

Shutterstock, Inc.
Form 10-K
February 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from _____ to _____
Commission File Number: 001-35669

Shutterstock, Inc.

(Exact name of registrant as specified in its charter)

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

350 Fifth Avenue, 21st Floor 10118
New York, New York (Zip code)
(Address of principal executive offices)
(646) 710-3417

Registrant's telephone number, including area code

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

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 o No x

As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of its voting and non-voting common stock held by non-affiliates on that date was approximately \$689,117,563. This calculation excludes the shares of common stock held by executive officers, directors and stockholders whose ownership exceeded 10% outstanding at June 30, 2016. This calculation does not reflect a determination that such persons are affiliates for any other purposes.

On February 21, 2017, 34,511,231 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2017, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

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For the Fiscal Year Ended December 31, 2016

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, particularly in the discussions under the captions “Business,” “Risk Factors” and “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. You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan” and other similar expressions. However, not all forward-looking statements contain these words. These forward-looking statements involve 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” of this Annual Report on Form 10-K, as well as in our consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission, or the SEC. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. We do not intend, and, except as required by law, we undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. 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 Annual Report on Form 10-K to the terms “Shutterstock,” “the Company,” “we,” “our” and “us” refer to Shutterstock, Inc. and its subsidiaries including, for the period prior to October 5, 2012, Shutterstock Images LLC. “Shutterstock,” “Offset,” “Bigstock,” “Rex Features,” “PremiumBeat” and “webd” are registered trademarks or logos appearing in this Annual Report on Form 10-K and are the property of Shutterstock, Inc. or one of our subsidiaries. All other trademarks, service marks and trade names appearing in this Annual Report on Form 10-K are the property of their respective owners.

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Item 1. Business.

Overview

Shutterstock is a global technology company that operates a two-sided marketplace for creative professionals to license content. Our 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 which is often used to complement digital imagery. We also offer digital asset management services through our cloud-based digital asset management platform (“webdam”). This service provides tools for customers to better manage creative content and brand management assets. Our global marketplace brings together users and contributors of creative content by providing a readily-searchable collection of content that our customers can pay to license and incorporate into their work and by compensating contributors as their content is licensed to our customers. This model allows us to offer customers a cost-effective and easy-to-use alternative to the traditional time-consuming and expensive methods of obtaining creative content. The processes we maintain to properly license content and the indemnification protections we provide allow individuals and businesses of all sizes, including media agencies, publishers and creative service providers, to license creative content with the confidence to utilize the licensed content to meet their unique commercial or editorial needs. We believe that our licensing model and our e-commerce platform drive a high volume of download activity that in turn provides a high volume of search, download and other customer behavior data that enables us to continuously improve the quality and accuracy of our proprietary search algorithms, including keyword and similar image identification, and encourages the creation and contribution of new content to meet our customers’ needs. We enable users to search and discover content to meet their unique needs by searching our collection and previewing our content at no cost prior to licensing.

Our Products

We offer licenses for a variety of content types, including current and archival photographs, illustrations, vector art, video clips and music tracks. Generally, we provide our content under a royalty-free non-exclusive license and each piece of content available for license has been vetted by a team of reviewers to ensure that it meets our standards of quality and can be appropriately licensed for commercial or editorial use. We provide several content offerings across our e-commerce platform, as follows:

Shutterstock - Shutterstock is our flagship brand and the majority of our revenue is generated through the shutterstock.com website. We continuously work to expand the collection of photographs, vectors, illustrations and video clips available on shutterstock.com to establish Shutterstock as a top source of high quality digital imagery for multimedia producers world-wide.

Bigstock - Bigstock maintains a separate, extensive library of unique photographs, vectors, illustrations and video clips that is specifically curated to meet the needs of independent creators and others seeking to incorporate cost-effective digital imagery into their projects.

Offset - For high-impact use cases that require extraordinary imagery, our Offset brand provides authentic and exceptional imagery, featuring work from top assignment photographers and illustrators from around the world, in addition to established and respected collections including National Geographic® and The Licensing Project™. Every image in the collection is hand-selected, chosen for its artistic distinction and narrative quality, and is curated into specific categories such as lifestyle, food, travel and fashion.

Shutterstock Music - Shutterstock music provides thousands of high-quality audio tracks and sound effects at affordable prices, giving businesses, marketers, producers and filmmakers access to the audio content they need to bring their ideas to life. In 2015, we acquired PremiumBeat, a global provider of exclusive, high-quality music to enhance the depth of our existing music library and the quality of our overall offering in the marketplace.

