CHEGG, INC
Form 10-Q
July 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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 and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 July 27, 2018, the Registrant had 113,960,276 outstanding shares of Common Stock.

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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,” “Chegg for Good,” “Student Hub,” “internships.com,” “Research Ready,” “EasyBib” “#1 In Textbook Rentals,” 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.

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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 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.

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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)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$384,926	$ 126,457
Short-term investments	80,938	81,742
Accounts receivable, net of allowance for doubtful accounts of $333 and $259 at June 30, 2018 and December 31, 2017, respectively	8,096	10,855
Prepaid expenses	8,707	2,043
Other current assets	7,742	7,845
Total current assets	490,409	228,942
Long-term investments	15,957	20,305
Property and equipment, net	51,516	47,493
Goodwill	135,842	125,272
Intangible assets, net	22,591	21,153
Other assets	4,256	3,765
Total assets	$720,571	$ 446,930
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$5,337	$ 7,049
Deferred revenue	13,710	13,440
Accrued liabilities	29,460	31,074
Total current liabilities	48,507	51,563
Long-term liabilities		
Convertible senior notes, net	276,578	—
Other long-term liabilities	6,767	4,305
Total long-term liabilities	283,345	4,305
Total liabilities	331,852	55,868
Commitments and contingencies (Note 10)		
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; 113,551,003 and 109,667,640 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	114	110
Additional paid-in capital	787,480	782,845
Accumulated other comprehensive loss	(661)	(282)
Accumulated deficit	(398,214)	(391,611)
Total stockholders' equity	388,719	391,062
Total liabilities and stockholders' equity	$720,571	$ 446,930

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	$74,222	$56,317	$151,171	$118,919
Cost of revenues	17,784	17,042	38,008	38,438
Gross profit	56,438	39,275	113,163	80,481
Operating expenses:				
Research and development	26,218	19,899	51,751	39,201
Sales and marketing	11,437	10,098	26,773	26,062
General and administrative	19,479	14,501	37,735	29,843
Restructuring charges	15	59	235	959
Gain on liquidation of textbooks	—	—	—	(4,766)
Total operating expenses	57,149	44,557	116,494	91,299
Loss from operations	(711)	(5,282)	(3,331)	(10,818)
Interest expense and other income (expense), net:				
Interest expense, net	(3,664)	(18)	(3,684)	(37)
Other income (expense), net	894	(9)	1,458	(208)
Total interest expense and other income (expense), net	(2,770)	(27)	(2,226)	(245)
Loss before provision for income taxes	(3,481)	(5,309)	(5,557)	(11,063)
Provision for income taxes	428	716	969	1,363
Net loss	$(3,909)	$(6,025)	$(6,526)	$(12,426)
Net loss per share, basic and diluted	$(0.03)	$(0.06)	$(0.06)	$(0.13)
Weighted average shares used to compute net loss per share, basic and diluted	112,738	95,047	111,826	93,943

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(3,909)	$(6,025)	$(6,526)	$(12,426)
Other comprehensive (loss) income:				
Change in net unrealized loss on available for sale investments	114	—	23	—
Change in foreign currency translation adjustments, net of tax	(913)	153	(402)	252
Other comprehensive (loss) income	(799)	153	(379)	252
Total comprehensive loss	$(4,708)	$(5,872)	$(6,905)	$(12,174)

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017 *
Cash flows from operating activities		
Net loss	$(6,526)	$(12,426)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	10,665	9,093
Share-based compensation expense	23,685	17,377
Gain on liquidation of textbooks	—	(4,766)
Loss from write-offs of textbooks	—	314
Interest accretion on deferred consideration	—	(626)
Amortization of debt discount and issuance costs	3,421	—
Deferred income taxes	(315)	—
Other non-cash items	115	(55)
Change in assets and liabilities:		
Accounts receivable	2,609	1,989
Prepaid expenses and other current assets	(6,773)	9,072
Other assets	(500)	473
Accounts payable	(1,712)	(3,591)
Deferred revenue	270	(2,379)
Accrued liabilities	(2,678)	1,181
Other liabilities	1,254	858
Net cash provided by operating activities	23,515	16,514
Cash flows from investing activities		
Proceeds from liquidations of textbooks	—	6,943
Purchases of marketable securities	(66,634)	—
Maturities of marketable securities	71,980	—
Purchases of property and equipment	(10,087)	(12,507)
Acquisition of business, net of cash acquired	(14,438)	—
Net cash used in investing activities	(19,179)	(5,564)
Cash flows from financing activities		
Common stock issued under stock plans, net	18,050	9,765
Payment of taxes related to the net share settlement of equity awards	(40,314)	(14,850)
Payment of deferred cash consideration related to acquisitions	—	(16,750)
Proceeds from issuance of convertible senior notes, net of issuance costs	335,601	—
Purchase of convertible senior notes capped call	(39,227)	—
Repurchase of common stock	(20,000)	—
Net cash provided by (used in) financing activities	254,110	(21,835)
Net increase (decrease) in cash, cash equivalents and restricted cash	258,446	(10,885)
Cash, cash equivalents and restricted cash, beginning of period	126,963	77,433
Cash, cash equivalents and restricted cash, end of period	$385,409	$66,548
Supplemental cash flow data:		
Cash paid during the period for:		
Interest	$37	$48
Income taxes	$944	$821

Non-cash investing and financing activities:		
Accrued purchases of long-lived assets	$5,337	$1,144
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$384,926	$66,086
Restricted cash included in other assets	483	462
Total cash, cash equivalents and restricted cash	$385,409	$66,548

* Adjusted to reflect the adoption of ASU 2016-18. See Note 1 for more information.

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 the 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 June 30, 2018, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2018 and 2017, the condensed consolidated statements of cash flows for the six months ended June 30, 2018 and 2017 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 June 30, 2018, our results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. Our results of operations and cash flows for the six months ended June 30, 2018 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, 2017 as 2017.

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, 2017 (the Annual Report on Form 10-K) filed with the U.S. Securities and Exchange Commission (SEC).

We have changed the caption on our condensed consolidated statements of operations from “technology and development” to “research and development.” This change does not impact any current or previously reported amounts.

Except for our policies on revenue recognition, deferred revenue 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.

Revenue Recognition and Deferred Revenue

We recognize revenues from our Chegg Services and Required Materials offerings when control of the 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.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

We generate revenues from our Chegg Services product line including our Chegg Study service, our Chegg Writing service, our Chegg Tutors service, Test Prep, through our partnership with Kaplan Test Prep (Kaplan), Internship services, Brand Partnership services that we offer to brands and Enrollment Marketing services to colleges, through our strategic partnership with the National Research Center for College and University Admissions (NRCCUA). Chegg Services are offered to students through weekly, monthly or annual subscriptions, and we primarily recognize revenues ratably over the respective

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subscription period. Enrollment Marketing services and Brand Partnership services are offered either on a subscription or on an a la carte basis. Revenues are recognized ratably or as earned over the subscription service period, generally one year. Revenues from Enrollment Marketing services or Brand Partnership services delivered on an a la carte basis, without a subscription, are recognized when delivery of the respective lead or service has occurred. Historically, under previous revenue recognition guidance, revenue recognition was delayed for certain contracts with extended payment terms. For these services, we bill the customer at the inception, over the term of the customer arrangement or as the services are performed. Upon satisfactory assessment of creditworthiness, we generally grant credit to our Enrollment Marketing and Brand Partnership customers with normal credit terms, typically 30 days.

Some of our customer arrangements for Brand Partnership and Enrollment Marketing services include multiple performance obligations. We have determined these performance obligations qualify as distinct performance obligations, as the customer can benefit from the service on its own or together with other resources that are readily available to the customer and our promise to transfer the service is separately identifiable from other promises in the contract. For these arrangements that contain distinct performance obligations, we allocate the transaction price based on the relative standalone selling price method by comparing the standalone selling price (SSP) of each distinct performance obligation to the total value of the contract.

We determine the SSP based on our historical pricing and discounting practices for the distinct performance obligation when sold separately. If the SSP is not directly observable, we estimate the SSP by considering information such as market conditions, and information about the customer. Additionally, we limit the amount of revenues recognized for delivered promises to the amount that is not contingent on future delivery of services or other future performance obligations.

We also generate revenues from our Required Materials product line including revenue share earned on print textbooks for rental or sale transactions, owned by Ingram and other partners, which are recognized immediately when a book ships to the student. Revenues from the rental or sale of eTextbooks is recognized ratably over the contractual period, generally two to five months, or at time of the sale, respectively. Our strategic partnership with Ingram includes an amount of variable consideration in addition to a fixed revenue share that we earn. This variable consideration can either increase or decrease the total transaction price depending on the nature of the variable consideration. Under the new revenue recognition guidance, we estimate the amount of variable consideration that we will earn at the inception of the contract, adjusted during each period, and include an estimated amount each period as opposed to the contractual amount earned under the previous revenue recognition guidance.

For sales of third party products, we evaluate whether we are acting as a principal or an agent, and therefore would record the gross sales amount as revenues and related costs or the net amount earned as a revenue share from the sale of third party products. Our determination is based on our evaluation of whether we control the specified goods or services prior to transferring them to the customer. For our strategic partnership with Ingram and our agreements with other textbook publishers, we have concluded that we do not control the use of the print textbooks, and therefore record net revenue only for the revenue share we earn upon the shipment of a print textbook to a student. For the sale of eTextbooks we have concluded that we control the service, therefore we recognize revenue and cost of revenue on a gross basis.

Revenues are presented net of sales tax collected from customers to be remitted to governmental authorities and net of allowances for estimated cancellations and customer returns, which are based on historical data. Customer refunds from cancellations and returns are recorded as a reduction to revenues.

Contract assets are contained within other current assets on our condensed consolidated balance sheets. Contract assets represent the goods or services that we have transferred to a customer before invoicing the customer. Contract receivables are contained within accounts receivable, net on our condensed consolidated balance sheets and represent

unconditional consideration that will be received solely due to the passage of time. Contract liabilities are contained within deferred revenue on our condensed consolidated balance sheets. Deferred revenue primarily consists of advanced payments from students related to rentals and subscriptions performance obligations that have not been satisfied, and Brand Partnership and Enrollment Marketing performance obligations that have yet to be satisfied. Deferred revenue is recognized as revenues ratably over the term for subscriptions or when the services are provided and all other revenue recognition criteria have been met.

Convertible Senior Notes, net

In April 2018, we issued $345 million in aggregate principal amount of 0.25% convertible senior notes due in 2023 (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 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,

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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 including variable consideration, recoverability of accounts receivable, fair value of debt and equity components related to our convertible senior notes, restructuring charges, share-based compensation expense including estimated forfeitures, accounting for income taxes, useful lives assigned to long-lived assets for depreciation and amortization, valuation of goodwill and long-lived assets, and the valuation of acquired intangible assets. 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 February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). ASU 2016-02 requires an entity to recognize a right-of-use 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. Early adoption is permitted, and the guidance requires a modified retrospective adoption. The guidance is effective for annual periods beginning after December 15, 2018 and we plan to adopt the guidance on January 1, 2019. We plan to elect the 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. At this time, we do not know the quantitative impact of adopting ASU 2016-02; however, we initially believe that this will only have an impact on our consolidated balance sheet and little to no impact to our statement of operations. We will continue to evaluate as we near our adoption date.

Recently Adopted Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 expands the scope of Topic 718, Compensation—Stock Compensation to include share-based payment transactions for acquiring goods and services from non-employees. These awards are measured at the grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right

to benefit from the instruments have been satisfied. The guidance is effective for annual periods after December 15, 2018, with early adoption permitted, and the guidance requires a modified retrospective application to awards that have not been settled as of the adoption date. We have elected to early adopt this guidance during the second quarter of 2018 and our adoption did not result in an adjustment to the opening balance of accumulated deficit.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. We adopted the guidance on January 1, 2018 recording an immaterial reclassification from accumulated other comprehensive income (loss) to the opening balance of accumulated deficit.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step 2 from the annual goodwill impairment test no longer requiring the

comparison of the implied fair value of a reporting unit's goodwill with the carrying amount of goodwill. We early adopted the guidance with a prospective application on January 1, 2018 and will apply the guidance starting with our 2018 annual goodwill impairment assessment.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business to assist entities with evaluating whether a transaction should be accounted for as acquisitions of assets or businesses. We adopted the guidance with a prospective application on January 1, 2018. We will analyze the clarified definition of a business to determine whether transactions from our application date should be accounted for as an asset acquisition or business combination under the new guidance.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires an entity to explain the change during a period in restricted cash equivalents on the condensed consolidated statements of cash flows and include such amounts when reconciling beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. We adopted the guidance with a retrospective application on January 1, 2018 and have adjusted our beginning-of-period and end-of-period amounts on our condensed consolidated statement of cash flows to include restricted cash with the change in restricted cash included within the other assets line on our condensed consolidated statement of cash flows.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires entities to measure equity investments at fair value and recognize any changes in fair value within the statement of operations. We have a strategic investment of $3.0 million recorded in other assets on our condensed consolidated balance sheets that falls under this guidance update. The guidance provides for electing a measurement alternative for equity investments that do not have readily determinable fair values. We have elected the measurement alternative for our strategic investment as there is not a readily determinable fair value, which we will apply to our strategic investment starting with our adoption date of January 1, 2018. This investment will be measured at cost, less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, with any changes in the value of the investment recorded within the statement of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as amended (Topic 606) (ASC 606), which changes the way we recognize revenue and significantly expands the disclosure requirements for revenue arrangements.

