CHEGG, INC
Form 10-Q
April 29, 2019
Table of Contents

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 March 31, 2019
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 001-36180

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

Delaware	20-3237489
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3990 Freedom Circle
Santa Clara, CA, 95054
(Address of principal executive offices)
(408) 855-5700
(Registrant’s telephone number, including area code)

- 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 (Exchange Act) 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 x No ¨
- Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x 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 ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Emerging growth company ¨

- If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
- Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
- As of April 26, 2019, the Registrant had 118,548,013 outstanding shares of Common Stock.

Table of Contents

TABLE OF CONTENTS

		Page
	PART I - FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited):	4
	Condensed Consolidated Balance Sheets - March 31, 2019 and December 31, 2018	4
	Condensed Consolidated Statements of Operations - for the Three Months Ended March 31, 2019 and 2018	5
	Condensed Consolidated Statements of Comprehensive Loss - for the Three Months Ended March 31, 2019 and 2018	6
	Condensed Consolidated Statements of Stockholder's Equity - for the Three Months Ended March 31, 2019 and 2018	7
	Condensed Consolidated Statements of Cash Flows - for the Three Months Ended March 31, 2019 and 2018	8
	Notes to Condensed Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	30
Item 4.	Controls and Procedures	30
	PART II - OTHER INFORMATION	
Item 1.	Legal Proceedings	32
Item 1A.	Risk Factors	32
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 6.	Exhibits	59
Signatures		60

Unless the context requires otherwise, the words “we,” “us,” “our,” “Company,” and “Chegg” refer to Chegg, Inc. and its subsidiaries taken as a whole.

Chegg, Chegg.com, Chegg Study, internships.com, Research Ready, EasyBib, #1 In Textbook Rentals, and the Chegg “C” logo, are some of our trademarks used in this Quarterly Report on Form 10-Q. Solely for convenience, our trademarks, trade names, and service marks referred to in this Quarterly Report on Form 10-Q appear without the ®, ™ and SM symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names. Other trademarks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

Table of Contents

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “would,” “could,” “estimate,” “continue,” “anticipate,” “intend,” “project,” “endeavor,” “expect,” “plans to,” “if,” “futu “potentially,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CHEGG, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for number of shares and par value)
(unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$914,500	$ 374,664
Short-term investments	70,080	93,345
Accounts receivable, net of allowance for doubtful accounts of $27 and $229 at March 31, 2019 and December 31, 2018, respectively	8,870	12,733
Prepaid expenses	15,739	4,673
Other current assets	9,691	9,510
Total current assets	1,018,880	494,925
Long-term investments	12,533	16,052
Property and equipment, net	72,937	59,904
Goodwill	149,481	149,524
Intangible assets, net	24,097	25,915
Right of use assets	15,875	—
Other assets	15,412	14,618
Total assets	$1,309,215	$ 760,938
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$6,341	$ 8,177
Deferred revenue	26,276	17,418
Current operating lease liabilities	4,640	—
Accrued liabilities	35,706	34,077
Total current liabilities	72,963	59,672
Long-term liabilities		
Convertible senior notes, net	789,380	283,668
Long-term operating lease liabilities	15,424	—
Other long-term liabilities	3,311	6,964
Total long-term liabilities	808,115	290,632
Total liabilities	881,078	350,304
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.001 par value – 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.001 par value 400,000,000 shares authorized; 118,196,707 and 115,500,418 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	118	116
Additional paid-in capital	839,924	818,113
Accumulated other comprehensive loss	(900)	(1,019)
Accumulated deficit	(411,005)	(406,576)

Total stockholders' equity	428,137	410,634
Total liabilities and stockholders' equity	$1,309,215	$ 760,938

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

CHEGG, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Net revenues	$97,409	$76,949
Cost of revenues	23,335	20,224
Gross profit	74,074	56,725
Operating expenses:		
Research and development	32,692	25,533
Sales and marketing	18,717	15,336
General and administrative	23,670	18,256
Restructuring charges	22	220
Total operating expenses	75,101	59,345
Loss from operations	(1,027)	(2,620)
Interest expense and other income, net:		
Interest expense, net	(4,232)	(20)
Other income, net	1,567	564
Total interest expense and other income, net	(2,665)	544
Loss before provision for income taxes	(3,692)	(2,076)
Provision for income taxes	626	541
Net loss	$(4,318)	$(2,617)
Net loss per share, basic and diluted	$(0.04)	$(0.02)
Weighted average shares used to compute net loss per share, basic and diluted	116,730	110,904

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

CHEGG, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Net loss	$(4,318)	$(2,617)
Other comprehensive income:		
Change in net unrealized gain (loss) on available for sale investments, net of tax	119	(91)
Change in foreign currency translation adjustments, net of tax	—	511
Other comprehensive income	119	420
Total comprehensive loss	$(4,199)	$(2,197)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

CHEGG, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Three Months Ended March 31, 2019					
	Common Stock					
	Shares	Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balances at December 31, 2018	115,500	$116	$818,113	$ (1,019)	$(406,576)	$410,634
Cumulative-effect adjustment to accumulated deficit related to adoption of ASU 2016-02	—	—	—	—	(111)	(111)
Equity component of convertible senior notes, net of issuance costs	—	—	180,887	—	—	180,887
Purchase of convertible senior notes capped call	—	—	(85,050)	—	—	(85,050)
Repurchase of common stock	(504)	(1)	(19,999)	—	—	(20,000)
Issuance of common stock upon exercise of stock options and ESPP	709	1	5,819	—	—	5,820
Net issuance of common stock for settlement of RSUs	2,451	2	(76,044)	—	—	(76,042)
Issuance of common stock in connection with acquisition	41	—	1,160	—	—	1,160
Share-based compensation expense	—	—	15,038	—	—	15,038
Other comprehensive income	—	—	—	119	—	119
Net loss	—	—	—	—	(4,318)	(4,318)
Balances at March 31, 2019	118,197	$118	$839,924	$ (900)	$(411,005)	$428,137

	Three Months Ended March 31, 2018					
	Common Stock					
	Shares	Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
Balances at December 31, 2017	109,668	$110	$782,845	$ (282)	$(391,611)	$391,062
Cumulative-effect adjustment to accumulated deficit related to adoption of ASUs	—	—	—	—	(77)	(77)
Issuance of common stock upon exercise of stock options and ESPP	628	1	5,218	—	—	5,219
Net issuance of common stock for settlement of RSUs	2,419	2	(35,640)	—	—	(35,638)
Warrant exercises	34	—	—	—	—	—
Share-based compensation expense	—	—	11,642	—	—	11,642
Other comprehensive income	—	—	—	420	—	420
Net loss	—	—	—	—	(2,617)	(2,617)
Balances at March 31, 2018	112,749	$113	$764,065	$ 138	$(394,305)	$370,011

See Notes to Consolidated Financial Statements.

Table of Contents

CHEGG, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net loss	$(4,318)	$(2,617)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	6,785	5,217
Share-based compensation expense	15,038	11,642
Amortization of debt discount and issuance costs	4,005	—
Operating lease expense, net of accretion	1,049	—
Other non-cash items	(44)	(41)
Change in assets and liabilities:		
Accounts receivable	4,024	2,783
Prepaid expenses and other current assets	(11,522)	(7,894)
Other assets	(1,166)	(506)
Accounts payable	(1,836)	(3,068)
Deferred revenue	8,858	5,185
Accrued liabilities	216	(4,286)
Other liabilities	(3,148)	138
Net cash provided by operating activities	17,941	6,553
Cash flows from investing activities		
Purchases of marketable securities	(21,572)	(12,511)
Maturities of marketable securities	48,805	21,630
Purchases of property and equipment	(14,060)	(4,883)
Net cash provided by investing activities	13,173	4,236
Cash flows from financing activities		
Common stock issued under stock plans, net	6,982	5,222
Payment of taxes related to the net share settlement of equity awards	(76,044)	(35,640)
Proceeds from issuance of convertible senior notes, net of issuance costs	682,594	—
Purchase of convertible senior notes capped call	(85,050)	—
Repurchase of common stock	(20,000)	—
Net cash provided by (used in) financing activities	508,482	(30,418)
Net increase (decrease) in cash, cash equivalents and restricted cash	539,596	(19,629)
Cash, cash equivalents and restricted cash, beginning of period	375,945	126,963
Cash, cash equivalents and restricted cash, end of period	$915,541	$107,334
Supplemental cash flow data:		
Cash paid during the period for:		
Interest	$—	$19
Income taxes	$626	$503
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$1,126	$—
Non-cash investing activities:		
Accrued purchases of long-lived assets	$5,127	$3,204

	March 31,	
	2019	2018
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$914,500	$106,827
Restricted cash included in other current assets	121	84
Restricted cash included in other assets	920	423
Total cash, cash equivalents and restricted cash	$915,541	$107,334

See Notes to Condensed Consolidated Financial Statements.