Shutterstock Editorial - Shutterstock editorial provides editorial imagery, such as entertainment, sports and news images to a broad range of customers from independent bloggers to traditional media outlets by providing a real-time feed of editorial content and an extensive archive of photos and videos. We acquired Rex Features in 2015 and have entered into distribution agreements with a number of leading editorial image agencies and industry partners, continuing our expansion into the market for editorial content.

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In addition to our content products, we also offer workflow tools for businesses:

webdam - Webdam provides tools to marketing and creative teams through its digital asset management platform. webdam's products help organizations manage, search, distribute and collaborate on creative and other brand-building activities to reach new audiences, and can be particularly attractive to large enterprises, which make up a growing portion of webdam's client base. Webdam enhances our strategic position with enterprise customers and has broadened our product portfolio.

Sales and Distribution Channels

We strive to offer simple, transparent purchase options that remove complexity from a customer's workflow. The majority of our licenses come through our e-commerce platform, with customers typically paying in advance or at the time of license. This has historically resulted in favorable timing of cash flows relative to the time that revenue is recognized and contributor royalties are earned and paid.

Customer sales are made through the following channels:

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

Enterprise: Our base of enterprise customers is mainly comprised of creative professionals and large organizations with unique content, licensing and workflow needs. Customers of this size benefit from dedicated sales, service and research teams which provide a number of enhancements to their creative workflows including non-standard licensing rights, multi-seat access, invoicing and the ability to pay on credit terms, increased indemnification protection, multi-brand licensing packages and content licensed for use-cases outside of those available on our e-commerce platform.

Other: Other sales channels include sales of webdam's digital asset management offerings which are made available through annual software-as-a-service subscription plans, and content licensed outside of our e-commerce and enterprise channels, including through application program interfaces that allow our content to be licensed through third-party websites, applications and software.

Revenues generated from each of the sales channels are as follows (in thousands):

	Year Ended December 31,				
	2016	2015	2014	2013	2012
E-Commerce	\$328,378	\$303,998	\$263,053	\$204,510	\$155,962
Enterprise	149,969	109,900	59,902	30,688	13,645
Other	15,970	11,251	5,016	317	9
Total Revenue	\$494,317	\$425,149	\$327,971	\$235,515	\$169,616

Our Customers

We serve a diverse array of customers across a variety of industries, organizational sizes and geographies. For the year ended December 31, 2016, more than 1.6 million customers in more than 150 countries licensed revenue-generating content, with approximately 40%, 33% and 27% of revenue coming from customers in North America, Europe and the rest of the world, respectively. Our top 25 customers in the aggregate accounted for less than 2% of our revenue in 2016. Our customers are classified among three categories, as follows:

Marketing Agencies. Marketing agencies incorporate licensed content in the work they produce for their clients' business communications. Whether providing graphic design, web design, interactive design, advertising, public relations, communications or marketing services, our marketing agency users range from independent freelancers to the largest global agencies.

Media Professionals. Media organizations and professionals incorporate licensed content into their work, which includes digital publications, newspapers, books, magazines, television and film, as well as to market their products effectively. Our media users range from independent bloggers to multi-national publishing and broadcast organizations.

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Other Organizations. Organizations of all sizes utilize content for a wide range of internal- and external-use communications such as websites, print and digital advertisements, annual reports, brochures, employee communications, newsletters, email marketing campaigns and other presentations. These organizations range in size and type of organization, from sole proprietors to large not-for-profit organizations and Fortune 500 companies.

Content Contributors and Content Review Process

Our collection of creative content is provided by a community of contributors from around the world and is vetted by our specialized team of reviewers to ensure that it meets our standards of quality and licensability. Whether photographers, videographers, illustrators, designers or musicians, our community of more than 190,000 approved contributors as of December 31, 2016 ranges from part-time enthusiasts to full-time professionals, and all of them must meet the content standards that our customers have come to expect from Shutterstock. The content contributed by our five highest-earning contributors was together responsible for less than 4% of downloads in 2016.

The breadth and quality of our content offerings are critical to our success, and we have created an easy-to-use online account creation process, through which we enable contributors to create an account, become verified, submit content, and once approved for submission, upload content onto our platform for licensing. We evaluate content submissions based on certain technical and legal criteria to ensure we maintain the quality of our content library, including whether applicable releases have been obtained, whether third-party intellectual property is excluded and seeking to minimize other technical concerns such as excess noise or focus issues. As of December 31, 2016 over 180 million images and video clips have been submitted from verified contributor accounts. For each content submission that is not approved during the review process, we notify the contributor by email with an explanation why the image was not published, including guidance on our standards and insight into customers' expectations; we believe that this feedback is valuable to contributors and enhances the quality of future content submissions as well as our customers' experience.