We adopted ASU 2014-09 under the modified retrospective application, recording the cumulative effect of adoption as an adjustment to the opening balance of accumulated deficit on our adoption date of January 1, 2018. We have not adjusted previously reported amounts. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition, and trade and other receivables. See note 2 for more information.

Note 2. Revenues

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, we adopted the new revenue recognition guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2018 are presented under the new revenue recognition guidance, while prior period amounts were not adjusted and continue to be reported in accordance with the previous revenue recognition guidance.

We recorded an immaterial net increase to the opening balance of accumulated deficit as of January 1, 2018 due to the cumulative impact of adopting the new revenue recognition guidance. The two primary impacts of the new revenue recognition guidance are for our Enrollment Marketing services where revenue is recognized earlier in the contract life under the new revenue recognition guidance than under the previous guidance and for our strategic partnership with Ingram where we are required to estimate variable consideration under the new revenue recognition guidance, which we were not previously required to estimate. The requirement to estimate variable consideration has shifted $0.8 million and $1.1 million of revenues during the three and six months ended June 30, 2018, respectively, to future periods as compared to the previous revenue recognition guidance.

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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 Ingram and other 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 June 30,		Change	
	2018	2017[1]	$	%
Chegg Services	$61,849	$44,700	$17,149	38%
Required Materials	12,373	11,617	756	7 %
Total net revenues	$74,222	$56,317	$17,905	32%

	Six Months Ended June 30,		Change	
	2018	2017[1]	$	%
Chegg Services	$118,126	$85,735	$32,391	38 %
Required Materials	33,045	33,184	(139)	— %
Total net revenues	$151,171	$118,919	$32,252	27 %

[1] As noted above, prior period amounts have not been adjusted under the modified retrospective method.

During the three months ended June 30, 2018, we recognized $14.5 million of revenues that were included in our deferred revenue balance as of March 31, 2018. During the six months ended June 30, 2018, we recognized $11.2 million of revenues that were included in our deferred revenue balance as of December 31, 2017. During the three and six months ended June 30, 2018, there were no revenues recognized from performance obligations satisfied in previous periods. The aggregate amount of unsatisfied performance obligations is approximately $17.7 million as of June 30, 2018, of which a majority is expected to be recognized into revenues over the next year and the remainder within three years. As a practical expedient, we do not disclose the value of unsatisfied performance obligations for contracts with an expected duration of one year or less.

Contract Balances

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

	June 30, 2018	December 31, 2017	Change $	%
Accounts receivable, net	$8,096	$ 10,855	$(2,759)	(25)%
Deferred revenue	$13,710	$ 13,440	$270	2 %

During the six months ended June 30, 2018, our accounts receivable, net balance decreased by $2.8 million, or 25%, primarily due to an improvement in cash collections. During the six months ended June 30, 2018, our deferred revenue balance increased by $0.3 million, or 2%, primarily due to increased bookings for our Chegg Study service

and eTextbook rentals.

Our contract assets balance was immaterial as of June 30, 2018 and December 31, 2017.

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Note 3. Net Loss Per Share

Basic net loss per share is computed by dividing 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), and performance-based restricted stock units (PSUs), 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.

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	$(3,909)	$(6,025)	$(6,526)	$(12,426)
Denominator:				
Weighted average shares used to compute net loss per share, basic and diluted	112,738	95,047	111,826	93,943
Net loss per share, basic and diluted	$(0.03)	$(0.06)	$(0.06)	$(0.13)

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Options to purchase common stock	4,369	3,119	4,321	3,395
RSUs and PSUs	7,079	107	8,128	66
Employee stock purchase plan	—	8	—	8
Warrants to purchase common stock	—	200	—	200
Total common stock equivalents	11,448	3,434	12,449	3,669

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Note 4. Cash and Cash Equivalents, and Investments

The following table shows our cash and cash equivalents, and investments' cost, net unrealized loss and fair value as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018			December 31, 2017		
	Cost	Net Unrealized Gain/(Loss)	Fair Value	Cost	Net Unrealized Loss	Fair Value
Cash and cash equivalents:						
Cash	$350,638	$ —	$350,638	$98,370	$ —	$98,370
Money market funds	5,032	—	$5,032	5,358	—	5,358
Commercial paper	29,252	4	29,256	22,729	—	22,729
Total cash and cash equivalents	$384,922	$ 4	$384,926	$126,457	$ —	$126,457
Short-term investments:						
Commercial paper	$36,493	$ 6	$36,499	$38,850	$ (27)	$38,823
Corporate securities	35,099	(118)	34,981	23,001	(43)	22,958
U.S. treasury securities	9,460	(2)	9,458	19,978	(17)	19,961
Total short-term investments	$81,052	$ (114)	$80,938	$81,829	$ (87)	$81,742
Long-term investments:						
Corporate securities	$14,389	$ (53)	$14,336	$20,405	$ (100)	$20,305
U.S. treasury securities	1,622	(1)	1,621	—	—	—
Total long-term investments	$16,011	$ (54)	$15,957	$20,405	$ (100)	$20,305

The cost and fair value of available-for-sale investments as of June 30, 2018 by contractual maturity were as follows (in thousands):

	Cost	Fair Value
Due in 1 year or less	$110,304	$110,194
Due in 1-2 years	16,011	15,957
Investments not due at a single maturity date	5,032	5,032
Total	$131,347	$131,183

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

As of June 30, 2018, 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 do not intend to sell the investments nor is it more likely than not that we will be required to sell the investments before recovery of their cost bases. We typically invest in highly-rated securities with a minimum credit rating of A- and a weighted average maturity of five months, 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 June 30, 2018 and 2017, we did not recognize any impairment charges.

Restricted Cash

As of June 30, 2018 and December 31, 2017, we had approximately $0.5 million of restricted cash that consists of security deposits for our offices. These amounts are classified in either other current assets and other assets on our condensed consolidated balance sheets based on the remaining term of the lease from the balance sheet dates.

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Strategic Investment

We previously invested $3.0 million in a foreign entity to explore expanding our reach internationally. Our investment is included in other assets on our condensed consolidated balance sheets. We did not record an impairment charge on this investment during the three and six months ended June 30, 2018 and 2017, as there were no significant identified events or changes in circumstances that would be considered an indicator for impairment. Further, there were no observable price changes in orderly transactions for the identical or a similar investment of the same issuer during the three and six months ended June 30, 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 June 30, 2018 and December 31, 2017 are classified based on the valuation technique level in the tables below (in thousands):

	June 30, 2018		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash equivalents:			
Money market funds	$5,032	$ 5,032	$ —
Commercial paper	29,256	—	29,256
Short-term investments:			
Commercial paper	36,499	—	36,499
Corporate securities	34,981	—	34,981
U.S. treasury securities	9,458	9,458	—
Long-term investments:			
Corporate securities	14,336	—	14,336
U.S. treasury securities	1,621	1,621	—
Total assets measured and recorded at fair value	$131,183	$ 16,111	$ 115,072

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	December 31, 2017		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash equivalents:			
Money market funds	$5,358	$ 5,358	$ —
Commercial paper	22,729	—	22,729
Short-term investments:	—		
Commercial paper	38,823	—	38,823
Corporate securities	22,958	—	22,958
U.S. treasury securities	19,961	19,961	—
Long-term corporate securities	20,305	—	20,305
Total assets measured and recorded at fair value	$130,134	$ 25,319	$ 104,815

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 notes. The notes are measured at fair value on a quarterly basis for disclosure purposes.

The carrying amounts and estimated fair values of financial instruments not recorded at fair value as of June 30, 2018 are as follows (in thousands):

	June 30, 2018	
	Carrying Amount	Estimated Fair Value
Convertible senior notes, net	$276,578	$413,569

The carrying amount of the notes as of June 30, 2018 was net of unamortized debt discount of $61.1 million and unamortized issuance costs of $7.3 million. The estimated fair value of the notes was determined based on the closing 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 8.

Note 6. Acquisition

On May 15, 2018, we acquired WriteLab, Inc. (WriteLab), an AI-enhanced writing platform, based in Berkeley, California, that teaches students grammar, sentence structure, writing style, and offers instant feedback to help students revise, edit, and improve their written work. This acquisition helps to strengthen our existing Chegg Writing service with the addition of new tools, features, and functionality. The total fair value of the purchase consideration was $14.5 million which included an escrow amount of $2.6 million for general representations and warranties and potential post-closing adjustments. Any remaining escrow amount will be released twenty months after the acquisition date.

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The acquisition date fair value of the purchase consideration for the above transaction consisted of the following (in thousands):

Initial cash consideration	$12,450
Escrow	2,550
Net working capital adjustment	(483)
Fair value of purchase consideration	$14,517

Included in the purchase agreement for the acquisition of WriteLab are additional contingent payments of up to $5.0 million subject to continued employment of the sellers. These payments are expensed ratably as research and development expenses on our condensed consolidated statement of operations. These contingent payments may be settled by us, at our sole discretion, either in cash or shares of our common stock. We have recorded approximately $0.2 million as of June 30, 2018 included within accrued liabilities on our condensed consolidated balance sheet for these contingent payments.

The fair value of the intangible assets acquired was determined under the acquisition method of accounting for business combinations. The excess of the purchase consideration paid over the fair value of net identifiable assets acquired was recorded as goodwill. Goodwill is primarily attributable to the potential for future product offerings as well as our expanded student reach. The amounts recorded for intangible assets and goodwill are not deductible for tax purposes.

The following table presents the total allocation of purchase consideration recorded in our condensed consolidated balance sheets as of the acquisition date (in thousands):

Cash	$82
Accounts receivable	14
Acquired intangible assets:	
Developed technology	4,450
Total identifiable assets acquired	4,546
Liabilities assumed	(826)
Goodwill	10,797
Total fair value of purchase consideration	$14,517

During the three months ended June 30, 2018, we incurred $0.4 million of acquisition-related expenses which have been included in general and administrative expenses in our condensed consolidated statement of operations.

We have not presented supplemental pro forma financial information as the revenues and earnings of WriteLab were immaterial during the six months ended June 30, 2018. Further, we have recorded no revenues and an immaterial amount of earnings from WriteLab since the acquisition date.

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Note 7. Goodwill and Intangible Assets

Goodwill consists of the following (in thousands):

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Beginning balance	$125,272	$116,239
Additions due to acquisition	10,797	9,024
Foreign currency translation adjustment	(227)	9
Ending balance	$135,842	$125,272

Intangible assets as of June 30, 2018 and December 31, 2017 consist of the following (in thousands, except the weighted-average amortization period in months):

	June 30, 2018			
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technologies	74	$25,107	$ (11,555)	$13,552
Customer lists	47	9,970	(6,163)	3,807
Trade names	46	5,793	(4,214)	1,579
Non-compete agreements	30	1,798	(1,602)	196
Master service agreements	21	1,030	(1,030)	—
Indefinite-lived trade name	—	3,600	—	3,600
Foreign currency translation adjustment	—	(143)	—	(143)
Total intangible assets	61	$47,155	$ (24,564)	$22,591

	December 31, 2017			
	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technologies	70	$20,657	$ (10,220)	$10,437
Customer lists	47	9,970	(5,480)	4,490
Trade names	46	5,793	(3,465)	2,328
Non-compete agreements	30	1,798	(1,506)	292
Master service agreements	21	1,030	(1,030)	—
Indefinite-lived trade name	—	3,600	—	3,600
Foreign currency translation adjustment	—	6	—	6
Total intangible assets	57	$42,854	$ (21,701)	$21,153

During the three and six months ended June 30, 2018, amortization expense related to our acquired intangible assets totaled approximately $1.4 million and $2.9 million, respectively. During the three and six months ended June 30, 2017, amortization expense related to our acquired intangible assets totaled approximately $1.4 million and $2.8 million, respectively.

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As of June 30, 2018, the estimated future amortization expense related to our finite-lived intangible assets is as follows (in thousands):

Remaining six months of 2018	$2,795
2019	4,903
2020	3,431
2021	2,074
2022	1,631
Thereafter	4,157
Total	$18,991

Note 8. Convertible Senior Notes

In April 2018, we issued $345 million in aggregate principal amount of 0.25% convertible senior notes due in 2023 (the notes), in a private placement to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. The aggregate principal amount of the notes includes $45 million from initial purchasers fully exercising their option to purchase additional notes.

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

Principal amount	$345,000
Less initial purchasers' discount	(8,625)
Less other issuance costs	(774)
Net proceeds	$335,601

The notes are our senior, unsecured obligations and 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 notes will mature on May 15, 2023 (the maturity date), unless repurchased, redeemed or converted in accordance with their terms prior to such date. The terms of the notes are governed by an indenture agreement by and between us and Wells Fargo Bank, National Association, as Trustee (the indenture).

Each $1,000 principal amount of the 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 February 15, 2023, 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, 2018, 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 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 indenture.

On or after February 15, 2023 until the close of business on the second scheduled trading day immediately preceding the maturity date, 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 indenture, prior to the maturity date, 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 indenture, occur prior to the applicable

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maturity date, we will also increase the conversion rate for a holder who elects to convert their notes in connection with such specified corporate events. During the three months ended June 30, 2018, the conditions allowing holders of the notes to convert have not been met. The notes are therefore not convertible during the three months ended June 30, 2018 and are classified as long-term debt.