CHEGG, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Background and Basis of Presentation

Company and Background

Chegg, Inc. (Chegg, the Company, we, us, or our), headquartered in Santa Clara, California, was incorporated as a Delaware corporation in July 2005. Chegg is a smarter way to student. As the leading direct-to-student learning platform, we strive to improve educational outcomes by putting the student first in all our decisions. We support students on their journey from high school to college and into their career with tools designed to help them pass their test, pass their class, and save money on required materials. Our services are available online, anytime and anywhere, so we can reach students when they need us most.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2019, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss, the condensed consolidated statements of stockholder's equity, and the condensed consolidated statements of cash flows for the three months ended March 31, 2019 and 2018 and the related footnote disclosures are unaudited. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, including normal recurring adjustments, necessary to present fairly our financial position as of March 31, 2019, our results of operations, stockholder's equity, and cash flows for the three months ended March 31, 2019 and 2018. Our results of operations, stockholder's equity, and cash flows for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year.

We operate in a single segment. Our fiscal year ends on December 31 and in this report we refer to the year ended December 31, 2018 as 2018.

The condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2018 (the Annual Report on Form 10-K) filed with the U.S. Securities and Exchange Commission (SEC).

Except for our policies on leases and convertible senior notes, there have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Annual Report on Form 10-K.

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right of use (ROU) assets, operating lease liabilities within current liabilities, and operating lease liabilities within long-term liabilities on our condensed consolidated balance sheet. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Our leases do not provide an implicit rate and therefore we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future minimum lease payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options. We do not record leases on our condensed consolidated balance sheet with a term of one year or less. We do not separate lease and non-lease components but rather account for each separate component as a single lease component for all underlying classes of assets. Some of our leases include payments that are dependent on an index,

such as the Consumer Price Index (CPI), and our minimum lease payments include payments based on the index at inception with any future changes in such indices recognized as an expense in the period of change. Where leases contain escalation clauses, rent abatements, or concessions, such as rent holidays and landlord or tenant incentives or allowances, we apply them in the determination of straight-line operating lease cost over the lease term. Operating lease cost for minimum lease payments is recognized on a straight-line basis over the lease term.

Convertible Senior Notes, net

In March 2019, we issued $700 million in aggregate principal amount of 0.125% convertible senior notes due in 2025 (2025 notes) and in April 2018, we issued $345 million in aggregate principal amount of 0.25% convertible senior notes due in 2023 (2023 notes). Collectively, the 2025 notes and 2023 notes are referred to as the “notes.” In accounting for their issuance, we separated the notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of similar

Table of Contents

liabilities that do not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the carrying amount of the liability component from the par value of the notes. The difference represents the debt discount, recorded as a reduction of the convertible senior notes on our condensed consolidated balance sheet, and is amortized to interest expense over the term of the notes using the effective interest rate method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the notes, we allocated the total amount of issuance costs incurred to liability and equity components based on their relative values. Issuance costs attributable to the liability component are being amortized on a straight-line basis, which approximates the effective interest rate method, to interest expense over the term of the notes. The issuance costs attributable to the equity component are recorded as a reduction of the equity component within additional paid-in capital.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting periods. Significant estimates, assumptions, and judgments are used for, but not limited to: revenue recognition, recoverability of accounts receivable, restructuring charges (credits), share-based compensation expense including estimated forfeitures, accounting for income taxes, useful lives assigned to long-lived assets for depreciation and amortization, impairment of goodwill and long-lived assets, the valuation of acquired intangible assets, the valuation of our convertible senior notes, and operating lease ROU assets and operating lease liabilities. We base our estimates on historical experience, knowledge of current business conditions, and various other factors we believe to be reasonable under the circumstances. These estimates are based on management’s knowledge about current events and expectations about actions we may undertake in the future. Actual results could differ from these estimates, and such differences could be material to our financial position and results of operations.

Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with existing guidance contained within subtopic 350-40 to develop or obtain internal-use software. Early adoption is permitted and the guidance allows for a retrospective or prospective application. The guidance is effective for annual periods beginning after December 15, 2019, and we are currently in the process of evaluating the impact of this guidance.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements. ASU 2018-09 provides updates for technical corrections, clarifications, and other minor improvements to a wide variety of topics in the ASC. The transition method of adoption is dependent on the ASC topic impacted by this guidance. Additionally, some of the ASC topic updates are effective upon issuance of ASU 2018-09 and some of the ASC topic updates are effective at a future date. The ASC topic updates effective upon issuance of ASU 2018-09 do not impact our accounting for the respective ASC topics. For those ASC topic updates effective at a future date, we are currently in the process of evaluating the impact of this guidance update.

Recently Adopted Accounting Pronouncements

The FASB has issued four ASUs related to Accounting Standards Codification (ASC) 842. In March 2019, the FASB issued ASU 2019-01, Leases (Topic 842): Codification Improvements. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements and ASU 2018-10, Codification Improvements to Topic 842, Leases. In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASC 842 requires an entity to recognize a ROU asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement, and presentation of expenses will depend on classification as a finance or operating lease. The amendments in this update also require certain quantitative and qualitative disclosures about leasing arrangements.

We have adopted ASC 842 on January 1, 2019 and have elected the transition method of adoption that allows for a modified retrospective adoption with a cumulative-effect adjustment to the opening balance of accumulated deficit and recorded an immaterial decrease to our opening balance of accumulated deficit. As a result, we have not changed previously disclosed amounts or provided additional disclosures for comparative periods. We initially recorded ROU assets of $17.2

Table of Contents

million and lease liabilities of $21.1 million on our condensed consolidated balance sheet. ASC 842 does not have a material impact to our condensed consolidated statement of operations. We have elected a package of transition practical expedients which include not reassessing whether any expired or existing contracts are or contain leases, not reassessing the lease classification of expired or existing leases, and not reassessing initial direct costs for existing leases. We have also elected a practical expedient to not separate lease and non-lease components. We did not elect the practical expedient to use hindsight in determining our lease terms or assessing impairment of our ROU assets. See Note 8. Leases for more information.

Note 2. Revenues

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The majority of our revenues are recognized over time as services are performed, with certain revenues, most significantly the revenue share we earn from our print textbook partners, being recognized at the point in time when print textbooks are shipped to students.

The following table sets forth our total net revenues for the periods shown disaggregated for our Chegg Services and Required Materials product lines (in thousands, except percentages):

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Chegg Services	$75,292	$56,277	$19,015	34%
Required Materials	22,117	20,672	1,445	7 %
Total net revenues	$97,409	$76,949	$20,460	27%

During the three months ended March 31, 2019, we recognized $12.4 million of revenues that were included in our deferred revenue balance as of December 31, 2018. During the three months ended March 31, 2019, there was an immaterial amount of revenues recognized from performance obligations satisfied in previous periods. The aggregate amount of unsatisfied performance obligations is approximately $29.0 million as of March 31, 2019, of which substantially all is expected to be recognized into revenues over the next year and the remainder within three years.

Contract Balances

The following table presents our accounts receivable, net and deferred revenue balances (in thousands, except percentages):

	March 31, 2019	December 31, 2018	Change $	%
Accounts receivable, net	$8,870	$ 12,733	$(3,863)	(30)%
Deferred revenue	$26,276	$ 17,418	$8,858	51 %

During the three months ended March 31, 2019, our accounts receivable, net balance decreased by $3.9 million, or 30%, primarily due to an improvement in cash collections. During the three months ended March 31, 2019, our deferred revenue balance increased by $8.9 million, or 51%, primarily due to increased bookings for our Chegg Study service and eTextbook rentals driven by the seasonality of our business as well as the deferred variable consideration.

Our contract assets balance was immaterial as of March 31, 2019 and December 31, 2018.

Note 3. Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options, warrants, restricted stock units (RSUs), performance-based restricted stock units (PSUs), and shares related to convertible senior notes, to the extent dilutive. Basic and diluted net loss per share was the same for each period presented as the inclusion of all potential common shares outstanding would have been anti-dilutive.

