(7) Stockholders' Equity and Equity-Based Compensation

Stockholders' Equity

Common Stock

During the nine months ended September 30, 2017, the Company issued approximately 293,000 shares of common stock, primarily related to the exercise of stock options and the vesting of restricted stock units ("RSUs").

Treasury Stock

In October 2015, the Company's Board of Directors approved a share repurchase program, pursuant to which the Company is authorized to purchase up to $100 million of its common stock. In February 2017, the Company's Board of Directors approved an increase to the share repurchase program, pursuant to which the Company is authorized to repurchase up to an additional $100 million of its outstanding common stock. The Company expects to fund future 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, 2017, the Company repurchased approximately 449,000 shares of its common stock under the share repurchase program at an average per-share cost of approximately $50.04. As of September 30, 2017, the Company had $100.0 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 the fair value of each award 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, 2017 and 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenue	$176	$498	$608	$1,552
Sales and marketing	1,092	1,524	3,535	4,072
Product development	1,819	1,580	5,079	5,732
General and administrative	3,798	2,903	10,905	9,754
Total	$6,885	$6,505	$20,128	$21,110

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, 2017 and 2016 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Stock options	$1,663	$1,751	$5,087	$5,379

RSUs	5,222	4,602	15,041	15,254
ESPP shares	—	152	—	477
Total	$6,885	$6,505	$20,128	$21,110

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Stock Option Awards

During the nine months ended September 30, 2017, the Company granted options to purchase approximately 86,000 shares of its common stock with a weighted average exercise price of $48.05. As of September 30, 2017, there were approximately 312,000 options vested and exercisable with a weighted average exercise price of $36.27. As of September 30, 2017, the total unrecognized compensation charge related to non-vested options was approximately $15.9 million, which is expected to be recognized through 2021.

Restricted Stock Units

During the nine months ended September 30, 2017, the Company granted approximately 366,000 RSUs, net of forfeitures. As of September 30, 2017 there are approximately 1,290,000 non-vested RSUs outstanding. As of September 30, 2017