In accounting for the issuance of the notes, we separated the notes into liability and equity components. The carrying amount of the liability component of approximately $280.8 million 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 component of approximately $64.2 million, representing the conversion option, was determined by deducting the carrying amount of the liability component from the principal amount of the notes. This difference between the principal amount of the notes and the liability component represents the debt discount, presented as a reduction to the convertible debt 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 component of the notes is included in additional paid-in capital on our 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 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 principal amount of the notes. Transaction costs attributable to the liability component of approximately $7.7 million, were recorded as debt issuance cost, presented as a reduction to the convertible debt 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 component were approximately $1.7 million 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):

	As of June 30, 2018
Principal	$345,000
Unamortized debt discount	(61,136)
Unamortized issuance costs	(7,286)
Net carrying amount	$276,578

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

	As of June 30, 2018
Debt discount for conversion option	$64,193
Issuance costs	(1,749)
Net carrying amount	$62,444

As of June 30, 2018, the remaining life of the notes is approximately 4.9 years.

Based on the closing price of our common stock of $27.79 on June 30, 2018, the if-converted value of the notes was approximately $355.7 million and exceeds the principal amount of $345 million by approximately $10.7 million.

The effective interest rate of the liability component of the notes is 4.34% and is based on the interest rate of similar debt instruments that do not have an associated convertible feature. The following table sets forth the total interest expense recognized related to the notes (in thousands):

	Three Months Ended June 30, 2018
Contractual interest expense	$ 210
Amortization of debt discount	3,057
Amortization of issuance costs	364
Total interest expense	$ 3,631

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Capped Call Transactions

Concurrently with the offering of the notes in April 2018, we used $39.2 million 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 approximately 12,801,260 shares of our common stock and are intended to effectively increase the overall conversion price from $26.95 to $40.68 per share. 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 of $26.95 per share 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 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 price of our common stock exceeds the conversion price.

Note 9. Revolving Line of Credit

In September 2016, we entered into a revolving line of credit, which was amended in March 2018, with an aggregate principal amount of $30.0 million (the Line of Credit) with an accordion feature that, subject to the lender's discretion, allows us to borrow up to a total of $50.0 million. The Line of Credit expires in September 2019 and requires us to repay the outstanding balance upon maturity. We will pay a fee equal to 0.25% per year on the average daily unused amount of the Line of Credit and a base interest rate equal to the LIBOR. In addition, we will pay a fee for each issued letter of credit which will be determined based on our current leverage ratio at the time the letter of credit is issued. If our leverage ratio is less than 1.00%, we will pay a fee equal to 1.50% per year and if our leverage ratio is greater than or equal to 1.00%, we will pay a fee equal to 2.50% per year. Our leverage ratio is a ratio of all obligations owed to the bank divided by our consolidated EBITDA. EBITDA for the purposes of calculating our leverage ratio is defined as net profit (loss) before tax, plus interest expense and amortized debt issuance costs, plus non-cash stock compensation (net of capitalized interest expense), plus depreciation expense, plus amortization expense and other non-cash expenses (assuming there are no future cash costs), plus expenses incurred in connection with permitted acquisitions (including without limitation accrued acquisition-related contingent expenses) in an amount not to exceed $6.0 million per calendar year, plus non-recurring expenses in an amount not to exceed $2.0 million per calendar year. We must maintain financial covenants under the Line of Credit as follows: (1) maintain a balance of unrestricted cash at the lender of not less than $30.0 million at all times, other than the three months ending March 31, 2017 and June 30, 2017, and not less than $25.0 million during the three months ending March 31, 2017 and June 30, 2017; and (2) achieve EBITDA, on a trailing 12 month basis, of not less than (i) $25.0 million for the period of time from September 30, 2016 through June 30, 2017, (ii) $30.0 million for the period of time from September 30, 2017 through June 30, 2018, and (iii) $35.0 million for the period of time from September 30, 2018 through the maturity of the Line of Credit. As of June 30, 2018, we were in compliance with the financial covenants of the Line of Credit. Further, we had no amounts outstanding and were able to borrow up to $30.0 million under the Line of Credit.

Note 10. Commitments and Contingencies

We lease our offices under operating leases, which expire at various dates through 2022. Our primary operating lease commitments at June 30, 2018 are related to our corporate headquarters in Santa Clara, California. We have additional offices in California, Oregon and New York in the United States and internationally in India, Israel and Berlin. We recognize rent expense on a straight-line basis over the lease period. 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 rent expense over the lease term. Rental expense, net of sublease income, was approximately $0.7 million and $1.4 million during the three and six months ended June 30, 2018, respectively and approximately $0.7 million and $1.4 million during the three and six months ended June 30, 2017, respectively.

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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.

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 determination of whether a claim will proceed to litigation cannot be made 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 11. 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 immaterial. We have not recorded any liabilities for these agreements as of June 30, 2018.

Note 12. Stockholders' Equity

During the three months ended June 30, 2018, we repurchased 983,284 shares of our common stock at an average price per share of $20.34 in conjunction with our April 2018 offering of the notes.

Share-based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of revenues	$103	$88	$197	$155
Research and development	3,529	3,387	7,662	6,628
Sales and marketing	1,730	1,201	3,319	2,327
General and administrative	6,681	4,423	12,507	8,267
Total share-based compensation expense	$12,043	$9,099	$23,685	$17,377

There was no capitalized share-based compensation expense as of June 30, 2018 or 2017.

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RSU and PSU Activity

Activity for RSUs and PSUs is as follows:

	RSUs and PSUs Outstanding	
	Number of RSUs and PSUs Outstanding	Weighted Average Grant Date Fair Value
Balance at December 31, 2017	14,335,115	$ 6.78
Granted	3,004,611	20.16
Released	(4,784,787)	6.34
Canceled	(1,337,685)	6.27
Balance at June 30, 2018	11,217,254	$ 10.62

As of June 30, 2018, our total unrecognized share-based compensation expense related to RSUs and PSUs was approximately $76.5 million, which will be recognized over the remaining weighted-average vesting period of approximately 1.8 years.

Note 13. Income Taxes

We recorded an income tax provision of approximately $0.4 million and $1.0 million during the three and six months ended June 30, 2018, respectively, primarily due to federal and state tax benefit related to deferred tax liabilities of acquired intangible assets. We recorded an income tax provision of approximately $0.7 million and $1.4 million during the three and six months ended June 30, 2017, respectively, primarily due to state and foreign income tax expense and federal tax expense related to acquired indefinite lived intangible assets.

On December 22, 2017, Staff Accounting Bulletin No. 118 (SAB 118) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act (Tax Act). In accordance with SAB 118, as of June 30, 2018, we had not yet completed our accounting for the tax effects of the enactment of the Tax Act. Our estimate of the effects the Tax Act have not materially changed from the amounts recorded during the year ended December 31, 2017. We will continue to analyze certain aspects of the Tax Act and the newly issued Internal Revenue Service notifications and we expect future notices may continue to impact and refine our estimates.

Note 14. Restructuring Charges

2017 Restructuring Plan

In January 2017, we entered into a strategic partnership with NRCCUA where they will assume responsibility for managing, renewing, and maintaining our existing university contracts and become the exclusive reseller of our digital Enrollment Marketing services for colleges and universities. As a result of this strategic partnership, approximately 50 employees in China and the United States supporting the sales and account support functions of our Enrollment Marketing offering were terminated. Costs incurred to date are expected to be fully paid within 3 months.

2015 Restructuring Plan

Restructuring charges of $0.2 million recorded during the six months ended June 30, 2018 primarily related to our subtenant filing for bankruptcy and exiting our leased office. Costs incurred to date are expected to be fully paid by 2021.

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

	2017 Restructuring Plan		2015 Restructuring Plan		
	Workforce Reduction Costs	Lease Termination and Other Costs	Workforce Reduction Costs	Lease Termination and Other Costs	Total
Balance at January 1, 2017	$ —	$ —	$ —	$ 306	$ 306
Restructuring charges (credits)	941	148	—	(42)	1,047
Cash payments	(897)	(128)	—	(43)	(1,068)
Write-offs	—	(20)	—	—	(20)
Balance at December 31, 2017	44	—	—	221	265
Restructuring charges	46	10	—	179	235
Cash payments	(42)	(10)	—	(112)	(164)
Write-offs	—	—	—	(18)	(18)
Balance at June 30, 2018	$ 48	$ —	$ —	$ 270	$ 318

As of June 30, 2018, the $0.3 million liability was comprised of a short-term accrual of $0.2 million included within accrued liabilities and a long-term accrual of $0.1 million included within other liabilities on our condensed consolidated balance sheet.

Note 15. Related-Party Transactions

Our Chief Executive Officer is a member of the Board of Directors of Adobe Systems Incorporated (Adobe). During the three and six months ended June 30, 2018, we had purchases of $0.6 million and $2.3 million, respectively, and during the three and six months ended June 30, 2017, we had purchases of $1.3 million and $1.8 million, respectively, from Adobe. We had no revenues during the three months ended June 30, 2018 and $0.1 million of revenues during the six months ended June 30, 2018 from Adobe. We had no revenues during the three and six months ended June 30, 2017 from Adobe. We had $0.3 million in payables as of June 30, 2018 and December 31, 2017 to Adobe. We had no accounts receivables as of June 30, 2018 and an immaterial amount of accounts receivable as of December 31, 2017 from Adobe.

One of our board members is also a member of the Board of Directors of Cengage Learning, Inc. (Cengage). During the three and six months ended June 30, 2018, we had purchases of $1.4 million and $6.5 million, respectively, and during the three and six months ended June 30, 2017, we had purchases of $1.3 million and $4.8 million, respectively, from Cengage. We had $0.1 million and $2.0 million of revenues during the three and six months ended June 30, 2018, respectively, and $0.2 million and $0.6 million of revenues during the three and six months ended June 30, 2017, respectively, from Cengage. We had $0.9 million and $0.1 million in payables as of June 30, 2018 and December 31, 2017, respectively, to Cengage. We had no outstanding receivables as of June 30, 2018 and $0.3 million in outstanding receivables as of December 31, 2017 from Cengage.

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 and six months ended June 30, 2018, we incurred payment processing fees of $0.2 million and $0.6 million, respectively, and during the three and six months ended June 30, 2017, we incurred payment processing fees of $0.2 million and $0.5 million, respectively, to PayPal.

Note 16. Subsequent Event

Acquisition of StudyBlue, Inc.

On July 2, 2018, we acquired StudyBlue, Inc. (StudyBlue), a privately held online learning company based in San Francisco, California that provides a vast content library and tools for students to create their own study materials. Pursuant to the terms of the agreement, we paid $20.8 million in cash to the sellers at the closing of the acquisition. The initial accounting for this acquisition is in process as of the issuance date for our financial statements and therefore we are unable to make any additional disclosures.

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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 the 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 digital products and services, which we collectively refer to as Chegg Services. These include Chegg Study, Chegg Writing, Chegg Tutors, Chegg Math Solver, Brand Partnership, Test Prep, Internships and Chegg CareerMatch. Our Chegg Study service provides step-by-step Textbook Solutions and Expert Answers, 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, CiteThisForMe, and NormasAPA. When students need additional help on a subject, they can reach a live tutor online, anytime, anywhere through Chegg Tutors. Our recently launched Chegg Math Solver service helps students understand math by providing a step-by-step math solver and calculator. We work with leading brands to provide students with discounts, promotions, and other products. We provide access to internships to help students gain skills and experiences as well as Chegg CareerMatch that helps expose students to career opportunities. We provide students, through our partnership with Kaplan Test Prep (Kaplan), with an online adaptive test preparation service. Through our strategic partnership with Ingram Content Group (Ingram), 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 thousands of publishers in the United States, including Pearson, Cengage Learning, McGraw Hill, Wiley, and MacMillan. We have a large network of students and professionals who leverage our platform to tutor in their spare time and employers who leverage our platform to post their internships and jobs. In addition, because we have a large student user base, local and national brands partner with us to reach the college and high school demographics.

On May 15, 2018, we acquired WriteLab, Inc. (WriteLab), an AI-enhanced writing platform, based in Berkeley, California, that teaches students grammar, sentence structure, writing style, and offers instant feedback to help students revise, edit, and improve their written work. On July 2, 2018, we acquired StudyBlue, Inc. (StudyBlue), a privately held online learning company based in San Francisco, California that provides a vast content library and tools for students to create their own study materials. We anticipate these acquisitions will strengthen our existing Chegg Services, with the addition of new features, functionality, and content.

During the three and six months ended June 30, 2018, we generated net revenues of $74.2 million and $151.2 million, respectively, and in the same periods had net losses of $3.9 million and $6.5 million, respectively. During the three and six months ended June 30, 2017, we generated net revenues of $56.3 million and $118.9 million, respectively, and in the same periods had net losses of $6.0 million and $12.4 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 products, 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

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ability to attract, retain, and increasingly engage the student population, intense competition in our markets, the ability to achieve 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 our Chegg Study service, our Chegg Writing service, our Chegg Tutors service, and our Chegg Math Solver service. We also work with leading brands to provide students with discounts, promotions, and other products that, based on student feedback, delight them. In addition, we provide internships and Chegg CareerMatch, and, through our partnership with Kaplan, our Test Prep services.

Students typically pay to access Chegg Services such as Chegg Study on a monthly or annual basis. In the aggregate, Chegg Services revenues were 83% and 78% of net revenues during the three and six months ended June 30, 2018, respectively, and 79% and 72% of net revenues during the three and six months ended June 30, 2017, respectively.

Required Materials

Our Required Materials product line includes a revenue share from Ingram and other partners, on the rental and sale of print textbooks, as well as revenues from eTextbooks. 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 June 30, 2018.

We also use our website to rent and sell, on behalf of Ingram and other partners, as well as source for used print textbooks for our partner Ingram. We attract students to our website by offering more for their used print textbooks than they could generally get by selling them back to their campus bookstore.