Table of Contents

The following table sets forth the computation of historical basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2019	2018
Numerator:		
Net loss	$(4,318)	$(2,617)
Denominator:		
Weighted average shares used to compute net loss per share, basic and diluted	116,730	110,904
Net loss per share, basic and diluted	$(0.04)	$(0.02)

The following potential weighted-average shares of common stock outstanding were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2019	2018
Options to purchase common stock	3,258	4,079
RSUs and PSUs	6,732	8,791
Shares related to convertible senior notes	3,332	—
Employee stock purchase plan	41	—
Total common stock equivalents	13,363	12,870

Shares related to convertible senior notes represents the anti-dilutive impact of our issuance of $345 million in aggregate principal amount of our 0.25% convertible senior notes due in 2023 (2023 notes) as the average price of our common stock during the three months ended March 31, 2019 was higher than the conversion price of $26.95. While these shares are anti-dilutive during the three months ended March 31, 2019, they may be dilutive in periods we report net income. However, as a result of the capped call transactions described in Note 7, there will be no economic dilution from the 2023 notes up to $40.68, as exercise of the capped call instruments will reduce any dilution from the notes that would have otherwise occurred when the average price of our common stock exceeds the conversion price. None of the shares related to our issuance of $700 million in aggregate principal amount of our 0.125% convertible senior notes due in 2025 (2025 notes) were anti-dilutive during the three months ended March 31, 2019.

Table of Contents

Note 4. Cash and Cash Equivalents, and Investments

The following table shows our cash and cash equivalents, and investments' adjusted cost, net unrealized gain/(loss) and fair value as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019			December 31, 2018		
	Cost	Net Unrealized Gain/(Loss)	Fair Value	Cost	Net Unrealized Loss	Fair Value
Cash and cash equivalents:						
Cash	$279,928	$ —	$279,928	$351,345	$ —	$351,345
Money market funds	613,210	—	613,210	5,052	—	5,052
Commercial paper	21,369	(7)	21,362	18,267	—	18,267
Total cash and cash equivalents	$914,507	$ (7)	$914,500	$374,664	$ —	$374,664
Short-term investments:						
Commercial paper	$28,360	$ (3)	$28,357	$40,500	$ (12)	$40,488
Corporate securities	26,235	(3)	26,232	38,616	(87)	38,529
U.S. treasury securities	15,488	3	15,491	14,333	(5)	14,328
Total short-term investments	$70,083	$ (3)	$70,080	$93,449	$ (104)	$93,345
Long-term investments:						
Corporate securities	$10,842	$ 56	$10,898	$14,429	$ (5)	$14,424
U.S. treasury securities	1,633	2	1,635	1,630	(2)	1,628
Total long-term investments	$12,475	$ 58	$12,533	$16,059	$ (7)	$16,052

The adjusted cost and fair value of available-for-sale investments as of March 31, 2019 by contractual maturity were as follows (in thousands):

	Cost	Fair Value
Due in 1 year or less	$91,452	$91,442
Due in 1-2 years	12,475	12,533
Investments not due at a single maturity date	613,210	613,210
Total	$717,137	$717,185

Investments not due at a single maturity date in the preceding table consist of money market fund deposits.

As of March 31, 2019, we considered the declines in market value of our investment portfolio to be temporary in nature and did not consider any of our investments to be other-than-temporarily impaired. We typically invest in highly-rated securities with a minimum credit rating of A- and a weighted average maturity of one month, and our investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of preserving capital and maintaining liquidity. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and our intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's cost basis. During the three months ended March 31, 2019 and 2018, we did not recognize any impairment charges.

Restricted Cash

As of March 31, 2019 and December 31, 2018, we had approximately $1.0 million and $1.3 million, respectively, of restricted cash that consists of security deposits for our corporate offices. These amounts are classified in either other current assets or other assets on our condensed consolidated balance sheets based on the remaining term of the lease from the balance sheet dates.

Table of Contents

Strategic Investments

In October 2018, we completed an investment of $10.0 million in WayUp, Inc., a U.S.-based job site and mobile application for college students and recent graduates. Additionally, we previously invested $3.0 million in a foreign entity to explore expanding our reach internationally. We did not record other-than-temporary impairment charges on our investments during the three months ended March 31, 2019 and 2018, as there were no significant identified events or changes in circumstances that would be considered an indicator for impairment. There were no observable price changes in orderly transactions for the identical or a similar investment of the same issuer during the three months ended March 31, 2019 and 2018.

Note 5. Fair Value Measurement

We have established a fair value hierarchy used to determine the fair value of our financial instruments as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.

Level 3—Inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value; the inputs require significant management judgment or estimation.

A financial instrument's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Financial instruments measured and recorded at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 are classified based on the valuation technique level in the tables below (in thousands):

	March 31, 2019		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash equivalents:			
Money market funds	$613,210	$ 613,210	$ —
Commercial paper	21,362	—	21,362
Short-term investments:			
Commercial paper	28,357	—	28,357
Corporate securities	26,232	—	26,232
U.S. treasury securities	15,491	15,491	—
Long-term investments:			
Corporate securities	10,898	—	10,898
U.S. treasury securities	1,635	1,635	—
Total assets measured and recorded at fair value	$717,185	$ 630,336	$ 86,849

14

Table of Contents

	December 31, 2018		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash equivalents:			
Money market funds	$5,052	$ 5,052	$ —
Commercial paper	18,267	—	18,267
Short-term investments:	—		
Commercial paper	40,488	—	40,488
Corporate securities	38,529	—	38,529
U.S. treasury securities	14,328	14,328	—
Long-term investments:			
Corporate securities	14,424	—	14,424
U.S. treasury securities	1,628	1,628	—
Total assets measured and recorded at fair value	$132,716	$ 21,008	$ 111,708

We value our marketable securities based on quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. Other than our money market funds and U.S. treasury securities, we classify our fixed income available-for-sale securities as having Level 2 inputs. The valuation techniques used to measure the fair value of our financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models such as discounted cash flow techniques. We do not hold any marketable securities valued with a Level 3 input.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

We report our financial instruments at fair value with the exception of the 2023 notes and 2025 notes. Collectively, the 2025 notes and 2023 notes are referred to as the “notes.” The estimated fair value of the notes was determined based on the trading price of the notes as of the last day of trading for the period. We consider the fair value of the notes to be a Level 2 measurement due to the limited trading activity. For further information on the notes see Note 7.

The carrying amounts and estimated fair values of the notes as of March 31, 2019 and December 31, 2018 are as follows (in thousands):

	March 31, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
2025 notes	$502,252	$693,945	$—	$—
2023 notes	$287,128	$520,108	$283,668	$416,156
Convertible senior notes, net	$789,380	$1,214,053	$283,668	$416,156

The carrying amount of the 2025 notes and 2023 notes as of March 31, 2019 was net of unamortized debt discount of $185.0 million and $51.7 million, respectively, and unamortized issuance costs of $12.8 million and $6.1 million, respectively. The carrying amount of the 2023 notes as of December 31, 2018 was net of unamortized debt discount of $54.8 million and unamortized issuance costs of $6.5 million.

Table of Contents

Note 6. Goodwill and Intangible Assets

Goodwill consists of the following (in thousands):

	March 31, 2019	December 31, 2018
Beginning balance	$149,524	$125,272
Additions due to acquisitions	—	24,673
Foreign currency translation adjustment	(43)	(421)
Ending balance	$149,481	$149,524

Intangible assets as of March 31, 2019 and December 31, 2018 consist of the following (in thousands, except weighted-average amortization period):

	March 31, 2019			
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technologies and content library	71	$31,667	$ (14,821)	$16,846
Customer lists	47	9,970	(7,188)	2,782
Trade names	44	6,113	(5,162)	951
Non-compete agreements	31	2,018	(1,801)	217
Indefinite-lived trade name	—	3,600	—	3,600
Foreign currency translation adjustment	—	(299)	—	(299)
Total intangible assets	61	$53,069	$ (28,972)	$24,097

	December 31, 2018			
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technologies and content library	71	$31,667	$ (13,737)	$17,930
Customer lists	47	9,970	(6,847)	3,123
Trade names	44	6,113	(4,863)	1,250
Non-compete agreements	31	2,018	(1,735)	283
Indefinite-lived trade name	—	3,600	—	3,600
Foreign currency translation adjustment	—	(271)	—	(271)
Total intangible assets	61	$53,097	$ (27,182)	$25,915

During the three months ended March 31, 2019 and 2018, amortization expense related to our acquired intangible assets totaled approximately $1.8 million and $1.4 million, respectively.