We use proprietary computer vision technology along with a trained team of expert reviewers to complete a comprehensive evaluation of all content submissions. Our content review process is highly efficient, and our content review team strives to evaluate and process images and video clips within 24 hours of submission to make them available for license on our sites, while working to continually improve our process to reduce review time.

Contributors are required to add a descriptive title and up to 50 keywords to each image and video clip submitted. We guide our contributors to provide terms that not only describe literally the objects in the image or clip, but also what is conveyed conceptually and thematically. We provide technical keywording assistance to contributors through our suggested keyword tools, and in 2016 launched a keyword suggestion tool that leverages our proprietary computer vision technology to allow users of mobile devices to upload images and have our application automatically suggest keywords based on visually similar images. We have compiled a vast amount of data relating to the content in our collection, including keywords and customer behavior information, which combined with our proprietary computer vision and AI technology, drives discovery of content through our search algorithms and search engine optimization (SEO), therefore empowering customers to discover the content best suited for their needs.

Content accepted into our collection is added to our websites where it is available for search, selection, license and download. Contributors are paid based on how many times their content has been licensed in the previous month.

Contributors may choose to remove their content from our collection at any time.

We provide different earnings structures to contributors based on content type and customers' licensing needs:

Images. Contributors of photographs, vectors and illustrations to our e-commerce platforms earn a royalty based on the number of times their images have been licensed and the type of license obtained for the image downloaded. The exact amount earned is determined by our published earnings schedule which is based on (i) the contributor's total historical earnings paid by us, which determines the contributor's earnings tier; and (ii) the purchase option under which the content was licensed. Contributors are able to earn more per download when images are licensed under our custom licensing options or are licensed for editorial use only and, in these instances, can earn up to 50% of the sales price for a licensed image.

Video Clips and Music. Contributors of video clips and music tracks are also paid based on the number of times that their video clips or music tracks have been licensed. When a contributed video clip or music track is licensed, the contributor is typically paid between 30% and 50% of the sales price per download.

In addition to content sourced through direct submission to our e-commerce platform, we also obtain content through exclusive distribution agreements with strategic partners or through the direct acquisition of content, content libraries or archives. In certain cases, we enter into arrangements with contributors or strategic partners whereby we guarantee a minimum royalty, usually paid up-front, in exchange for exclusive rights to distribute content when we believe such exclusivity provides

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us with a distinct competitive advantage. When we license content that has been obtained through direct acquisition, we pay no royalties. In recent years, we have enhanced our content collection through the direct acquisition of content and through entering into several such agreements and partnerships. We have also enhanced our collections and our content acquisition capabilities through our acquisitions of PremiumBeat and Rex Features. We continue to seek opportunities for direct acquisition and strategic partnerships to enhance our collection and provide customers with relevant and high-quality content.

Technology and Infrastructure

Our technology is critical to our business and we have developed proprietary technology and a robust infrastructure to power our products and services. We believe that delivering intuitive, fast and effective user experiences, supported by scalable technology platforms, is critical to our success.

We employ technology to support our public facing websites and our back-office systems. In developing and enhancing our public-facing websites and back-office systems, we focus our internal development efforts on creating and enhancing specialized proprietary software that is unique to our business and we leverage commercially available and open source technologies for our more generalized needs.

Our customer-facing software enables users to search the millions of digital images, vectors, illustrations, video clips and music tracks available in our collection and then select, organize, pay for, license and download the content that suits their individual needs. Our proprietary search algorithms evolve automatically based on behavioral data, with each search and download that a user performs on our websites providing our search engine with additional information to improve search results in subsequent queries. We consider the data that we have collected and the search technology that it powers to be an important proprietary asset.

We also continue to build and launch innovations to the customer experience. In 2016 we launched Shutterstock Editor to further enhance the customer experience by providing users the ability to customize certain content without leaving their browser, improving the customer's workflow and eliminating time-consuming steps in the creative process. We have also invested in the localization of our e-commerce platform across many countries and regions, allowing customers to search and make purchases in a variety of languages and currencies.