In the aggregate, Required Materials revenues were 17% and 22% of net revenues during the three and six months ended June 30, 2018, respectively, and 21% and 28% of net revenues during the three and six months ended June 30, 2017, respectively.

Strategic Partnership with Ingram and Other Partners

Our strategic partnership with Ingram and agreements with other partners have helped to accelerate the growth of our Chegg Services products by allowing us to utilize capital otherwise historically spent on the purchase of print textbooks, and at the same time allowing us to maintain a leading position and high brand recognition through our iconic orange boxes. We entered into a definitive inventory purchase and consignment agreement with Ingram that allows us to focus on eTextbooks and Chegg Services. Under the agreement, since May 2015, Ingram has been responsible for all new investments in the print textbook library, fulfillment logistics, and has title and risk of loss related to print textbook rentals. We have also entered into agreements with other partners to provide our customers with better pricing and a wider variety of new editions of print textbooks. As a result of our strategic partnership with Ingram and agreements with other partners, our revenues include a revenue share on the total transaction amount that we earn upon Ingram's fulfillment of a rental transaction using print textbooks for which Ingram or the other partner has title and risk of loss, as opposed to the total rental transaction amount. These partnerships allow us to reduce and eliminate the capital requirements and operating expenses we historically incurred to acquire and maintain a print

textbook library. We will continue to procure books on Ingram’s behalf including books through our buyback program and invoice Ingram at cost.

Seasonality of Our Business

The recognition of revenues from our eTextbooks and Chegg Services are primarily recognized ratably over the term a student rents our eTextbook or subscribes to our Chegg Services. 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.

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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.

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 June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
Net revenues	$74,222	100 %	$56,317	100 %	$151,171	100 %	$118,919	100 %
Cost of revenues(1)	17,784	24	17,042	30	38,008	25	38,438	32
Gross profit	56,438	76	39,275	70	113,163	75	80,481	68
Operating expenses(1):								
Research and development	26,218	36	19,899	35	51,751	34	39,201	33
Sales and marketing	11,437	15	10,098	18	26,773	18	26,062	22
General and administrative	19,479	26	14,501	26	37,735	25	29,843	25
Restructuring charges	15	—	59	—	235	—	959	1
Gain on liquidation of textbooks	—	—	—	—	—	—	(4,766)	(4)
Total operating expenses	57,149	77	44,557	79	116,494	77	91,299	77
Loss from operations	(711)	(1)	(5,282)	(9)	(3,331)	(2)	(10,818)	(9)
Total interest expense and other income (expense), net	(2,770)	(4)	(27)	—	(2,226)	(1)	(245)	—
Loss before provision for income taxes	(3,481)	(5)	(5,309)	(9)	(5,557)	(3)	(11,063)	(9)
Provision for income taxes	428	(1)	716	(1)	969	(1)	1,363	(1)
Net loss	$(3,909)	(6)%	$(6,025)	(10)%	$(6,526)	(4)%	$(12,426)	(10)%

(1) Includes share-based compensation expense as follows:				
Cost of revenues	$103	$88	$197	$155
Research and development	3,529	3,387	7,662	6,628
Sales and marketing	1,730	1,201	3,319	2,327
General and administrative	6,681	4,423	12,507	8,267
Total share-based compensation expense	$12,043	$9,099	$23,685	$17,377

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Three and Six Months Ended June 30, 2018 and 2017

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 June 30,		Change	
	2018	2017	$	%
Chegg Services	$61,849	$44,700	$17,149	38%
Required Materials	12,373	11,617	756	7 %
Total net revenues	$74,222	$56,317	$17,905	32%

	Six Months Ended June 30,		Change	
	2018	2017	$	%
Chegg Services	$118,126	$85,735	$32,391	38 %
Required Materials	33,045	33,184	(139)	— %
Total net revenues	$151,171	$118,919	$32,252	27 %

Chegg Services revenues increased $17.1 million, or 38%, and $32.4 million, or 38%, during the three and six months ended June 30, 2018, compared to the same periods in 2017 due to growth in subscriptions for our Chegg Study service and revenues from our Chegg Writing service. Chegg Services revenues were 83% and 78% of net revenues during the three and six months ended June 30, 2018, respectively, and 79% and 72% of net revenues during the three and six months ended June 30, 2017, respectively. Required Materials revenues increased $0.8 million, or 7%, during the three months ended June 30, 2018 and remained relatively flat during the six months ended June 30, 2018, compared to the same periods in 2017. Required Materials revenues were 17% and 22% of net revenues during the three and six months ended June 30, 2018, respectively, and 21% and 28% of net revenues during the three and six months ended June 30, 2017, respectively.

Cost of Revenues

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

	Three Months Ended June 30,		Change	
	2018	2017	$	%
Cost of revenues[1]	$17,784	$17,042	$742	4 %
[1] Includes share-based compensation expense of:	$103	$88	$15	17%

	Six Months Ended June 30,		Change	
	2018	2017	$	%
Cost of revenues[1]	$38,008	$38,438	$(430)	(1)%
[1] Includes share-based compensation expense of:	$197	$155	$42	27 %

Cost of revenues increased $0.7 million, or 4%, during the three months ended June 30, 2018, relatively flat compared to the same period in 2017. Gross margins increased to 76% during the three months ended June 30, 2018, from 70% in the same period in 2017.

Cost of revenues decreased $0.4 million, or 1%, during the six months ended June 30, 2018, relatively flat compared to the same period in 2017. Gross margins increased to 75% during the six months ended June 30, 2018, from 68% in the same period in 2017.

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Operating Expenses

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

	Three Months Ended June 30,		Change	
	2018	2017	$	%
Research and development[1]	$26,218	$19,899	$6,319	32 %
Sales and marketing[1]	11,437	10,098	1,339	13
General and administrative[1]	19,479	14,501	4,978	34
Restructuring charges	15	59	(44)	(75)
Total operating expenses	$57,149	$44,557	$12,592	28 %
[1] Includes share-based compensation expense of:				
Research and development	$3,529	$3,387	$142	4 %
Sales and marketing	1,730	1,201	529	44
General and administrative	6,681	4,423	2,258	51
Share-based compensation expense	$11,940	$9,011	$2,929	33 %

	Six Months Ended June 30,		Change	
	2018	2017	$	%
Research and development[1]	$51,751	$39,201	$12,550	32 %
Sales and marketing[1]	26,773	26,062	711	3
General and administrative[1]	37,735	29,843	7,892	26
Restructuring charges	235	959	(724)	(75)
Gain on liquidation of textbooks	—	(4,766)	4,766	(100)
Total operating expenses	$116,494	$91,299	$25,195	28 %
[1] Includes share-based compensation expense of:				
Research and development	$7,662	$6,628	$1,034	16 %
Sales and marketing	3,319	2,327	992	43
General and administrative	12,507	8,267	4,240	51
Share-based compensation expense	$23,488	$17,222	$6,266	36 %

Research and Development

Research and development expenses increased $6.3 million, or 32%, during the three months ended June 30, 2018 compared to the same period in 2017. The increase was primarily attributable to an increase in employee-related expenses of $3.8 million, higher web hosting and software licensing fees of $1.5 million, higher outside services of $0.6 million, higher share-based compensation expense of $0.1 million, and higher depreciation and amortization expense of $0.4 million, compared to the same period in 2017. Research and development as a percentage of net revenues were 36% during the three months ended June 30, 2018 compared to 35% during the same period in 2017.

Research and development expenses increased $12.6 million, or 32%, during the six months ended June 30, 2018 compared to the same period in 2017. The increase was primarily attributable to an increase in employee-related expenses of $7.9 million, higher web hosting and software licensing fees of $1.8 million, higher outside services of $1.1 million, higher share-based compensation expense of $1.0 million, and higher depreciation and amortization expense of $0.7 million, compared to the same period in 2017. Research and development as a percentage of net

revenues were 34% during the six months ended June 30, 2018 compared to 33% during the same period in 2017.

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Sales and Marketing

Sales and marketing expenses increased by $1.3 million, or 13%, during the three months ended June 30, 2018 compared to the same period in 2017. The increase was primarily attributable to higher employee-related expenses of $0.5 million, higher share-based compensation expense of $0.5 million, and higher paid advertising expense of $0.4 million, compared to the same period in 2017. Sales and marketing expenses as a percentage of net revenues were 15% during the three months ended June 30, 2018 compared to 18% during the same period in 2017.

Sales and marketing expenses increased by $0.7 million, or 3%, during the six months ended June 30, 2018 compared to the same period in 2017. The increase was primarily attributable to higher employee-related expenses of $0.3 million, higher share-based compensation expense of $1.0 million, and higher paid advertising expense of $0.2 million, compared to the same period in 2017. These increases were partially offset by lower outside services of $0.2 million and lower depreciation and amortization expense of $0.3 million, compared to the same period in 2017. Sales and marketing expenses as a percentage of net revenues were 18% during the six months ended June 30, 2018 compared to 22% during the same period in 2017.

General and Administrative

General and administrative expenses increased $5.0 million, or 34%, during the three months ended June 30, 2018 compared to the same period in 2017. The increase was primarily due to higher employee-related expenses of $1.6 million, higher share-based compensation expense of $2.3 million, and higher professional fees of $0.9 million, compared to the same period in 2017. General and administrative expenses as a percentage of net revenues remained flat during the three months ended June 30, 2018 compared to the same period in 2017.

General and administrative expenses increased $7.9 million, or 26%, during the six months ended June 30, 2018 compared to the same period in 2017. The increase was primarily due to higher employee-related expenses of $2.7 million, higher share-based compensation expense of $4.2 million, and higher professional fees of $0.3 million, compared to the same period in 2017. General and administrative expenses as a percentage of net revenues remained flat during the six months ended June 30, 2018 compared to the same period in 2017.

Restructuring Charges

Restructuring charges of $0.2 million recorded during the six months ended June 30, 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 by 2021.

Restructuring charges of $0.1 million and $1.0 million recorded during the three and six months ended June 30, 2017 were related to our strategic partnership with NRCCUA which resulted in the termination of employees supporting the sales and account support functions of our Enrollment Marketing offering. Costs incurred to date are expected to be fully paid within 3 months.

We anticipate a restructuring charge of approximately $1.0 million in the next year, for facility consolidation as a result of our acquisition of StudyBlue.

Interest Expense and Other Income (Expense), Net

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

	Three Months Ended June 30,		Change	
	2018	2017	$	%
Interest expense, net	$(3,664)	$(18)	$(3,646)	n/m
Other income (expense), net	894	(9)	903	n/m
Total interest expense and other income (expense), net	$(2,770)	$(27)	$(2,743)	n/m

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	Six Months Ended June 30,		Change	
	2018	2017	$	%
Interest expense, net	$(3,684)	$(37)	$(3,647)	n/m
Other income (expense), net	1,458	(208)	1,666	n/m
Total interest expense and other income (expense), net	$(2,226)	$(245)	$(1,981)	n/m

n/m - not meaningful

Interest expense, net increased during the three and six months ended June 30, 2018 compared to the same periods in 2017 as a result of the amortization of debt discount and issuance costs and contractual interest expense related to our April 2018 convertible senior notes offering.

Other income (expense), net, was a net income during the three and six months ended June 30, 2018 primarily related to the interest earned on our investments. Other income (expense), net was a net expense during the six months ended June 30, 2017 primarily related to the accretion of the deferred cash consideration as a result of our acquisition of Imagine Easy.

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 June 30,		Change	
	2018	2017	$	%
Provision for income taxes	$428	$716	$(288)	(40)%

	Six Months Ended June 30,		Change	
	2018	2017	$	%
Provision for income taxes	$969	$1,363	$(394)	(29)%

We recorded an income tax provision of approximately $0.4 million and $1.0 million during the three and six months ended June 30, 2018, respectively, and an income tax provision of approximately $0.7 million and $1.4 million during the three and six months ended June 30, 2017, respectively, which was primarily due to state and foreign income tax expense and federal tax expense. The decrease during the three and six months ended June 30, 2018 compared to the same periods in 2017 was primarily due to a tax benefit related to net deferred tax liabilities of acquired intangible assets partially offset by an increase in foreign profits.

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Liquidity and Capital Resources

As of June 30, 2018, our principal sources of liquidity were cash, cash equivalents, and investments totaling $481.8 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 April 2018, we closed an offering of our 0.25% convertible senior notes (the notes) generating net proceeds of approximately $335.6 million, after deducting the initial purchasers' discount and estimated offering expenses payable by us. The notes mature on May 15, 2023 unless converted, redeemed or repurchased in accordance with their terms prior to such date. We also have an aggregate principal amount of $30.0 million available under our Line of Credit with an accordion feature that, subject to the lender's discretion, allows us to borrow up to a total of $50.0 million. The Line of Credit expires in September 2019. As of June 30, 2018, we were in compliance with the financial covenants of the Line of Credit. Further, we had no amounts outstanding and were able to borrow up to $30.0 million under the Line of Credit.

As of June 30, 2018, we have incurred cumulative losses of $398.2 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 April 2018 convertible senior 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.

Most of our cash is held in the United States. As of June 30, 2018, our foreign subsidiaries held an insignificant amount of cash in foreign jurisdictions. We currently do not intend or foresee a need to repatriate these funds however we may take advantage of the transition tax in the 2017 Tax Cuts and Jobs Act that taxes any previously deferred foreign earnings and profits in 2017 at a reduced tax rate. 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):

	Six Months Ended June 30,	
	2018	2017
Consolidated Statements of Cash Flows Data:		
Net cash provided by operating activities	$23,515	$16,514
Net cash used in investing activities	$(19,179)	$(5,564)
Net cash provided by (used in) financing activities	$254,110	$(21,835)

Cash Flows from Operating Activities

Net cash provided by operating activities during the six months ended June 30, 2018 was $23.5 million. Our net loss of $6.5 million was offset by significant non-cash operating expenses including other depreciation and amortization expense of $10.7 million, share-based compensation expense of $23.7 million, and the amortization of debt discount and issuance costs related to our convertible senior notes of $3.4 million.