As of March 31, 2019, the estimated future amortization expense related to our finite-lived intangible assets is as follows (in thousands):

Remaining nine months of 2019	$4,658
2020	4,816
2021	3,423
2022	2,943
2023	2,276
Thereafter	2,381
Total	$20,497

16

Table of Contents

Note 7. Convertible Senior Notes

In March 2019, we issued $700 million in aggregate principal amount of 0.125% convertible senior notes due in 2025 (2025 notes). In April 2018, we issued $345 million in aggregate principal amount of 0.25% convertible senior notes due in 2023 (2023 notes). The aggregate principal amount of the 2023 notes includes $45 million from the initial purchasers fully exercising their option to purchase additional notes. Collectively, the 2025 notes and 2023 notes are referred to as the “notes.” The notes were issued in private placements to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended.

The total net proceeds from the notes are as follows (in thousands):

	2025 Notes	2023 Notes
Principal amount	$700,000	$345,000
Less initial purchasers’ discount	(16,625)	(8,625)
Less other issuance costs	(781)	(757)
Net proceeds	$682,594	$335,618

The notes are our senior, unsecured obligations and are governed by indenture agreements by and between us and Wells Fargo Bank, National Association, as Trustee (the indentures). The 2025 notes bear interest of 0.125% per year which is payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2019. The 2025 notes will mature on March 15, 2025 (the 2025 notes maturity date), unless repurchased, redeemed or converted in accordance with their terms prior to such date. The 2023 notes bear interest of 0.25% per year which is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2018. The 2023 notes will mature on May 15, 2023 (the 2023 notes maturity date), unless repurchased, redeemed or converted in accordance with their terms prior to such date.

Each $1,000 principal amount of the 2025 notes will initially be convertible into 19.3956 shares of our common stock. This is equivalent to an initial conversion price of approximately $51.56 per share, which is subject to adjustment in certain circumstances. Each $1,000 principal amount of the 2023 notes will initially be convertible into 37.1051 shares of our common stock. This is equivalent to an initial conversion price of approximately $26.95 per share, which is subject to adjustment in certain circumstances.

Prior to the close of business on the business day immediately preceding December 15, 2024 for the 2025 notes and February 15, 2023 for the 2023 notes, the notes are convertible at the option of holders only upon satisfaction of the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on June 30, 2019 for the 2025 notes and June 30, 2018 for the 2023 notes, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the respective conversion price for the notes on each applicable trading day;
- during the five business day period after any ten consecutive trading day period (the measurement period) in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day;
- if we call any or all of the notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- upon the occurrence of certain specified corporate events described in the indentures.

On or after December 15, 2024 for the 2025 notes and February 15, 2023 for the 2023 notes until the close of business on the second scheduled trading day immediately preceding the respective maturity dates, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, the notes may be settled in shares of our common stock, cash or a combination of cash and shares of our common stock, at our election.

If we undergo a fundamental change, as defined in the indentures, prior to the respective maturity dates, subject to certain conditions, holders of the notes may require us to repurchase for cash all or any portion of their notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events, described in the indentures, occur prior to the respective maturity dates, we will also increase the conversion rate for a holder who elects to convert their notes in connection with such specified corporate events.

Table of Contents

During the three months ended March 31, 2019, the conditions allowing holders of the 2025 notes to convert have not been met and are therefore not convertible during the three months ended March 31, 2019. During the three months ended March 31, 2019, the conditions allowing holders of the 2023 notes to convert have been met and are therefore convertible during the three months ended March 31, 2019. None of the holders of the 2023 notes elected to convert their notes into shares of our common stock during the three months ended March 31, 2019.

In accounting for the issuance of the notes, we separated the notes into liability and equity components. The carrying amount of the liability components for the 2025 notes and 2023 notes of approximately $514.5 million and $280.8 million, respectively, was calculated by measuring the fair value of similar debt instruments that do not have an associated convertible feature. The carrying amount of the equity components for the 2025 notes and 2023 notes of approximately $185.5 million and $64.2 million, respectively, representing the conversion option, was determined by deducting the carrying amount of the liability components from the principal amount of the notes. This difference between the principal amount of the notes and the liability components represents the debt discount, presented as a reduction to the notes on our condensed consolidated balance sheet, and is amortized to interest expense using the effective interest method over the remaining term of the notes. The equity components of the notes are included in additional paid-in capital on our condensed consolidated balance sheet and is not remeasured as long as it continues to meet the conditions for equity classification.

We incurred issuance costs related to the 2025 notes of approximately $17.4 million, consisting of the initial purchasers' discount of $16.6 million and other issuance costs of approximately $0.8 million. We incurred issuance costs related to the 2023 notes of approximately $9.4 million, consisting of the initial purchasers' discount of $8.6 million and other issuance costs of approximately $0.8 million. In accounting for the issuance costs, we allocated the total amount incurred to the liability and equity components using the same proportions determined above for the notes. Transaction costs attributable to the liability components for the 2025 notes and 2023 notes of approximately $12.8 million and $7.6 million, respectively, were recorded as debt issuance cost, presented as a reduction to the notes on our condensed consolidated balance sheet, and are amortized to interest expense using the effective interest method over the term of the notes. The issuance costs attributable to the equity components for the 2025 notes and 2023 notes were approximately $4.6 million and $1.7 million, respectively, and were recorded as a reduction to the equity component included in additional paid-in capital.

The net carrying amount of the liability component of the notes is as follows (in thousands):

	March 31, 2019		December 31, 2018
	2025 Notes	2023 Notes	2023 Notes
Principal	$700,000	$345,000	$345,000
Unamortized debt discount	(184,990)	(51,725)	(54,817)
Unamortized issuance costs	(12,758)	(6,147)	(6,515)
Net carrying amount	$502,252	$287,128	$283,668

The net carrying amount of the equity component of the notes is as follows (in thousands):

	March 31, 2019		December 31, 2018
	2025 Notes	2023 Notes	2023 Notes
Debt discount for conversion option	$185,500	$64,193	$64,193
Issuance costs	(4,613)	(1,749)	(1,749)
Net carrying amount	$180,887	$62,444	$62,444

As of March 31, 2019, the remaining lives of the 2025 notes and 2023 notes are approximately 6.0 and 4.1 years, respectively, and are classified as long-term debt.

Based on the closing price of our common stock of $38.12 on March 31, 2019, the if-converted value of the 2025 notes was approximately $517.6 million which is less than the principal amount of $700 million by approximately $182.4 million and the if-converted value of the 2023 notes was approximately $488.0 million which exceeds the principal amount of $345 million by approximately $143.0 million.

Table of Contents

The effective interest rate of the liability components for the 2025 notes and 2023 notes are 5.4% and 4.34%, respectively, and is based on the interest rate of similar debt instruments, at the time of our offering, that do not have associated convertible features. The following table sets forth the total interest expense recognized related to the notes (in thousands):

	Three Months Ended March 31, 2019	
	2025 Notes	2023 Notes
Contractual interest expense	$14	$213
Amortization of debt discount	510	3,091
Amortization of issuance costs	35	369
Total interest expense	$559	$3,673

Capped Call Transactions

Concurrently with the offering of the 2025 notes and 2023 notes, we used $85.1 million and $39.2 million, respectively, of the net proceeds to enter into privately negotiated capped call transactions which are expected to generally reduce or offset potential dilution to holders of our common stock upon conversion of the notes and/or offset the potential cash payments we would be required to make in excess of the principal amount of any converted notes. The capped call transactions cover 13,576,920 and 12,801,260 shares of our common stock for the 2025 notes and 2023 notes, respectively, and are intended to effectively increase the overall conversion price from $51.56 to $79.32 per share for the 2025 notes and $26.95 to $40.68 per share for the 2023 notes. As these transactions meet certain accounting criteria, they are recorded in stockholders’ equity as a reduction of additional paid-in capital on our condensed consolidated balance sheet and are not accounted for as derivatives. The fair value of the capped call instrument is not remeasured each reporting period. The cost of the capped call is not expected to be deductible for tax purposes.

Impact to Earnings per Share

The notes will have no impact to diluted earnings per share until the average price of Chegg’s common stock exceeds the conversion price for the 2025 notes and 2023 notes of $51.56 and $26.95 per share, respectively, because we intend to settle the principal amount of the notes in cash upon conversion. Under the treasury stock method, in periods we report net income, we are required to include the effect of additional shares that may be issued under the notes when the average price of our common stock exceeds the conversion price. However, as a result of the capped call transactions described above, there will be no economic dilution from the 2025 notes and 2023 notes up to $79.32 and $40.68, respectively, as exercise of the capped call instruments will reduce any dilution from the notes that would have otherwise occurred when the average price of our common stock exceeds the conversion price.

Note 8. Leases

We have operating leases for corporate offices worldwide, which expire at various dates through 2024. Our primary operating lease commitments at March 31, 2019 are related to our corporate headquarters in Santa Clara, California. We have additional offices in California, Oregon, Georgia and New York in the United States and internationally in India, Israel and Germany.