Another of our customer-facing software platforms is webdam, which enables us to better service a broader range of customers by offering a more seamless experience to enterprise users as they license, store and share digital assets through webdam's cloud-based software platform.

We have developed contributor-facing websites that enable individuals and creative professionals to become contributors, upload and tag content, receive feedback on their submissions from our review team, see reports on earnings and payouts, and participate in online discussion forums with other contributors, among other activities. We have also developed proprietary tools to enable our contributors to improve their success on our websites, including our keyword trends tool that allows contributors to see what terms customers are searching for and how those search terms are trending over time, which allows contributors to anticipate demand and generate content that customers may want to license. Our contributor-facing websites are powered by proprietary technology which supports a content review system that allows our review team to efficiently and accurately review content submissions. Our combination of proprietary technology and large-scale datasets allows us to deliver value to our users and enhance their experience on our platform, which drives and grows our marketplace.

In addition, we use a combination of internally-developed software and third-party applications that enable customer and contributor support, intellectual property rights and license tracking, centralized invoicing and sales order processing, customer database management, language translation and global contributor payouts, in addition to supporting the compliance, finance and accounting functions.

Our systems infrastructure is hosted by industry-leading third-party hosting providers that offer 24-hour monitoring, high-speed network access, auxiliary power generators and back-up systems. In 2017, we plan to make additional investments in our infrastructure to improve our customer experience and to increase the velocity of product development by enabling developer productivity. We believe that by utilizing public cloud hosting, we will be able to diversify our product offerings, reach new customers and contributors around the world and, by removing inhibitors related to our infrastructure, enable our developers to deploy new products with increased speed and experimentation. Further, by delivering an application programming interface (API) driven infrastructure, we believe that our

technology teams will be able to focus their resources on revenue-generating activities, rather than on operations and maintenance. We maintain multiple production data centers to provide rapid content delivery to our customers and also to support business continuity in the event of an emergency. We have expanded our use of content delivery network solutions to help enable our customers around the world to have sustained and reliable high-speed access to our content marketplace. Network, website, service and hardware-level monitoring, coupled with remote-content monitoring, allow our systems to maintain a high level of uptime and availability with high-performance delivery.

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As we continue to grow our business, our technological needs continue to expand and therefore, we continually invest in our technology to enhance existing products and services and to develop new products and services. We view our investments in technology as integral to our long-term success and we intend to continue to investigate, develop and make increased capital investments in technology and operational systems that support our current business and new areas of potential business expansion.

Marketing and Customer Support

We reach new customers through a diverse set of performance and brand marketing channels including paid search, online display advertising, print advertising, tradeshows, email marketing, direct mail, affiliate marketing, public relations, social media and partnerships. We also use customer relationship management (CRM) marketing to grow the lifetime value of our existing customers. Our marketing activities aim to raise awareness of our brands and attract paying customers to our websites and our direct sales organization by promoting the key value propositions of our offerings: diverse and high-quality content, intuitive and efficient interfaces and significant value.

As our marketing efforts attract additional paying customers and generate more revenue for us, our contributors are also able to receive increased earnings from us. Increasing revenue from our customers helps attract more content submissions, which in turn helps Shutterstock convert and retain even more paying customers. We believe the high degree of satisfaction that customers have with our product drives word-of-mouth recommendations, which helps our marketing efforts attract an even broader audience than we reach directly. Therefore, we believe our marketing efforts have a self-reinforcing network effect, which powers the growth and success of our marketplace.

In addition to outbound marketing activities, the customer service teams assist users via email, chat and phone in a variety of languages.

Sales

The majority of our revenue is generated via self-serve e-commerce. We encourage our customers to take advantage of our e-commerce platform's comprehensive search capabilities, our credit card-based payment options and the immediate digital delivery of licensed content. We believe the ability to search for, select, license and download content over the internet offers our users convenience and speed, and enables us to achieve greater economies of scale. Direct communication with our customers, however, remains a significant component of our sales strategy and our sales teams handle inbound sales inquiries and proactively contact potential high-volume enterprise customers and offer customized packages to meet their needs. We also license digital content to customers through third-party resellers as a way to access customers in markets where we do not have a significant sales and marketing presence. Third-party resellers sell our products directly to end-user customers and remit a fixed amount to us based on the type of content plan sold.