Net cash provided by operating activities during the six months ended June 30, 2017 was $16.5 million. Our net loss of $12.4 million was increased by the non-cash gain on liquidation of textbooks of $4.8 million and offset by significant non-cash operating expenses including other depreciation and amortization expense of $9.1 million and share-based compensation expense of $17.4 million.

Cash Flows from Investing Activities

Net cash used in investing activities during the six months ended June 30, 2018 was $19.2 million and was primarily related to the purchases of property and equipment of $10.1 million, the purchases of marketable securities of $66.6 million,

and the acquisition of business, net of cash acquired, of $14.4 million, partially offset by the maturity of marketable securities of $72.0 million.

Net cash used in investing activities during the six months ended June 30, 2017 was $5.6 million and was primarily used for the purchases of property and equipment of $12.5 million, partially offset by proceeds from the liquidation of print textbooks of $6.9 million.

Cash Flows from Financing Activities

Net cash provided by financing activities during the six months ended June 30, 2018 was $254.1 million and was primarily related to the proceeds from issuance of convertible senior notes, net of issuance costs, of $335.6 million and proceeds from the issuance of common stock under stock plans totaling $18.1 million, partially offset by purchase of convertible senior notes capped call of $39.2 million, the repurchase of common stock of $20.0 million, and the payment of $40.3 million in taxes related to the net share settlement of equity awards which became fully vested during the period.

Net cash used in financing activities during the six months ended June 30, 2017 was $21.8 million and was related to the payment of deferred cash consideration related to prior acquisitions of $16.8 million and payment of $14.9 million in taxes related to the net share settlement of equity awards which became fully vested during the period partially offset by the proceeds from the issuance of common stock under stock plans totaling $9.8 million.

Contractual Obligations and Other Commitments

In April 2018, we closed an offering of our 0.25% convertible senior notes due 2023 for gross proceeds of $345.0 million, which included the full exercise of the option held by the initial purchasers to purchase $45 million of additional notes. See Note 8, 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, 2017.

Off-Balance Sheet Arrangements

Through June 30, 2018, 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.

Except for our revenue recognition and deferred revenue, there have been no material changes in our critical accounting policies and estimates during the six months ended June 30, 2018 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, 2017.

Revenue Recognition and Deferred Revenue

For sales of third party products, we evaluate whether we are acting as a principal or an agent, and therefore would record the gross sales amount as revenues and related costs or the net amount earned as a revenue share from the sale of third party products. Our determination is based on our evaluation of whether we control the specified goods or services prior to transferring them to the customer. There are significant judgments involved in determining whether we control the specified goods or services prior to transferring them to the customer including whether we have the ability to direct the use of the good

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or service and obtain substantially all of the remaining benefits from the good or service. For our strategic partnership with Ingram and our agreements with other textbook publishers, we have concluded that we do not control the use of the print textbooks, and therefore record net revenue only for the revenue share we earn upon the shipment of a print textbook to a student. For the sale of eTextbooks we have concluded that we control the service, therefore we recognize revenue and cost of revenue on a gross basis.

Some of our customer arrangements for Brand Partnership and Enrollment Marketing services include multiple performance obligations. We have determined these performance obligations qualify as distinct performance obligations, as the customer can benefit from the service on its own or together with other resources that are readily available to the customer and our promise to transfer the service is separately identifiable from other promises in the contract. For these arrangements that contain multiple performance obligations, we allocate the transaction price based on the relative standalone selling price method by comparing the standalone selling price (SSP) of each distinct performance obligation to the total value of the contract.

We determine the SSP based on our historical pricing and discounting practices for the distinct performance obligation when sold separately. If the SSP is not directly observable, we estimate the SSP by considering information such as market conditions, and information about the customer.

Our strategic partnership with Ingram includes an amount of variable consideration in addition to a fixed revenue share that we earn. This variable consideration can either increase or decrease the total transaction price depending on the nature of the variable consideration. Under the new revenue recognition guidance, we estimate the amount of variable consideration that we will earn at the inception of the contract, adjusted during each period, and include an estimated amount each period as opposed to the contractual amount earned under the previous revenue recognition guidance. In determining this estimate, we consider the single most likely amount in a range of possible amounts. This estimated amount of variable consideration requires management to make a judgment based on the forecasted amount of consideration that we expect we will earn as well as the time period in which we can reasonably rely on the accuracy of the forecast. Our estimate of variable consideration related to our strategic partnership with Ingram is constrained to only include three to four years of estimated variable consideration, based on the date the book was placed in service. This is the amount of variable consideration for which it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, as the amounts that we could potentially earn in the outer years can change significantly based on factors that are out of our control. If our forecasts are inaccurate, the estimated amount of variable consideration could be inaccurate which could impact our revenue recognition in a given period.

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 April 2018, we closed an offering of the notes for gross proceeds of $345.0 million. We carry these notes at face value less unamortized debt discount and debit issuance costs on our condensed consolidated balance sheet. Because the notes have a fixed annual interest rate of 0.25%, 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 8, 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 six months ended June 30, 2018, 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, 2017.

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

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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 six months ended June 30, 2018, 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.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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.

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, recent business model transition 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 began transitioning to a new model for our Required Materials product line in August 2014 through our strategic partnership with Ingram to accelerate our transition away from the more capital intensive aspects of the print textbook rental business. We completed our transition to a fully digital company as of November 2016 as Ingram now fulfills all print textbook rental orders. 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 also have been 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, Chegg Test Prep, College Admissions and Scholarship Services, internships, careers, college counseling and brand

advertising. For example, in August 2017, we entered into a partnership with Kaplan to provide their test preparation courses, practice products, and books through our website. 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.

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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 relatively new and 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 and our mobile applications;
- attract and retain brands, colleges, universities and other academic institutions to our marketing services;
- 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 Ingram, NRCCUA, and other distributors, publishers, wholesalers, colleges and brands;
- 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 and mobile applications, particularly related to our Chegg Services subscribers;
- the rate of adoption of our offerings;
- our ability to successfully utilize the information gathered from our learning platform to enhance our Student Graph (which is the accumulation of the collective activity of students in our learning platform) 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;
- 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.

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We have a history of losses and we may not achieve or sustain profitability in the future.

We have experienced significant net losses since our incorporation in July 2005, and we may continue to experience net losses in the future. Our net losses for the three months ended June 30, 2018 and 2017 were $3.9 million and $6.0 million, respectively, and for the six months ended June 30, 2018 and 2017 were $6.5 million and $12.4 million, respectively. As of June 30, 2018, we had an accumulated deficit of $398.2 million. We expect to make significant investments in the development and expansion of our business and our cost of revenues and operating expenses may increase. We may not succeed in increasing our revenues sufficiently to offset these higher expenses, and our efforts to grow the business may prove more expensive than we currently anticipate. We may incur significant losses in the future for a number of reasons, including slowing demand for print textbook rentals or our other products and services; increasing competition, particularly for the price of textbooks; decreased spending on education; and other risks described in this Quarterly Report on Form 10-Q. We may encounter unforeseen expenses, challenges, complications and delays and other unknown factors as we pursue our business plan and our business model continues to evolve. While Chegg Services revenues have grown in recent periods, this growth may not be sustainable and we may not be able to achieve profitability. To achieve profitability, we may need to change our operating infrastructure and scale our operations more efficiently. We also may need to reduce our costs or implement changes in our product offerings to improve the predictability of our revenues. For example, we recently transitioned substantially all of our print textbook rental revenues to a share of revenues earned on a print textbook rental transaction. If we fail to implement these changes on a timely basis or are unable to implement them due to factors beyond our control, our business may suffer. If we do achieve profitability, we may not be able to sustain or increase such profitability.

We intend to offer new products and services to students to grow our business. If our efforts are not successful, our business and financial results would be adversely affected.

Our ability to attract and retain students and increase their engagement with our learning platform depends on our ability to connect them with the product, person or service they need to save time, save money, and get smarter. Part of our strategy is to offer students new products and services in an increasingly relevant and personalized way. We may develop such products and services independently, by acquisition or in conjunction with developers and other third parties. For example, in 2016, we acquired our Writing Tools service in the acquisition of Imagine Easy Solutions and in October 2017 we acquired Math 42, in the acquisition of Cogeon GmbH (Cogeon), and we developed Chegg Test Prep internally, which we offer as a free service to students. We recently partnered with Kaplan in August 2017, to provide their test preparation courses, practice products, and books through our website. The markets for these new products and services may be unproven, and these products may include technologies and business models with which we have little or no prior development or operating experience or may significantly change our existing products and services. In addition, we may be unable to obtain long-term licenses from third-party content providers necessary to allow a product or service, including a new or planned product or service, to function. If our new or enhanced products and services fail to engage our students or attract new students, or if we are unable to obtain content from third parties that students want, we may fail to grow our student base or generate sufficient revenues, operating margin or other value to justify our investments, and our business would be adversely affected.

In the future, we may invest in new products and services and other initiatives to generate revenues, but there is no guarantee these approaches will be successful. Acquisitions of new companies, products and services create integration risk, while development of new products and services and enhancements to existing products and services involve significant time, labor and expense and are subject to risks and challenges including managing the length of the development cycle, entry into new markets, integration into our existing business, regulatory compliance, evolution in sales and marketing methods and maintenance and protection of intellectual property and proprietary rights. If we are not successful with our new products and services, we may not be able to maintain or increase our revenues as anticipated or recover any associated acquisition or development costs, and our financial results could be

adversely affected.

We may not realize the anticipated benefits of acquisitions, which could disrupt our business and harm our financial condition and results of operations.

As part of our business strategy, we have made and intend to make acquisitions to add specialized employees, complementary businesses, products, services, operations or technologies. Realizing the benefits of acquisitions depends, in part, on our successful integration of acquired companies including their technologies, products, services, operations and personnel in a timely and efficient manner. We may incur significant costs integrating acquired companies and if our integration efforts are not successful we may not be able to offset our acquisition costs. Acquisitions involve many risks that may negatively impact our financial condition and results of operations, including the risks that the acquisitions may:

- require us to incur charges and substantial debt or liabilities;

- cause adverse tax consequences, substantial depreciation or deferred compensation charges;
- result in acquired in-process research and development expenses or in the future may require the amortization, write-down or impairment of amounts related to deferred compensation, goodwill and other intangible assets; and
- give rise to various litigation risks, including the increased likelihood of litigation.

In addition:

- we may not generate sufficient financial return to offset acquisition costs;
- we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, services, operations and personnel of any company that we acquire, particularly if key personnel of the acquired company decide not to work for us;
- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition may delay adoption rates or reduce engagement rates for our products and services and those of the company acquired by us due to student uncertainty about continuity and effectiveness of service from either company;
- we may encounter difficulties in, or may be unable to, successfully sell or otherwise monetize any acquired products and services;
- an acquisition may not ultimately be complementary to our evolving business model; and
- an acquisition may involve the entry into geographic or business markets in which we have little or no prior experience.

Acquired companies, businesses and assets can be complex and time consuming to integrate. For example, we expanded into internships with the acquisition of internships.com in October 2014, into writing tools with the acquisition of Imagine Easy Solutions in 2016, math technology with the acquisition of Cogeon in 2017, and further into writing tools with the acquisition of WriteLab in 2018. We are currently in the process of transitioning these users to the Chegg platform and integrating these brands into the Chegg platform. We may not successfully transition these users to the Chegg platform.

Our ability to acquire and integrate larger or more complex businesses, products, services, operations or technologies in a successful manner is unproven. We may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. To finance any future acquisitions we may issue equity, which could be dilutive, or debt, which could be costly, potentially dilutive, and require substantial restrictions on the conduct of our business. If we fail to successfully complete any acquisitions, integrate the services, products, personnel, operations or technologies associated with such acquisitions into our company, or identify and address liabilities associated with the acquired business or assets, our business, revenues and operating results could be adversely affected. Any future acquisitions we complete may not achieve our goals.

We operate in a rapidly changing market and we have recently transitioned our business model to a fully digital business. If we do not successfully adapt to known or unforeseen market developments, our business may be harmed.

The market for our learning platform is still unproven and rapidly changing. Historically, we generated the majority of our revenues from print textbook rental, which is highly capital intensive and presents both business planning and logistical challenges that are complex. To reduce our investment in the highly capital intensive nature of print textbook rentals, we entered into a partnership with Ingram wherein Ingram makes all new investments in the rental library of print textbooks, taking title and risk of loss for the books, and provides logistical and fulfillment services for the print textbooks that we rent and sell. The partnership allows us to market, use our branding and maintain the customer experience around print textbook rentals, while reducing our investments in print textbook inventory, fulfillment and logistics operations. As a result of this change, we stopped making additional investments in our print textbook library beginning in May 2015 and we liquidated our remaining inventory of print textbooks during the first

quarter of 2017 and have now fully transitioned these aspects of our print textbook offerings to Ingram. Our partnership with Ingram is non-exclusive and subject to significant risks, including Ingram's ability to acquire textbooks and manage logistical and fulfillment activities for us, our ability to create a successful and profitable partnership, and that we or Ingram may elect to terminate the partnership sooner than anticipated.