As of March 31, 2019, we had operating lease ROU assets of $15.9 million and operating lease liabilities of $20.1 million. As of March 31, 2019, we do not have finance leases recorded on our condensed consolidated balance sheet. As of March 31, 2019, our weighted average remaining lease term was 4.3 years. During the three months ended March 31, 2019, our weighted average discount rate was 4.7%.

Operating lease expense was approximately $1.3 million during the three months ended March 31, 2019. Variable lease cost was immaterial during the three months ended March 31, 2019. We did not record any sublease income or short term lease cost during the three months ended March 31, 2019.

Table of Contents

The aggregate future minimum lease payments and reconciliation to lease liabilities as of March 31, 2019, are as follows (in thousands):

	March 31, 2019
Remaining nine months of 2019	$ 4,101
2020	5,200
2021	4,724
2022	3,948
2023	3,424
Thereafter	788
Total future minimum lease payments	22,185
Less imputed interest	(2,121)
Total lease liabilities	$ 20,064

The aggregate future minimum lease payments as of December 31, 2018, are as follows (in thousands):

	December 31, 2018
2019	$ 5,222
2020	5,251
2021	4,775
2022	3,999
2023	3,421
Thereafter	788
Total	$ 23,456

Note 9. Commitments and Contingencies

From time to time, third parties may assert patent infringement claims against us in the form of letters, litigation, or other forms of communication. In addition, we may from time to time be subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights, and other intellectual property rights; employment claims; and general contract or other claims. We may also, from time to time, be subject to various legal or government claims, disputes, or investigations. Such matters may include, but not be limited to, claims, disputes, or investigations related to warranty, refund, breach of contract, employment, intellectual property, government regulation, or compliance or other matters.

On September 27, 2018 a purported securities class action captioned Shah v. Chegg, Inc. et. al. (Case No. 3:18-cv-05956-CRB) was filed in the U.S. District Court for the Northern District of California against us and our CEO. The complaint was filed by a purported Company shareholder and alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and SEC Rule 10b-5, based on allegedly misleading statements regarding the Company’s security measures to protect users’ data and related internal controls and procedures, as well as our second quarter 2018 financial results. The suit is purportedly brought on behalf of purchasers of our securities between July 30, 2018 and September 25, 2018. The complaint seeks unspecified compensatory damages, as well as interest, costs and attorneys’ fees. On November 15, 2018, a second purported securities class action captioned Kurland v. Chegg, Inc. et al. (Case No. 3:18-cv-06714-CRB) was filed in the U.S. District Court for the Northern District of California against us, our CEO, and our CFO. The Shah and Kurland actions contain similar allegations, assert similar claims, and seek similar relief, and on January 24, 2019, the Court consolidated the two actions. On March 29, 2019, the Plaintiffs filed a Lead Plaintiff's notice of Voluntary Dismissal Without Prejudice.

NetSoc, LLC ("NetSoc") filed a complaint for patent infringement against us in the U.S. District Court for the Southern District of New York on November 5, 2018. NetSoc alleges that our Chegg Tutors service infringes U.S. Patent No. 9,978,107 ("the '107 Patent"). A responsive pleading was filed on February 19, 2019 and an initial status conference was held on March 1, 2019. The parties have been ordered to schedule mediation. The complaint seeks unspecified compensatory damages.

Table of Contents

We have not recorded any amounts related to the above matters, as we do not believe that a loss is probable in either matter. We are not aware of any other pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on our consolidated financial position, results of operations or cash flows. However, our analysis of whether a claim may proceed to litigation cannot be predicted with certainty, nor can the results of litigation be predicted with certainty. Nevertheless, defending any of these actions, regardless of the outcome, may be costly, time consuming, distract management personnel and have a negative effect on our business. An adverse outcome in any of these actions, including a judgment or settlement, may cause a material adverse effect on our future business, operating results and/or financial condition.

Note 10. Guarantees and Indemnifications

We have agreed to indemnify our directors and officers for certain events or occurrences, subject to certain limits, while such persons are or were serving at our request in such capacity. We may terminate the indemnification agreements with these persons upon termination of employment, but termination will not affect claims for indemnification related to events occurring prior to the effective date of termination. We have a directors' and officers' insurance policy that limits our potential exposure up to the limits of our insurance coverage. In addition, we also have other indemnification agreements with various vendors against certain claims, liabilities, losses, and damages. The maximum amount of potential future indemnification is unlimited.

We believe the fair value of these indemnification agreements is minimal. We have not recorded any liabilities for these agreements as of March 31, 2019.

Note 11. Stockholders' Equity

In conjunction with our 2025 notes offering in March 2019, we repurchased 504,286 shares of our common stock at an average price per share of $39.66.

Share-based Compensation Expense

Total share-based compensation expense recorded for employees and non-employees, is as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Cost of revenues	$125	$94
Research and development	4,917	4,133
Sales and marketing	1,808	1,589
General and administrative	8,188	5,826
Total share-based compensation expense	$15,038	$11,642

RSU and PSU Activity

Activity for RSUs and PSUs is as follows:

	RSUs and PSUs Outstanding	
	Number of RSUs and PSUs	Weighted Average Grant Date

	Outstanding	Fair Value
Balance at December 31, 2018	10,804,808	$ 11.87
Granted	1,440,428	39.95
Released	(4,352,468)	8.97
Canceled	(727,939)	7.12
Balance at March 31, 2019	7,164,829	$ 19.76

As of March 31, 2019, our total unrecognized share-based compensation expense related to RSUs and PSUs was approximately $98.1 million, which will be recognized over the remaining weighted-average vesting period of approximately 1.9 years.

Table of Contents

Note 12. Income Taxes

We recorded an income tax provision of approximately $0.6 million and $0.5 million during the three months ended March 31, 2019 and 2018, respectively, primarily due to state and foreign income tax expense.

Note 13. Restructuring Charges

2017 Restructuring Plan

In January 2017, we entered into a strategic partnership with the National Research Center for College & University Admissions (NRCCUA) where they will assume responsibility for managing, renewing, and maintaining our existing university contracts and become the exclusive reseller of our digital marketing services for colleges and universities. As a result of this strategic partnership, approximately 55 employees in China and the United States supporting the sales and account support functions of our marketing services offerings were terminated. Costs incurred to date are expected to be fully paid within 1 month.

2015 Restructuring Plan

We recorded a reduction of $0.3 million to our 2015 Restructuring Plan liability related to our adoption of ASU 2016-02, Leases (Topic 842) during the three months ended March 31, 2019. Our 2015 Restructuring Plan is now complete.

The following table summarizes the activity related to the accrual for restructuring charges (in thousands):

	2017 Restructuring Plan		2015 Restructuring Plan	
	Workforce Reduction Costs	Lease Termination and Other Costs	Lease Termination and Other Costs	Total
Balance at January 1, 2018	$ 44	$ —	$ 221	$265
Restructuring charges	253	19	317	589
Cash payments	(151)	(19)	(218)	(388)
Write-offs	—	—	(18)	(18)
Balance at December 31, 2018	146	—	302	448
Cumulative-effect adjustment to accumulated deficit related to adoption of ASU 2016-02	—	—	(302)	(302)
Restructuring charges	22	—	—	22
Cash payments	(132)	—	—	(132)
Balance at March 31, 2019	$ 36	$ —	$ —	$36

Note 14. Related-Party Transactions

Our Chief Executive Officer is a member of the Board of Directors of Adobe Systems Incorporated (Adobe). During the three months ended March 31, 2019 and 2018, we had purchases of $1.0 million and $1.7 million, respectively, from Adobe. We had no revenues during the three months ended March 31, 2019 and $0.1 million of revenues during the three months ended March 31, 2018 from Adobe. We had an immaterial amount in payables as of March 31, 2019 and December 31, 2018 to Adobe. We had no outstanding receivables as of March 31, 2019 and December 31, 2018

from Adobe.

One of our board members is also a member of the Board of Directors of Cengage Learning, Inc. (Cengage). During the three months ended March 31, 2019 and 2018, we had purchases of $9.1 million and $5.1 million, respectively, from Cengage. We had $1.2 million and $1.9 million of revenues during the three months ended March 31, 2019, respectively, from Cengage. We had $0.5 million and $0.1 million in payables as of March 31, 2019 and December 31, 2018, respectively, to Cengage. We had an immaterial amount of outstanding receivables as of March 31, 2019 and December 31, 2018 from Cengage.

Table of Contents

The immediate family of one of our board members is also a member of the Board of Directors of PayPal Holdings, Inc. (PayPal). During the three months ended March 31, 2019 and 2018, we incurred payment processing fees of $0.4 million to PayPal.