Product Rights and Intellectual Property

Product Rights and Indemnification

All of the content that we make available to customers on our websites is offered under perpetual, royalty-free licenses, with the exception of certain editorial, music, and other content with specific licensing requirements. This means that once a customer has licensed content from us, that customer may use the associated content in accordance with the license terms in perpetuity without having to pay any ongoing royalties to us. Typically, the content license is non-exclusive, meaning that multiple customers can license the same image, video clip or music track under the applicable Shutterstock license agreement. Furthermore, we do not typically require that contributors of content to our sites provide their content to us on an exclusive basis, with the exception of certain editorial, music and other content to which we have exclusive distribution rights.

Under our various license agreements, we expressly represent and warrant that unaltered content downloaded and used in compliance with our license agreements and applicable law will not infringe any copyright, trademark or other intellectual property right, violate any third party's rights of privacy or publicity, violate any U.S. law, be defamatory or libelous, or be pornographic or obscene. Provided that a customer has not breached the license agreement or any other agreement with us, we will defend, indemnify, and hold a customer harmless from direct damages attributable to breaches of the express representations and warranties provided in our license agreements. From time to time, we agree to customize our license agreements with non-standard indemnification terms. Regardless of customization, indemnification only applies to claims for damages attributable to our breach of the express representations and

warranties provided in our license agreement and is generally conditioned on our timely receipt of an indemnification claim and our right to assume the defense of such claim. Our license agreements generally cap our indemnification obligations at amounts ranging from \$10,000 to \$250,000, with exceptions for certain products for which our indemnification obligations may be uncapped. We maintain commercially

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reasonable insurance intended to protect against the costs of intellectual property litigation and our indemnification obligations under our license agreements.

Intellectual Property

We protect our intellectual property through a combination of patent, trademark, copyright and domain name registrations, as well as trade secret protections.

We own a portfolio of trademarks, including “Shutterstock,” “Offset,” “Bigstock,” “Rex Features,” “PremiumBeat” and “webdam” and associated logos. We will pursue additional trademark registrations to the extent that we create any additional material and registrable trademarks or logos. We are the registered owner of a variety of the shutterstock.com, bigstock.com, offset.com, webdam.com, premiumbeat.com, and rexfeatures.com internet domain names and various other related domain names. We have successfully recovered infringing domain names in the past and intend to continue to enforce our rights in the future. We also own copyrights, including certain content in our websites, publications and designs, as well as patents, including with respect to our display systems and search capabilities. These intellectual property rights are important to our business and marketing efforts. The duration of the protection afforded to our intellectual property depends on the type of property in question, the laws and regulations of the relevant jurisdiction and the terms of our license agreements with others. With respect to our trademarks, trade names and patents, laws and rights are generally territorial in scope and limited to those countries where a mark has been registered or protected. While trademark registrations may generally be maintained in effect for as long as the mark is in use in the respective jurisdictions, there may be occasions where a mark or title is not registrable or protectable or cannot be used in a particular country. In addition, a trademark registration may be canceled or invalidated if challenged by others based on certain use requirements or other limited grounds. We believe the duration of our patents is adequate, relative to the expected lives of our products.

We protect our intellectual property rights by relying on federal, state, and common law rights, including registration, in the United States and certain foreign jurisdictions, as well as contractual restrictions. We enforce and protect our intellectual property rights through litigation from time to time, and by controlling access to our intellectual property and proprietary technology, in part, by entering into confidentiality and proprietary rights agreements with our employees, consultants, contractors, and vendors. In this way, we have historically chosen to protect our software and other technological intellectual property as trade secrets. We further control the use of our proprietary technology and intellectual property through provisions in our websites’ terms of use and license agreements.

Government Regulation

The legal environment of the internet and online content is evolving rapidly in the United States and worldwide. The development of new laws and regulations, the manner in which existing laws and regulations will be applied to the internet and online content in general, and how the foregoing will relate to our business in particular, is unclear in many cases. For example, there is uncertainty regarding how laws and regulations will apply in the online context and to different business models, including with respect to such topics as privacy, data management and cyber-security, defamation, e-commerce, pricing, credit card fraud, advertising, taxation, sweepstakes, promotions, subscription-based billing, content regulation, quality of products and services, internet neutrality, outsourcing, and intellectual property ownership and infringement.

Numerous laws have been adopted at the national and state level in the United States that could have an impact on online commerce generally and on our business. These laws include, for example, the following:

- The Digital Millennium Copyright Act regulates digital material and created updated copyright laws to address the unique challenges of regulating the use of digital content.

- The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 and similar laws adopted by a number of states regulate the format, functionality and distribution of commercial solicitation e-mails, create criminal penalties for unmarked sexually-oriented material, and control other online marketing practices.