We have added and plan to continue to add new offerings to our learning platform, including, for example, writing and math tools, to diversify our sources of revenues, which will require us to make substantial investments in the products and services we develop or acquire. New offerings may not achieve market success at levels that recover our investment or contribute to profitability. Because these offerings are not as capital intensive as our print textbook rental service, the barriers to entry for existing and future competitors may be lower and allow for even more rapid changes to the market. Furthermore, the

market for these other products and services is relatively new and may not develop as we expect. If the market for our offerings does not develop as we expect, or if we fail to address the needs of this market, our business may be harmed. We may not be successful in executing on our evolving business model, and if we cannot provide an increasing number of products and services that students, colleges and brands find compelling, we will not be able to continue our recent growth and increase our revenues, margins and profitability. For all of these reasons, the evolution of our business model is ongoing and the future revenues and income potential of our offerings is uncertain.

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 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;
- the pricing of our physical textbooks and eTextbooks for rental or sale in relation to other alternatives, including the prices offered by publishers or by other competing textbook rental providers;
- the quality and prices of our offerings compared to those of our competitors;
- the rate of adoption of eTextbooks and our ability to capture a significant share of that market;
- changes in student spending levels;
- changes in the number of students attending college;
- the effectiveness of our sales and marketing efforts; and
- our ability to introduce new products and services that are favorably received by students.

If we do not attract more students to our learning platform and the products and services that we offer or if students do not increase their level of engagement with our platform, our revenues may grow more slowly than expected or decline. Many students use our print textbook service as a result of word-of-mouth advertising and referrals from students who have used this service in the past. If our efforts to satisfy our existing student user base are not successful, we may not be able to attract new students and, as a result, our business will be adversely affected.

Our future revenues depend on our ability to continue to attract new students from a high school and college student population that has an inherently high rate of turnover primarily due to graduation, requiring us to invest continuously in marketing to the student population to build brand awareness and loyalty, which we may not be able to accomplish on a cost-effective basis or at all.

We are dependent on the acquisition of new students from a high school and college student population that has an inherently high rate of turnover primarily due to graduation. Most incoming college students will not have previously used products and services like the ones we provide which are geared towards the college market. We rely heavily on word-of-mouth and other marketing channels, including online advertising, search engine marketing and social media.

The student demographic is characterized by rapidly changing tastes, preferences, behavior, and brand loyalty. Developing an enduring business model to serve this population is particularly challenging. Our ability to attract new students depends not only on investment in our brand and our marketing efforts, but also on the perceived value of our products and services versus competing alternatives among our extremely price conscious student user base. If our marketing initiatives are not successful or become less effective, or if the cost of such initiatives were to significantly increase, we may not be able to attract new students as successfully or efficiently and, as a result, our revenues and results of operations would be adversely affected. Even if our marketing initiatives succeed in establishing brand awareness and loyalty, we may be unable to maintain and grow our student user base if our competitors, some of whom are substantially larger and have greater financial resources, adopt aggressive

pricing strategies to compete against us. If we are unable to offer competitive prices for our products and services fewer students may use our learning platform, products or services.

If we are not able to manage the growth of our business both in terms of scale and complexity, our operating results and financial condition could be adversely affected.

We have expanded rapidly since we launched our online print textbook rental service in 2007. We anticipate further expanding our operations to offer additional products, services and content to help grow our student user base and to take advantage of favorable market opportunities. As we grow, our operations and the technology infrastructure we use to manage and account for our operations will become more complex, and managing these aspects of our business will become more challenging. Any future expansion will likely place significant demands on our resources, capabilities and systems, and we may need to develop new processes and procedures and expand the size of our infrastructure to respond to these demands. If we are not able to respond effectively to new and increasingly complex demands that arise because of the growth of our business, or, if in responding to such demands, our management is materially distracted from our current operations, our operating results and financial condition may be adversely affected.

If our efforts to build a strong brand are not successful, we may not be able to grow our student user base, which could adversely affect our operating results.

We believe our brand is a key asset of our business. Developing, protecting and enhancing the “Chegg” brand is critical to our ability to expand our student user base and increase student engagement with our learning platform. A strong brand also helps to counteract the significant student turnover we experience from year to year as students graduate and differentiates us from our competitors.

To succeed in our efforts to strengthen our brand identity, we must, among other activities:

- maintain our reputation as a trusted source of content, services and textbooks for students;
- maintain the quality of and improve our existing products, services and technologies;
- maintain and control the quality of our brand while Ingram handles our textbook fulfillment logistics;
- introduce products and services that are favorably received;
- adapt to changing technologies, including developing and enhancing compelling mobile offerings for our learning platform;
- adapt to students’ rapidly changing tastes, preferences, behavior and brand loyalties;
- protect our students’ data, such as passwords and personally identifiable information;
- protect our trademark and other intellectual property rights;
- continue to expand our reach to students in high school, graduate school and internationally;
- ensure that the content posted to our website by students is reliable and does not infringe on third-party copyrights or violate other applicable laws, our terms of use or the ethical codes of those students’ colleges;
- adequately address students’ concerns with our products and services; and
- convert and fully integrate the brands and students that we acquire, including WriteLab, StudyBlue, Math 42, Imagine Easy Solutions and internships.com, into the Chegg brand and Chegg.com.

Our ability to successfully achieve these goals is not entirely within our control and we may not be able to maintain the strength of our brand or do so in a cost-effective manner. Factors that could negatively affect our brand include:

- changes in student sentiment about the quality or usefulness of our learning platform and our products and services;
- problems that prevent Ingram from delivering textbooks reliably or timely;
-

technical or other problems that prevent us from providing our products and services reliably or otherwise negatively affect the student experience on our website or our mobile application;

- concern from colleges about the ways students use our content offerings, such as our Expert Answers service;
- brand conflict between acquired brands and the Chegg brand;
- student concerns related to privacy and the way in which we use student data as part of our products and services;
- the reputation or products and services of competitive companies; and
- students' misuse of our products and services in ways that violate our terms of services, applicable laws or the code of conduct at their colleges.

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If Internet search engines' methodologies are modified or our search result page rankings decline for other reasons, student engagement with our website could decline.

We depend in part on various Internet search engines, such as Google, Bing and Yahoo!, to direct a significant amount of traffic to our website. Similarly, we depend on mobile app stores such as iTunes and Google Play to allow students to locate and download Chegg mobile applications that enable our service. Our ability to maintain the number of students directed to our website is not entirely within our control. Our competitors' search engine optimization (SEO) efforts may result in their websites receiving a higher search result page ranking than ours, or Internet search engines could revise their methodologies in an attempt to improve their search results, which could adversely affect the placement of our search result page ranking. If search engine companies modify their search algorithms in ways that are detrimental to our search result page ranking or in ways that make it harder for students to find our website, or if our competitors' SEO efforts are more successful than ours, overall growth could slow, student engagement could decrease, and fewer students may use our platform. These modifications may be prompted by search engine companies entering the online networking market or aligning with competitors. Our website has experienced fluctuations in search result rankings in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of students directed to our website could harm our business and operating results.

Any significant disruption, including those related to cybersecurity or arising from cyber-attacks, to our computer systems, especially during peak periods, could result in a loss of students, colleges and/or brands which could harm our business, results of operations and financial condition.

We rely on computer systems housed in six facilities, three located on the East Coast and three located on the West Coast, to manage our operations. We have experienced and expect to continue to experience periodic service interruptions and delays involving our systems. While we maintain a fail-over capability that would allow us to switch our operations from one facility to another in the event of a service outage, that process would still result in service interruptions that could be significant in duration. These service interruptions could have a disproportionate effect on our operations if they were to occur during one of our peak periods. Our facilities are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events.

Our facilities and information systems, as well as the facilities and information systems of our third-party service providers, also are subject to break-ins, sabotage, intentional acts of vandalism, cybersecurity risks including cyber-attacks such as computer viruses and denial of service attacks, the failure of physical, administrative and technical security measures, terrorist acts, natural disasters, human error, the financial insolvency of our third-party vendors, and other unanticipated problems or events. These information systems have periodically experienced and will continue to experience both directed attacks as well as loss, misuse or theft of data. While we have implemented physical, technical and administrative safeguards designed to help protect our systems, in the event of a system interruption or a security exposure or breach, they may not be as effective as intended and we may not have adequate insurance coverage to compensate for related losses. To date, unauthorized users have not had a material effect on our company; however, there can be no assurance that attacks will not be successful in the future or that any loss will not be material. In addition, our information systems must be constantly updated, patched, and upgraded to protect against known vulnerabilities and optimize performance. Material disruptions or slowdown of our systems, including a disruption or slowdown could occur if we are unable to successfully update, patch and upgrade our systems. For instance, in December 2017, researchers identified significant CPU architecture vulnerabilities commonly known as "Spectre" and "Meltdown" that have affected both private and public cloud services, including AWS, that have required software updates and patches to mitigate such vulnerabilities and such updates and patches have required servers to be offline and potentially slow their performance.

We also rely on Internet systems and infrastructure to operate our business and provide our services. The information systems used by our third-party service providers and the Internet generally are vulnerable to these risks as well. In

particular, we are heavily reliant on SaaS enterprise resource planning systems to conduct our e-commerce and financial transactions and reporting. In addition, we utilize third-party cloud computing services in connection with our business operations. Problems faced by us or our third-party hosting/cloud computing providers, or interruptions in our own systems or in the infrastructure of the Internet, including technological or business-related disruptions, as well as cybersecurity threats, could hinder our ability to operate our business, damage our reputation or brand and result in a loss of students, colleges or brands which could harm our business, results of operations and financial condition.

Difficulties that could arise from our partnership with Ingram and other partners may have an adverse effect on our business and results of operations.

We rely on Ingram to make new investments in the print textbook library and fulfill print textbook rental and sales orders. We purchase used print textbooks on Ingram’s behalf, including books through our buyback program, and invoice

Ingram at cost. As we no longer own print textbooks, we have become increasingly committed to this strategic partnership. If our continuing partnership with Ingram is interrupted or if Ingram experiences disruptions in its business or is not able to perform as anticipated, Ingram may not be able to reimburse us for the books we have procured on its behalf or we may experience operational difficulties, an inability to fulfill print textbook orders, increased costs and a loss of business, as well as a greater than expected deployment of capital for textbook acquisition, that may have a material adverse effect on our business, results of operations and financial condition. Furthermore, if we are unable to achieve the financial return targets set forth in our agreement with Ingram, we could be required to make additional payments to Ingram which could adversely affect our results of operations. Our strategic partnership with Ingram expires on May 20, 2020, subject to the early termination rights of the parties.

In addition to our strategic partnership with Ingram, we have entered into agreements with other partners to provide their textbooks for rental or sale through our website for which Ingram provides logistics and fulfillment for all print textbook rental or sale orders. We have also entered into partnerships with NRCCUA to become the exclusive reseller of our digital enrollment marketing services and with Kaplan to provide students with an online adaptive test preparation service. If we are unable to enter into or renew our agreements with our partners or if any of our partners perform significantly below our expectations, we may experience a material adverse effect on our business, results of operations and financial condition.

Ingram purchases, and we price, textbooks based on anticipated levels of demand and other factors that we estimate based on historical experience and various other assumptions. If actual results differ materially from our estimates, our gross margins may decline.

The print textbook rental distribution model requires our fulfillment partner, Ingram, to make substantial investments in its print textbook library based on our expectations regarding numerous factors, including ongoing demand for these titles in print form. To realize a return on its investments, we must rent each purchased textbook multiple times, and as such, we are exposed to the risk of not achieving financial return targets set forth in our agreement with Ingram, which could result in additional payments to Ingram and adversely affect our results of operations. We typically plan the textbook purchases based on factors such as pricing, our demand forecast for the most popular titles, estimated timing of edition changes, estimated utilization levels and planned liquidations of stale, old or excess titles in the print textbook library. These factors are highly unpredictable and can fluctuate substantially, especially if pricing pressure becomes more intense, as we have seen in recent rush cycles, or demand is reduced due to seasonality or other factors, including increased use of eTextbooks. We rely on a proprietary model to analyze and optimize the purchasing decisions and rely on inputs from third parties including publishers, distributors, wholesalers and colleges to make our decisions. We also rely on students to return print textbooks to Ingram in a timely manner and in good condition so that the print textbooks can be re-rented or sold. If the information we receive from third parties is not accurate or reliable, if students fail to return books or return damaged books, or if we for any other reason forecast demand inaccurately and cause Ingram to acquire insufficient copies of specific textbooks, we may be unable to satisfy student demand or we may have to incur significantly increased costs in order to do so, in which event our student satisfaction and results of operations could be affected adversely. Conversely, if we attempt to mitigate this risk and cause Ingram to acquire more copies than needed to satisfy student demand, then our textbook utilization rates would decline and we may be required to make additional payments to Ingram and our gross margins would be affected adversely.

When deciding whether to offer a textbook for rent and the price we charge for that rental, we also must weigh a variety of factors and assumptions and if our judgments or assumptions are incorrect, our gross margins may be adversely affected. Certain textbooks cost more to acquire depending on the source from which they are acquired and the terms on which they are acquired. We must factor in some projection of the number of rentals we will be able to achieve with such textbooks and at what rental price, among other factors, to determine whether we believe it will be profitable to cause Ingram to acquire such textbooks and for us to offer them for rent. If the textbooks Ingram acquires

are lost, determined to be unauthorized copies, or damaged prematurely, Ingram may not be able to recover its costs or generate revenues on those textbooks. If we are unable to effectively make decisions about whether to cause Ingram to acquire textbooks and the price we charge to rent those textbooks, including if the assumptions upon which our decisions are made prove to be inaccurate, our gross margins may decline significantly and if, as a result, we are unable to achieve the financial return targets set forth in our agreement with Ingram, we could be required to make additional payments to Ingram which could adversely affect our results of operations.