One of our board members is also a member of the Board of Directors of Synack, Inc. (Synack). During the three months ended March 31, 2019, we had purchases of $0.3 million of services from Synack.

Note 15. Subsequent Event

On April 3, 2019, in conjunction with our March 2019 issuance of the 2025 notes, we issued an additional $100 million of the 2025 notes from the initial purchasers fully exercising their option to purchase additional notes. We used approximately $12.2 million of the additional proceeds to pay for the cost of additional privately negotiated capped call transactions. The notes from this additional issuance and additional capped call transactions follow the same terms as disclosed in Note 7. Convertible Senior Notes.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes included in Part I, Item 1, “Financial Statements (unaudited)” of this Quarterly Report on Form 10-Q. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. See the “Note about Forward-Looking Statements” for additional information. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in Part II, Item 1A, “Risk Factors.”

Overview

Chegg is a smarter way to student. As the leading direct-to-student learning platform, we strive to improve educational outcomes by putting the student first in all our decisions. We support students on their journey from high school to college and into their career with tools designed to help them pass their test, pass their class, and save money on required materials. Our services are available online, anytime and anywhere, so we can reach students when they need us most.

Students subscribe to our subscription services, which we collectively refer to as Chegg Services. Our primary Chegg Services include Chegg Study, Chegg Writing, Chegg Tutors, and Chegg Math Solver. Our Chegg Study subscription service provides “Expert Answers” and step-by-step “Textbook Solutions,” helping students with their course work. When students need help creating citations for their papers, they can use one of our Chegg Writing properties, including EasyBib, Citation Machine, BibMe, and CiteThisForMe. When students need additional help on a subject, they can reach a live tutor online, anytime, anywhere through Chegg Tutors. Our Chegg Math Solver subscription service helps students understand math by providing a step-by-step math solver and calculator.

Through our agreements with print textbook partners, we offer Required Materials, which includes an extensive print textbook and eTextbook library for rent and sale, helping students save money compared to the cost of buying new.
To deliver services to students, we partner with a variety of third parties. We source print textbooks, eTextbooks, and supplemental materials directly or indirectly from publishers in the United States, including Cengage Learning, Pearson, McGraw Hill, Sage Publications, and MacMillan.

During the three months ended March 31, 2019 and 2018, we generated net revenues of $97.4 million and $76.9 million, respectively, and in the same periods had net losses of $4.3 million and $2.6 million, respectively. We plan to continue to invest in our long-term growth, particularly further investment in the technology that powers our learning platform and the development of additional products and services that serve students.

Our strategy for achieving profitability is centered upon our ability to utilize Chegg Services to increase student engagement with our learning platform. We plan to continue to invest in the expansion of our Chegg Services to provide a more compelling and personalized solution and deepen engagement with students. In addition, we believe that the investments we have made to achieve our current scale will allow us to drive increased operating margins over time that, together with increased contributions of Chegg Services, will enable us to accomplish profitability and become cash-flow positive in the long-term. Our ability to achieve these long-term objectives is subject to numerous risks and uncertainties, including our ability to attract, retain, and increasingly engage the student population, intense competition in our markets, the ability to achieve

Table of Contents

sufficient contributions to revenue from Chegg Services and other factors described in greater detail in Part II, Item 1A, “Risk Factors.”

We have presented revenues for our two product lines, Chegg Services and Required Materials, based on how students view us and the utilization of our products by them. More detail on our two product lines is discussed in the next two sections titled "Chegg Services" and "Required Materials."

Chegg Services

Our Chegg Services for students primarily includes Chegg Study, Chegg Writing, Chegg Tutors, and Chegg Math Solver. Students typically pay to access Chegg Services such as Chegg Study on a monthly basis. We also work with leading brands to provide students with discounts, promotions, and other products that, based on student feedback, delight them.

In the aggregate, Chegg Services revenues were 77% and 73% of net revenues during the three months ended March 31, 2019 and 2018, respectively.

Required Materials

Our Required Materials product line includes a revenue share on the rental and sale of print textbooks, as well as revenues from eTextbooks. We have entered into agreements with partners to provide our customers a wide variety of print textbooks. These agreements have allowed us to reduce and eliminate the capital requirements and operating expenses that were historically incurred to acquire and maintain a print textbook library. As a result, our revenues include a share on the total transaction amount that we earn upon fulfillment of a rental or sale transaction using print textbooks for which our partners have title and risk of loss, as opposed to the total transaction amount. We offer our eTextbooks on a standalone basis or as a rental-equivalent solution and for free to students awaiting the arrival of their print textbook rental for select print textbooks. eTextbooks and supplemental course materials are available from approximately 120 publishers as of March 31, 2019. We also use our website to rent, sell and source used print textbooks on behalf of our partners. We attract students to our website by offering to buy back their used print textbooks as opposed to selling them back to their campus bookstore.

In the aggregate, Required Materials revenues were 23% and 27% of net revenues during the three months ended March 31, 2019 and 2018, respectively.

Seasonality of Our Business

Chegg Services and eTextbooks are primarily recognized ratably over the term a student subscribes to our Chegg Services or rents an eTextbook. This has generally resulted in our highest revenues and profitability in the fourth quarter as it reflects more days of the academic year. Our variable expenses related to marketing activities remain highest in the first and third quarter such that our profitability may not provide meaningful insight on a sequential basis.

As a result of these factors, the most concentrated periods for our revenues and expenses do not necessarily coincide, and comparisons of our historical quarterly operating results on a sequential basis may not provide meaningful insight into our overall financial performance.

Table of Contents

Results of Operations

The following table summarizes our historical condensed consolidated statements of operations (in thousands, except percentage of total net revenues):

	Three Months Ended March 31,			
	2019		2018	
Net revenues	$97,409	100 %	$76,949	100 %
Cost of revenues[1]	23,335	24	20,224	26
Gross profit	74,074	76	56,725	74
Operating expenses[1]:				
Research and development	32,692	34	25,533	33
Sales and marketing	18,717	19	15,336	20
General and administrative	23,670	24	18,256	24
Restructuring charges	22	—	220	—
Total operating expenses	75,101	77	59,345	77
Loss from operations	(1,027)	(1)	(2,620)	(3)
Total interest expense and other income, net	(2,665)	(3)	544	1
Loss before provision for income taxes	(3,692)	(4)	(2,076)	(2)
Provision for income taxes	626	(1)	541	(1)
Net loss	$(4,318)	(5)%	$(2,617)	(3)%

[1] Includes share-based compensation expense as follows:

	2019	2018
Cost of revenues	$125	$94
Research and development	4,917	4,133
Sales and marketing	1,808	1,589
General and administrative	8,188	5,826
Total share-based compensation expense	$15,038	$11,642

Table of Contents

Three Months Ended March 31, 2019 and 2018

Net Revenues

The following table sets forth our total net revenues for the periods shown for our Chegg Services and Required Materials product lines (in thousands, except percentages):

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Chegg Services	$75,292	$56,277	$19,015	34%
Required Materials	22,117	20,672	1,445	7
Total net revenues	$97,409	$76,949	$20,460	27%

Chegg Services revenues increased $19.0 million, or 34%, during the three months ended March 31, 2019, compared to the same period in 2018 due to growth in subscriptions for our Chegg Study service and revenues from our Chegg Writing service. Chegg Services revenues were 77% and 73% of net revenues during the three months ended March 31, 2019 and 2018, respectively. Required Materials revenues increased $1.4 million, or 7%, during the three months ended March 31, 2019, compared to the same period in 2018. Required Materials revenues were 23% and 27% of net revenues during the three months ended March 31, 2019 and 2018, respectively.

Cost of Revenues

The following table sets forth our cost of revenues for the periods shown (in thousands, except percentages):

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Cost of revenues(1)	$23,335	$20,224	$3,111	15%
(1) Includes share-based compensation expense of:	$125	$94	$31	33%

Cost of revenues increased $3.1 million, or 15%, during the three months ended March 31, 2019, respectively, compared to the same period in 2018. The increase was primarily attributable to higher amortization of content of $1.5 million, higher payment processing fees of $0.6 million, higher shipping expenses of $0.5 million related to the shift in mix to publisher partner print textbook rentals where we pay for shipping, and higher eTextbook license fees of $0.7 million as more students shift from traditional print textbooks to eTextbooks. Gross margins increased to 76% during the three months ended March 31, 2019 from 74% compared to the same period in 2018.

Table of Contents

Operating Expenses

The following table sets forth our total operating expenses for the periods shown (in thousands, except percentages):

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Research and development[1]	$32,692	$25,533	$7,159	28 %
Sales and marketing[1]	18,717	15,336	3,381	22
General and administrative[1]	23,670	18,256	5,414	30
Restructuring charges	22	220	(198)	(90)
Total operating expenses	$75,101	$59,345	$15,756	27 %
[1] Includes share-based compensation expense of:				
Research and development	$4,917	$4,133	$784	19 %
Sales and marketing	1,808	1,589	219	14
General and administrative	8,188	5,826	2,362	41
Share-based compensation expense	$14,913	$11,548	$3,365	29 %

Research and Development

Research and development expenses increased $7.2 million, or 28%, during the three months ended March 31, 2019 compared to the same period in 2018. The increase was primarily attributable to an increase in employee-related expenses of $4.1 million, higher technology expenses to support our research and development of $1.8 million, higher share-based compensation expenses of $0.8 million, higher employer taxes largely driven by the increase in our stock price of $0.6 million, and higher depreciation and amortization expenses of $0.3 million, compared to the same period in 2018. Research and development expenses as a percentage of net revenues were 34% during the three months ended March 31, 2019 compared to 33% during the same period in 2018, remaining relatively flat. The increases in research and development expenses during the three months ended March 31, 2019 compared to the same period in 2018 are primarily driven by increased headcount as a result of our acquisitions of StudyBlue and WriteLab during 2018.

Sales and Marketing

Sales and marketing expenses increased by $3.4 million, or 22%, during the three months ended March 31, 2019 compared to the same period in 2018. The increase was primarily attributable to higher employer taxes largely driven by the increase in our stock price of $0.2 million, higher share-based compensation expenses of $0.2 million, and higher marketing expenses of $2.6 million, compared to the same period in 2018. Sales and marketing expenses as a percentage of net revenues were 19% during the three months ended March 31, 2019 compared to 20% during the same period in 2018, remaining relatively flat.

General and Administrative

General and administrative expenses increased $5.4 million, or 30%, during the three months ended March 31, 2019 compared to the same period in 2018. The increase was primarily due to higher employee-related expenses of $1.2 million, higher share-based compensation expenses of $2.4 million, higher employer taxes largely driven by the increase in our stock price of $1.1 million, and higher facilities expenses of $1.0 million driven by office expansion, compared to the same period in 2018. General and administrative expenses as a percentage of net revenues were flat at 24% during the three months ended March 31, 2019 and 2018.

Restructuring Charges

Restructuring charges of $0.2 million recorded during the three months ended March 31, 2018 were primarily related to our subtenant filing for bankruptcy and exiting our leased office. Costs incurred to date are expected to be fully paid within 1 month.

Table of Contents

Interest Expense and Other Income, Net

The following table sets forth our interest expense and other income, net, for the periods shown (in thousands, except percentages):

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Interest expense, net	$(4,232)	$(20)	$(4,212)	n/m
Other income, net	1,567	564	1,003	178
Total interest expense and other income, net	$(2,665)	$544	$(3,209)	n/m

n/m - not meaningful

Interest expense, net increased during the three months ended March 31, 2019 compared to the same period in 2018 as a result of the amortization of debt discount and issuance costs and contractual interest expense related to the notes.

Other income, net, increased during the three months ended March 31, 2019 compared to the same periods in 2018 primarily related to the interest earned on our investments.

Provision for Income Taxes

The following table sets forth our provision for income taxes for the periods shown (in thousands, except percentages):

	Three Months Ended March 31,		Change	
	2019	2018	$	%
Provision for income taxes	$626	$541	$85	16%

We recorded an income tax provision of approximately $0.6 million and $0.5 million during the three months ended March 31, 2019 and 2018, respectively. The increase during the three months ended March 31, 2019 compared to the same period in 2018 was primarily due to an increase in foreign profits.

Liquidity and Capital Resources

As of March 31, 2019, our principal sources of liquidity were cash, cash equivalents, and investments totaling $997.1 million, which were held for working capital purposes. The substantial majority of our net revenues are from e-commerce transactions with students, which are settled immediately through payment processors, as opposed to our accounts payable, which are settled based on contractual payment terms with our suppliers. In March 2019 and April 2018, we closed offerings of our 2025 notes and 2023 notes generating net proceeds of approximately $682.6 million and $335.6 million, respectively, after deducting the initial purchasers' discount and estimated offering expenses payable by us. The 2025 notes and 2023 notes mature on March 15, 2025 and May 15, 2023, respectively, unless converted, redeemed or repurchased in accordance with their terms prior to such date.

As of March 31, 2019, we have incurred cumulative losses of $411.0 million from our operations and we expect to incur additional losses in the future. Our operations have been financed primarily by our initial public offering of our common stock (IPO), our 2017 follow-on public offering, our 2023 notes and our 2025 notes offering, and cash generated from operations.

We believe that our existing sources of liquidity will be sufficient to fund our operations and debt service obligations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, our investments in research and development activities, our acquisition of new products and services and our sales and marketing activities. To the extent that existing cash and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all. If adequate funds are not available on acceptable terms, or at all, we may be unable to adequately fund our business plans and it could have a negative effect on our business, operating cash flows and financial condition.

Table of Contents

Most of our cash is held in the United States. As of March 31, 2019, our foreign subsidiaries held an insignificant amount of cash in foreign jurisdictions. We currently do not intend or foresee a need to repatriate some of these foreign funds however, as a result of the Tax Cuts and Jobs Act we anticipate the U.S. federal impact to be minimal if these foreign funds are repatriated. In addition, based on our current and future needs, we believe our current funding and capital resources for our international operations are adequate.

The following table sets forth our cash flows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Consolidated Statements of Cash Flows Data:		
Net cash provided by operating activities	$17,941	$6,553
Net cash provided by investing activities	$13,173	$4,236
Net cash provided by (used in) financing activities	$508,482	$(30,418)

Cash Flows from Operating Activities

Net cash provided by operating activities during the three months ended March 31, 2019 was $17.9 million. Our net loss of $4.3 million was offset by significant non-cash operating expenses including depreciation and amortization expense of $6.8 million, share-based compensation expense of $15.0 million, and the amortization of debt discount and issuance costs related to the notes of $4.0 million.

Net cash provided by operating activities during the three months ended March 31, 2018 was $6.6 million. Our net loss of $2.6 million was offset by significant non-cash operating expenses including other depreciation and amortization expense of $5.2 million and share-based compensation expense of $11.6 million.

Cash Flows from Investing Activities

Net cash provided by investing activities during the three months ended March 31, 2019 was $13.2 million and was primarily related to the maturity of marketable securities of $48.8 million, partially offset by the purchases of property and equipment of $14.1 million and the purchases of marketable securities of $21.6 million.

Net cash provided by investing activities during the three months ended March 31, 2018 was $4.2 million and was primarily provided by the maturity of marketable securities of $21.6 million, partially offset by the purchases of property and equipment of $4.9 million and the purchases of marketable securities of $12.5 million.

Cash Flows from Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2019 was $508.5 million and was related to the proceeds from issuance of convertible senior notes, net of issuance costs, of $682.6 million and the proceeds from the issuance of common stock under stock plans of $7.0 million, partially offset by the payment of $76.0 million in taxes related to the net share settlement of equity awards, the purchase of convertible senior notes capped call instrument of $85.1 million and the repurchase of common stock of $20.0 million.

Net cash used in financing activities during the three months ended March 31, 2018 was $30.4 million and was related to the payment of $35.6 million in taxes related to the net share settlement of equity awards partially offset by the proceeds from the issuance of common stock under stock plans totaling $5.2 million.

Table of Contents

Contractual Obligations and Other Commitments

In March 2019, we closed an offering of the 2025 notes for gross proceeds of $700.0 million and in April 2019, the initial purchasers fully exercised their option to purchase $100 million of additional notes for total gross proceeds of $800 million. See Note 7, Convertible Senior Notes, of the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

There were no other material changes in our commitments under contractual obligations, as disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in our Annual Report on Form 10-K for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

Through March 31, 2019, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies, Significant Judgments and Estimates

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP). The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes in our critical accounting policies and estimates during the three months ended March 31, 2019 as compared to the critical accounting policies and estimates disclosed in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in our Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

For relevant recent accounting pronouncements, see Note 1. Background and Basis of Presentation of our accompanying Notes to Condensed Consolidated Financial Statements included in Part I, Item 1, "Financial Statements (unaudited)" of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In March 2019, we closed an offering of the 2025 notes for gross proceeds of $700.0 million and in April 2019, the initial purchasers fully exercised their option to purchase $100 million of additional notes for total gross proceeds of $800 million. We carry these notes at face value less unamortized debt discount and debt issuance costs on our condensed consolidated balance sheets. Because the notes have a fixed annual interest rate, we do not have any economic interest rate exposure or financial statement risk associated with changes in interest rates. The fair value of the notes, however, may fluctuate when interest rates and the market price of our stock changes. See Note 7, Convertible Senior Notes, of the Notes to Condensed Consolidated Financial Statements of Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

There have been no other material changes in our market risk during the three months ended March 31, 2019, compared to the disclosures in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" contained in our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure

Table of Contents

controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management’s evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2019, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during our most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS (PENDING)

From time to time, third parties may assert patent infringement claims against us in the form of letters, litigation or other forms of communication. In addition, we may from time to time be subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights; employment claims; and general contract or other claims. We may also, from time to time be subject to various legal or government claims, disputes, or investigations. Such matters may include, but not be limited to, claims, disputes or investigations related to warranty, refund, breach of contract, employment, intellectual property, government regulation or compliance or other matters.