If Ingram's relationships with the shipping providers that deliver textbooks directly to our students are terminated or impaired, if shipping costs increase or if these vendors are unable to timely deliver textbooks to our students, our business and results of operations could be substantially harmed.

Ingram predominantly relies on UPS to deliver textbooks from its textbook warehouse and to return textbooks to Ingram from our students. To a lesser extent Ingram relies on FedEx for delivery of print textbook rentals and on publishers, distributors and wholesalers to fulfill a certain portion of textbook sales orders and liquidations. As a result, our business could

be subject to carrier disruptions and increased costs due to factors that are beyond our control, including labor difficulties, inclement weather, increased fuel costs and other rising costs of transportation and terrorist activity. If UPS were to limit its services or delivery areas, such as by the discontinuation of Saturday delivery service, Ingram's ability to timely deliver textbooks could diminish, and our student satisfaction could be adversely affected. If Ingram's relationships with its shipping vendors are terminated or impaired or if Ingram's shipping vendors are unable to deliver merchandise for us, Ingram would be required to rely on alternative carriers for delivery and return shipments of textbooks to and from students. Ingram may be unable to sufficiently engage alternative carriers on a timely basis or on terms favorable to them, if at all. If textbooks are not delivered on time to students, they could become dissatisfied and discontinue their use of our service, which could adversely affect our operating results.

We rely on third-party software and service providers, including Amazon Web Services (AWS), to provide systems, storage and services for our website. Any failure or interruption experienced by such third parties could result in the inability of students to use our products and services, result in a loss of revenues and harm our reputation.

We rely on third-party software and service providers, including AWS, to provide systems, storage and services, including user log in authentication, for our website. Any technical problem with, cyber-attack on, or loss of access to such third parties' systems, servers or technologies could result in the inability of our students to rent or purchase print textbooks, interfere with access to our digital content and other online products and services or result in the theft of end-user personal information.

Our reliance on AWS makes us vulnerable to any errors, interruptions, or delays in their operations. Any disruption in the services provided by AWS could harm our reputation or brand or cause us to lose students or revenues or incur substantial recovery costs and distract management from operating our business. For instance, in February 2017, AWS experienced a widespread outage for half a business day, when during such time our learning platform was unavailable. Additionally, in December 2017, researchers identified significant CPU architecture vulnerabilities commonly known as “Spectre” and “Meltdown” that have affected both private and public cloud services, including AWS, that have required software updates and patches to mitigate such vulnerabilities and such updates and patches have required servers to be offline and potentially slow their performance.

AWS may terminate its agreement with us upon 30 days' notice. Upon expiration or termination of our agreement with AWS, we may not be able to replace the services provided to us in a timely manner or on terms and conditions, including service levels and cost, that are favorable to us, and a transition from one vendor to another vendor could subject us to operational delays and inefficiencies until the transition is complete.

Increased activity during peak periods places substantially increased strain on our operations and any failure to deliver our products and services during these periods will have an adverse effect on student satisfaction and our revenues.

We historically experience a disproportionate amount of activity on our website at the beginning of each academic term as students search our textbook catalog and place orders for course materials. If too many students access our website within a short period of time due to increased demand, we may experience system interruptions that make our website unavailable, slowed or prevent Ingram from efficiently fulfilling rental orders, which may reduce the volume of textbooks we are able to rent or sell and may also impact our ability to sell marketing services to colleges and brands. In addition, during peak periods, we utilize, and Ingram utilizes, independent contractors and temporary personnel to supplement the workforce primarily in our student advocacy organizations and in Ingram's warehouses. Competition for qualified personnel has historically been intense, and we or Ingram may be unable to adequately staff our student advocacy organizations or Ingram's warehouses during these peak periods. Any understaffing could lead to an increase in both the amount of time required to ship textbooks, which could lead to student dissatisfaction, and increase the amount of time required to process a rental return, which could result in an inability to achieve the financial return targets set forth in our agreement with Ingram. Moreover, UPS and FedEx, the third-party carriers that

Ingram primarily relies on to deliver textbooks to students, and publishers, wholesalers and distributors that ship directly to our students may be unable to meet our shipping and delivery requirements during peak periods, especially during inclement weather. Any such disruptions to our business could cause our customers to be dissatisfied with our products and services and have an adverse effect on our revenues.

Computer malware, viruses, hacking, phishing attacks and spamming could harm our business and results of operations.

Computer malware, viruses, physical or electronic break-ins and similar disruptions could lead to interruptions and delays in our services and operations and loss, misuse or theft of data. For instance, in December 2017, researchers identified significant CPU architecture vulnerabilities commonly known as “Spectre” and “Meltdown” that allow malicious programs to gain access to data. While chip makers and companies that provide widely used operating systems have released patches and updates, this process is still ongoing. Computer malware, viruses, computer hacking and phishing attacks against online

networking platforms have become more prevalent and may occur on our systems in the future. We believe that we could be a target for such attacks because of the incidence of hacking among students.

Any attempts by hackers to disrupt our website service or our internal systems, if successful, could harm our business, be expensive to remedy and damage our reputation or brand. Our network security business disruption insurance may not be sufficient to cover significant expenses and losses related to direct attacks on our website or internal systems. Efforts to prevent hackers from entering our computer systems are expensive to implement and may limit the functionality of our services. Though it is difficult to determine what, if any, harm may directly result from any specific interruption or attack, any failure to maintain performance, reliability, security and availability of our products and services and technical infrastructure may harm our reputation, brand and our ability to attract students to our website. Any significant disruption to our website or internal computer systems could result in a loss of students, colleges or brands and, particularly if disruptions occur during the peak periods at the beginning of each academic term, could adversely affect our business and results of operations.

We rely heavily on our proprietary technology to process deliveries and returns of the textbooks and to manage other aspects of our operations. The failure of this technology to operate effectively, particularly during peak periods, could adversely affect our ability to retain and attract student users.

We use complex proprietary software to process deliveries and returns of the textbooks and to manage other aspects of our operations, including systems to consider the market price for textbooks, general availability of textbook titles and other factors to determine how to buy textbooks and set prices for textbooks and other content in real time. We rely on the expertise of our engineering and software development teams to maintain and enhance the software used for our distribution operations. We cannot be sure that the maintenance and enhancements we make to our distribution operations will achieve the intended results or otherwise be of value to students. If we are unable to maintain and enhance our technology to manage the shipping and return of textbooks in a timely and efficient manner, particularly during peak periods, our ability to retain existing students and to add new students may be impaired.

We may not timely and effectively scale and adapt our existing technology and network infrastructure to ensure that our learning platform is accessible and delivers a satisfactory user experience to students.

It is important to our success that students be able to access our learning platform at all times. We have previously experienced, and may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, third-party service providers, human or software errors and capacity constraints due to an overwhelming number of students accessing our platform simultaneously. If our learning platform is unavailable when students attempt to access it or it does not load as quickly as they expect, students may seek other services to obtain the information for which they are looking and may not return to our platform as often in the future, or at all. This would negatively impact our ability to attract students and brands and the frequency with which they use our website and mobile applications.

Our platform functions on software that is highly technical and complex and may now or in the future contain undetected errors, bugs, or vulnerabilities. Some errors in our software code may only be discovered after the code has been deployed. Any errors, bugs, or vulnerabilities discovered in our code after deployment, inability to identify the cause or causes of performance problems within an acceptable period of time or difficultly maintaining and improving the performance of our platform, particularly during peak usage times, could result in damage to our reputation or brand, loss of students, colleges and brands, loss of revenues, or liability for damages, any of which could adversely affect our business and financial results.

We expect to continue to make significant investments to maintain and improve the availability of our platform and to enable rapid releases of new features and products. To the extent that we do not effectively address capacity

constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

We have a disaster recovery program to transition our operating platform and data to a failover location in the event of a catastrophe and have tested this capability under controlled circumstances, however, there are several factors ranging from human error to data corruption that could materially lengthen the time our platform is partially or fully unavailable to our student user base as a result of the transition. If our platform is unavailable for a significant period of time as a result of such a transition, especially during peak periods, we could suffer damage to our reputation or brand, loss of students, colleges and brands or loss of revenues any of which could adversely affect our business and financial results.

Our reputation and relationships with students and tutors would be harmed if our users' data, particularly billing data, were to be accessed by unauthorized persons.

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We maintain personal data regarding students and tutors who use our platform, including names and, in many cases, mailing addresses, and, in the case of tutors, information necessary for payment and tax filings. We take measures to protect against unauthorized intrusion into our users' and tutors' data. However, despite these measures, if we or our payment processing services experience any unauthorized intrusion into our users' and tutors' data, current and potential users and tutors may become unwilling to provide the information to us necessary for them to engage with our platform, we could face legal claims and our business and reputation could be adversely affected. The breach of a third-party's website, resulting in theft of user names and passwords, could result in the fraudulent use of that user login information on our platform. In addition, we do not obtain signatures from students in connection with the use of credit cards by them. Under current credit card practices, to the extent we do not obtain cardholders' signatures, we are liable for fraudulent credit card transactions, even when the associated financial institution approves payment of the orders. From time to time, fraudulent credit cards may be used. We may experience some loss from these fraudulent transactions. As an example, we discovered in 2014 that certain individuals fraudulently obtained several thousand textbooks from us. While we do have safeguards in place, we cannot be certain that other fraudulent schemes will not be successful. A failure to adequately control fraudulent transactions would harm our business and results of operations.

Our wide variety of accepted payment methods subjects us to third-party payment processing-related risks.

We accept payments from students using a variety of methods, including credit cards, debit cards and PayPal. As we offer new payment options to students, we may be subject to additional regulations, compliance requirements and incidents of fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins. For example, we have in the past experienced higher transaction fees from our third-party processors as a result of chargebacks on credit card transactions.

We rely on third parties to provide payment processing services, including the processing and information storage of credit cards and debit cards. If these companies become unwilling or unable to provide these services to us, our business could be disrupted. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to additional fines and higher transaction fees and lose our ability to accept credit and debit card payments from our students, process electronic funds transfers or facilitate other types of online payments, and our business and operating results could be adversely affected.

We face significant competition in each aspect of our business, and we expect such competition to increase, particularly in the market for textbooks.

Our products and services compete for students, colleges and advertisers and we expect such competition to increase, as described below.

- Products and Services for Students. Our Chegg Services face competition from different businesses depending on the offering. For Chegg Study, our competitors primarily include publishers that provide study materials and online instructional systems. Additionally, we face competition from free services such as Yahoo! Answers and Brain.ly for our Expert Answers service. For our Chegg Writing service, we primarily face competition from other citation generating services such as Noodle Tools. For our Chegg Tutors service, we face competition from other online tutoring services such as Wyzant, Tutors.com and Varsity Tutors. For our Chegg Math Solver service, we face competition from other math solvers such as Mathway. The market for textbooks and supplemental materials is intensely competitive and subject to rapid change. We face competition from college bookstores, some of which are operated by Follett and Barnes & Noble Education, online marketplaces such as Amazon.com and providers of

eTextbooks such as Apple iTunes and Blackboard, as well as various private textbook rental websites. Many students purchase from multiple textbook providers, are highly price sensitive and can easily shift spending from one provider or format to another. As a consequence, our Required Materials product line, which includes eTextbooks, competes primarily on price and further on selection and functionality and compatibility of the eTextbook Reader we utilize across a wide variety of desktop and mobile devices.

Brand Advertising. With respect to brands, we compete with online and offline outlets that generate revenues from advertisers and marketers, especially those that target high school and college students. In this area, we seek to partner with brands that have offerings that will interest or delight students and have received very positive comments and feedback from students on these offerings. We provide these brands with preferential access to our audience, which we believe represents a highly engaged portion of the target demographic of our brand partners.

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Our industry is evolving rapidly and is becoming increasingly competitive. Some of our competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. Some of our competitors have adopted, and may continue to adopt, aggressive pricing policies and devote substantially more resources to marketing, website and systems development than we do. In addition, a variety of business models are being pursued for the provision of print textbooks, some of which may be more profitable or successful than our business model. For example, a recent U.S. Supreme Court decision may make it easier for third parties to import low-cost “gray market” textbooks for resale in the United States, and these textbooks may compete with our offerings. In addition, Follett has partnered with some colleges through its includED program, which allows schools to deliver required course materials directly to students by including them in the cost of college as part of tuition and fees. Such strategic alliances may eliminate our ability to compete favorably with our Required Materials product line because of the added convenience they offer to students, which may result in reduced textbook rentals, loss of market share and reduced revenues. In addition, our competitors also may form or extend strategic alliances with publishers that could adversely affect Ingram's ability to obtain textbooks on favorable terms. We face similar risks from strategic alliances by other participants in the education ecosystem with respect to our newer offerings. We may, in the future, establish alliances or relationships with other competitors or potential competitors. To the extent such alliances are terminated or new alliances and relationships are established, our business could be harmed.

Our business is seasonal and we have increased risk from disruption during peak periods which makes our operating results difficult to predict.

We derive a portion of our net revenues from print textbook rentals and, to a lesser extent, sale transactions, which occur in large part during short periods of time around the commencement of the fall, winter and spring academic terms. In particular, we, Ingram and other partners experience the largest increase in rental and sales volumes during the last two weeks of August and first two weeks of September and to a lesser degree in December and in January. The increased volume of orders that we, Ingram and other partners have to process during these limited periods of time means that any shortfalls or disruptions in our operations during these peak periods will have a disproportionately large impact on our annual operating results and the potential future growth of our business.