On September 27, 2018 a purported securities class action captioned Shah v. Chegg, Inc. et. al. (Case No. 3:18-cv-05956-CRB) was filed in the U.S. District Court for the Northern District of California against us and our CEO. The complaint was filed by a purported Company shareholder and alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and SEC Rule 10b-5, based on allegedly misleading statements regarding the Company’s security measures to protect users’ data and related internal controls and procedures, as well as our second quarter 2018 financial results. The suit is purportedly brought on behalf of purchasers of our securities between July 30, 2018 and September 25, 2018. The complaint seeks unspecified compensatory damages, as well as interest, costs and attorneys’ fees. On November 15, 2018, a second purported securities class action captioned Kurland v. Chegg, Inc. et al. (Case No. 3:18-cv-06714-CRB) was filed in the U.S. District Court for the Northern District of California against us, our CEO, and our CFO. The Shah and Kurland actions contain similar allegations, assert similar claims, and seek similar relief, and on January 24, 2019, the Court consolidated the two actions. On March 29, 2019, the Plaintiffs filed a Lead Plaintiff's notice of Voluntary Dismissal Without Prejudice.
NetSoc, LLC (“NetSoc”) filed a complaint for patent infringement against us in the U.S. District Court for the Southern District of New York on November 5, 2018. NetSoc alleges that our Chegg Tutors service infringes U.S. Patent No. 9,978,107 (“the ’107 Patent”). A responsive pleading was filed on February 19, 2019 and an initial status conference was held on March 1, 2019. The parties have been ordered to schedule mediation. The complaint seeks unspecified compensatory damages.

We have not recorded any amounts related to the above matters, as we do not believe that a loss is probable in either matter. We are not aware of any other pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on our consolidated financial position, results of operations or cash flows. However, our analysis of whether a claim may proceed to litigation cannot be predicted with certainty, nor can the results of litigation be predicted with certainty. Nevertheless, defending any of these actions, regardless of the outcome, may be costly, time consuming, distract management personnel and have a negative effect on our business. An adverse outcome in any of these actions, including a judgment or settlement, may cause a material adverse effect on our future business, operating results and/or financial condition.

ITEM 1A. RISK FACTORS

The risks and uncertainties set forth below, as well as other risks and uncertainties described elsewhere in this Quarterly Report on Form 10-Q including in our condensed consolidated financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” or in other filings by Chegg with the SEC, could adversely affect our business, financial condition, results of operations and the trading price of our common stock. Additional risks and uncertainties that are not currently known to us or that are not currently believed by us to be material may also harm our business operations and financial results. Because of the following risks and uncertainties, as well as other factors affecting our financial condition and operating results, past financial

performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Our Business and Industry

Our limited operating history and evolving digital offerings make it difficult to evaluate our current business and future prospects.

Although we began our operations in July 2005, we did not launch our online print textbook rental business until 2007 or begin generating revenues at scale from print textbook rentals until 2010. We completed a transition to a new model for our Required Materials product line in November 2016 through our strategic partnership with Ingram to accelerate our transition

Table of Contents

away from the more capital-intensive aspects of the print textbook rental business. We continue to market, use our branding and maintain the customer experience around print textbook rentals, while Ingram or other partners fund all rental textbook inventory and have title and risk of loss related to textbook rentals for the textbooks they own.

Since July 2010, we have focused on expanding our other offerings, in many instances through the acquisition of other companies, to include supplemental materials, Chegg Study, Chegg Writing, Chegg Tutors, and Chegg Math Solver. For example, in June 2018, we launched the Chegg Math Solver to help students with their algebra, pre-calculus and calculus math problems. Our newer products and services, or any other products and services we may introduce or acquire, may not be integrated effectively into our business, achieve or sustain profitability or achieve market acceptance at levels sufficient to justify our investment.

Our ability to fully integrate new products and services into our learning platform or achieve satisfactory financial results from them is unproven. Because we have a limited operating history, in particular operating a fully digital platform, and the market for our products and services, including newly acquired or developed products and services, is rapidly evolving, it is difficult for us to predict our operating results, particularly with respect to our newer offerings, and the ultimate size of the market for our products and services. If the market for a learning platform does not develop as we expect, or if we fail to address the needs of this market, our business will be harmed.

We face the risks, expenses and difficulties typically encountered by companies in their early stage of development, including, but not limited to our ability to successfully:

- execute on our evolving business model;
- develop new products and services, both independently and with developers or other third parties;
- attract and retain students and increase their engagement with our learning platform;
- manage the growth of our business, including increasing or unforeseen expenses;
- develop and scale a high-performance technology infrastructure to efficiently handle increased usage by students, especially during peak periods prior to each academic term;
- maintain and manage relationships with strategic partners, including distributors, publishers, wholesalers, colleges and brands;
- attract and retain brands to our marketing services;
- develop a profitable business model and pricing strategy;
- compete with companies that offer similar services or products;
- expand into adjacent markets;
- navigate the ongoing evolution and uncertain application of regulatory requirements, such as privacy laws, to our business, including our new products and services;
- integrate and realize synergies from businesses that we acquire; and
- expand into foreign markets.

We have encountered and will continue to encounter these risks and if we do not manage them successfully, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our operating results are expected to be difficult to predict based on a number of factors.

We expect our operating results to fluctuate in the future based on a variety of factors, many of which are outside our control and are difficult to predict. As a result, period-to-period comparisons of our operating results may not be a good indicator of our future or long-term performance. The following factors may affect us from period-to-period and may affect our long-term performance:

- our ability to attract and retain students and increase their engagement with our learning platform, particularly related to our Chegg Services subscribers;
- changes to Internet search engines and application marketplaces that drive traffic to our platform;
- the rate of adoption of our offerings;
- our ability to successfully utilize the information gathered from our learning platform to enhance our Student Graph and target sales of complementary products and services to our students;
- changes in demand and pricing for print textbooks and eTextbooks;
- Ingram's ability to manage fulfillment processes to handle significant volumes during peak periods and as a result of the potential growth in volume of transactions over time;
- changes by our competitors to their product and service offerings;
- price competition and our ability to react appropriately to such competition;

Table of Contents

- our ability and Ingram's ability to manage their textbook library;
- our ability to execute on our strategic partnership with Ingram;
- disruptions to our internal computer systems and our fulfillment information technology infrastructure, particularly during peak periods;
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;
- our ability to successfully manage the integration of operations, technology and personnel resulting from our acquisitions;
- governmental regulation in particular regarding privacy and advertising and taxation policies; and
- general macroeconomic conditions and economic conditions specific to higher education.

If our efforts to attract new students to use our products and services and increase student engagement with our learning platform are not successful, our business will be adversely affected.

The growth of our business depends on our ability to attract new students to use our products and services and to increase the level of engagement by existing students with our learning platform. The substantial majority of our revenues depends on small transactions made by a widely dispersed student population with an inherently high rate of turnover primarily as a result of graduation. Many of the students we desire to attract are accustomed to obtaining textbooks through bookstores or used booksellers. The rate at which we expand our student user base and increase student engagement with our learning platform may decline or fluctuate because of several factors, including:

- our ability to engage high school students with our Chegg Writing, Chegg Tutors, Chegg Math Solver, Test Prep and College Admissions and Scholarship Services;
- our ability to produce compelling supplemental materials and services for students to improve their outcomes throughout their educational journey;
- our ability to produce engaging mobile applications and websites for students to engage with our learning platform;
- our ability and Ingram's ability to consistently provide students with a convenient, high quality experience for selecting, receiving and returning print textbooks;
- our ability and Ingram's ability to accurately forecast and respond to student demand for print textbooks;
-