As a result of this seasonality, which corresponds to the academic calendar, our revenues may fluctuate significantly quarter to quarter depending upon the timing of where we are in our “rush” cycle and sequential quarter-over-quarter comparisons of our net revenues and operating results are not likely to be meaningful. In addition, our operating results for any given quarter cannot be used as an accurate indicator of our results for the year. In particular, we anticipate that our ability to accurately forecast financial results for future periods will be most limited at the time we present our second quarter financial results, which will generally occur midsummer and precede the “fall rush.” In addition, our other offerings, in particular services unrelated to textbooks, are relatively new and, as a result, we have limited experience with forecasting revenues from them.

The recognition of revenues from our eTextbooks and Chegg Services are primarily recognized ratably over the term a student rents our eTextbook or subscribes to our Chegg Services. This has generally resulted in our highest revenues and profitability in the fourth quarter as it reflects more days of the academic year.

We base our operating expense budgets on expected net revenue trends. Operating expenses, similar to revenues and cost of revenues, fluctuate significantly quarter to quarter due to the seasonality of our business and are generally higher during the first and third quarters as we incur marketing expense in connection with our peak periods at the beginning of each academic term. Because our revenues are concentrated in the fourth quarter and expenses are concentrated in the first and third quarters, we have experienced operating losses in the first and third quarters and operating income in the fourth quarter. As a result, sequential quarterly comparison of our financial results may not been meaningful. Further, a portion of our expenses, such as office space lease obligations and personnel costs, are

largely fixed and are based on our expectations of our peak levels of operations. The Ingram partnership has resulted in our operating expenses related to textbook acquisition, shipping and fulfillment and warehouse facility lease obligations either decreasing or being eliminated. Nonetheless, we expect to continue to incur significant marketing expenses during peak periods and to have fixed expenses for office space and personnel and as such, we may be unable to adjust spending quickly enough to offset any unexpected revenues shortfall. Accordingly, any shortfall in net revenues may cause significant variation in operating results in any quarter.

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Growing our student user base and their engagement with our learning platform through mobile devices depends upon the effective operation of our mobile applications with mobile operating systems, networks and standards that we do not control.

There is no guarantee that students will use our mobile applications, such as the mobile version of our website, m.chegg.com, Chegg Flashcards and Chegg Textbook Solutions, rather than competing products. We are dependent on the interoperability of our mobile applications with popular mobile operating systems that we do not control, such as Google's Android and Apple's iOS, and any changes in such systems that degrade our products' functionality or give preferential treatment to competitive products could adversely affect the usage of our applications on mobile devices. Additionally, in order to deliver high quality mobile products, it is important that our products work well with a range of mobile technologies, systems, networks and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing products that operate effectively with these technologies, systems, networks or standards. In the event that it is more difficult for students to access and use our applications on their mobile devices, or if students choose not to access or use our applications on their mobile devices or use mobile products that do not offer access to our applications, our student growth and student engagement levels could be harmed.

If the third-party eTextbook Reader that we utilize does not remain compatible with third-party operating systems, demand for our eTextbooks may decline and could have an adverse effect on our revenues.

The third-party eTextbook Reader that we utilize is designed to provide students with access to eTextbooks from any device with an Internet connection and an Internet browser, including PCs, iPads, Android tablets, Kindles, Nooks and mobile phones. The third-party eTextbook Reader can be used across a variety of third-party operating systems. If this compatibility is not maintained, demand for our eTextbooks could decline and revenues could be adversely affected.

If the transition from print textbooks to eTextbooks does not proceed as we expect, our business and financial condition will be adversely affected.

The textbook distribution market has begun shifting toward digital distribution. If demand for eTextbooks accelerates more rapidly than we expect, we could be required to make additional payments to Ingram under our inventory purchase and consignment agreement. Conversely, if the transition to digital distribution of textbooks does not gain market acceptance as we expect, capital requirements over the long term may be greater than we expect and our opportunities for growth may be diminished. In that case, we may need to raise additional capital, which may not be available on reasonable terms, or at all, and we may not realize the potential long-term benefits of a shift to digital distribution, including greater pricing flexibility and the ability to distribute a larger library of eTextbooks compared to print textbooks.

If publishers refuse to grant us distribution rights to digital content on acceptable terms or terminate their agreements with us, or if we are unable to adequately protect their digital content rights, our business could be adversely affected.

We rely on licenses from publishers to distribute eTextbooks to our customers and to provide some of our other products and services. We do not have long-term contracts or arrangements with most publishers that guarantee the availability of such digital content. If we are unable to secure and maintain rights to distribute, or otherwise use, the digital content upon terms that are acceptable to us, or if publishers terminate their agreements with us, we would not be able to acquire such digital content from other sources and our ability to attract new students and retain existing students could be adversely impacted. Some of our licenses give the publisher the right to withdraw our rights to distribute or use the digital content without cause and/or give the publisher the right to terminate the entire license agreement without cause. If a publisher exercises such a right, this could adversely affect our business and financial results. Moreover, to the extent we are able to secure and maintain rights to distribute eTextbooks, our competitors

may be able to obtain the same rights on more favorable terms.

In addition, our ability to distribute eTextbooks depends on publishers' belief that we include effective digital rights management technology to control access to digital content. If the digital rights management technology that we use is compromised or otherwise malfunctions, we could be subject to claims, and publishers may be unwilling to include their content in our service. If users are able to circumvent the digital rights management technology that we use, they may acquire unauthorized copies of the textbooks that they would otherwise rent from us, which could decrease our textbook rental volume and adversely affect our results of operations.

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If we fail to convince brands of the benefits of advertising on our platform or to use our marketing services, our business could be harmed.

Our business strategy includes increasing our revenues from brand advertising. Brands may view our learning platform as experimental and unproven. They may not do business with us, or may reduce the amounts they are willing to spend to advertise with us, if we do not deliver ads, sponsorships and other commercial content and marketing programs in an effective manner, or if they do not believe that their investment in advertising with us will generate a competitive return relative to other alternatives. Our ability to grow the number of brands that use our brand advertising, and ultimately to generate advertising and marketing services revenues, depends on a number of factors, including our ability to successfully:

- compete for advertising and marketing dollars from colleges, brands, online marketing and media companies and advertisers;
- penetrate the market for student-focused advertising;
- develop a platform that can deliver advertising and marketing services across multiple channels, including print, email, Internet, mobile applications and other connected devices;
- improve our analytics and measurement solutions to demonstrate the value of our advertising and marketing services;
- maintain the retention, growth and engagement of our student user base;
- strengthen our brand and increase our presence in media reports and with publicity companies that utilize online platforms for advertising and marketing purposes;
- create new products that sustain or increase the value of our advertising and marketing services and other commercial content;
- manage changes in the way online advertising and marketing services are priced;
- weather the impact of macroeconomic conditions and conditions in the advertising industry and higher education in general; and
- manage legal developments relating to data privacy, advertising or marketing services, legislation and regulation and litigation.

Our core value of putting students first may conflict with the short-term interests of our business.

We believe that adhering to our core value of putting students first is essential to our success and in the best interests of our company and the long-term interests of our stockholders. In the past, we have forgone, and in the future we may forgo, short-term revenue opportunities that we do not believe are in the best interests of students, even if our decision negatively impacts our operating results in the short term. For example, we offer free services to students that require investment by us, such as our Internships service, in order to promote a more comprehensive solution. We also developed the Chegg for Good program to connect students and employees with partners to engage them in causes related to education and the environment. We formed the Chegg Foundation, a California nonprofit public benefit corporation, to engage in charitable and education-related activities, which we funded with one percent of the net proceeds from our IPO in November 2013. Our philosophy of putting students first may cause us to make decisions that could negatively impact our relationships with publishers, colleges and brands, whose interests may not always be aligned with ours or those of our students. Our decisions may not result in the long-term benefits that we expect, in which case our level of student satisfaction and engagement, business and operating results could be harmed.

If we are required to discontinue certain of our current marketing activities, our ability to attract new students may be adversely affected.

Laws or regulations may be enacted which restrict or prohibit use of emails or similar marketing activities that we currently rely on. For example:

- the CAN-SPAM Act of 2003 and similar laws adopted by a number of states regulate unsolicited commercial emails, create criminal penalties for emails containing fraudulent headers and control other abusive online marketing practices;
- the U.S. Federal Trade Commission (FTC) has guidelines that impose responsibilities on companies with respect to communications with consumers and impose fines and liability for failure to comply with rules with respect to advertising or marketing practices they may deem misleading or deceptive; and
- the TCPA restricts telemarketing and the use of automated telephone equipment. The TCPA limits the use of automatic dialing systems, artificial or prerecorded voice messages and SMS text messages. It also applies to unsolicited text messages advertising the commercial availability of goods or services. Additionally, a number of states have enacted statutes that address telemarketing. For example, some states, such as California, Illinois and

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New York, have created do-not-call lists. Other states, such as Oregon and Washington, have enacted "no rebuttal statutes" that require the telemarketer to end the call when the consumer indicates that he or she is not interested in the product being sold. Restrictions on telephone marketing, including calls and text messages, are enforced by the FTC, the Federal Communications Commission, states and through the availability of statutory damages and class action lawsuits for violations of the TCPA.

Even if no relevant law or regulation is enacted, we may discontinue use or support of these activities if we become concerned that students or potential students deem them intrusive or they otherwise adversely affect our goodwill and brand. If our marketing activities are curtailed, our ability to attract new students may be adversely affected.

Our business and growth may suffer if we are unable to hire and retain key personnel.

We depend on the continued contributions of our senior management and other key personnel. In particular, we rely on the contributions of our Chief Executive Officer, Dan Rosensweig. All of our executive officers and key employees are at-will employees, meaning they may terminate their employment relationship at any time. We compensate our employees through a combination of salary, benefits and equity compensation. Volatility or a decline in our stock price may affect our ability to retain and motivate key employees, each of whom has been granted stock options, RSUs or both. Competition for qualified personnel can be intense, and we may not be successful in retaining and motivating such personnel, particularly to the extent our stock price is volatile or at a depressed level, as equity compensation plays an important role in how we compensate our employees. Such individuals may elect to seek employment with other companies that they believe have better long-term prospects. If we lose the services of one or more members of our senior management team or other key personnel, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives. Our future success also depends on our ability to identify, attract and retain highly skilled technical, managerial, finance and media procurement personnel. Qualified individuals are in high demand, particularly in the San Francisco Bay Area where our executive offices are located, and we may incur significant costs to attract them. If we are unable to attract or retain the personnel we need to succeed, our business may suffer.

We may need additional capital, and we cannot be sure that additional financing will be available or on favorable terms.

Historically, investments in our business have substantially exceeded the cash we have generated from our operations. We have funded our operating losses and capital expenditures through proceeds from equity and debt financings, equipment leases and cash flow from operations. Although we currently anticipate that our available funds and cash flow from operations will be sufficient to meet our cash needs for the foreseeable future, we may require additional financing, particularly if the investment required to fund our operations is greater than we anticipate or we choose to invest in new technologies or complementary businesses or change our business model. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and condition of the capital markets at the time we seek financing. Additional financing may not be available to us on favorable terms when required, or at all especially considering that we no longer own a print textbook library, which we previously used as collateral for our debt financings. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience substantial dilution.

Government regulation of education and student information is evolving, and unfavorable developments could have an adverse effect on our operating results.

We are subject to regulations and laws specific to the education sector because we offer our products and services to students and collect data from students. Data privacy and security with respect to the collection of personally identifiable information from students continues to be a focus of worldwide legislation and regulation. This includes significant regulation in the European Union and legislation and compliance requirements in various jurisdictions around the world. Within the United States, several states have enacted legislation that goes beyond any federal requirements relating to the collection and use of personally identifiable information and other data from students. Examples include statutes adopted by the State of California and most other States that require online services to report certain breaches of the security of personal data and a California statute that requires companies to provide choice to California customers about whether their personal data is disclosed to direct marketers or to report to California customers when their personal data has been disclosed to direct marketers. In this regard, there are a large number of legislative proposals before the U.S. Congress and various state legislative bodies regarding privacy issues related to our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could harm our business through a decrease in student registrations and revenues. These decreases could be caused by, among other possible provisions, the required use of disclaimers or other requirements before students can utilize our services. We post our privacy policies and practices concerning the use and disclosure of student data on our website. However, any failure by us to comply with our posted privacy policies, FTC requirements or other privacy-

related laws and regulations could result in proceedings by governmental or regulatory bodies or by private litigants that could potentially harm our business, results of operations and financial condition.

Our business may also be subject to laws specific to students, such as the Family Educational Rights and Privacy Act, the Delaware Higher Education Privacy Act and a California statute which restricts the access by postsecondary educational institutions of prospective students' social media account information. Compliance levels include disclosures, consents, transfer restrictions, notice and access provisions for which we may in the future need to build further infrastructure to further support. We cannot guarantee that we have been or will be fully compliant in every jurisdiction, as it is not entirely clear how existing laws and regulations governing educational institutions affect our business. Moreover, as the education industry continues to evolve, increasing regulation by federal, state and foreign agencies becomes more likely. Recently, California adopted the Student Online Personal Information Protection Act which prohibits operators of online services used for K-12 school purposes from using or sharing student personal information and Colorado adopted House Bill 16-1423 designed to protect the use of student personal data in elementary and secondary school. These acts do not apply to general audience Internet websites but it is not clear how these acts will be interpreted and the breadth of services that will be restricted by it. Other states may adopt similar statutes. The adoption of any laws or regulations that adversely affect the popularity or growth in the use of the Internet particularly for educational services, including laws limiting the content that we can offer, and the audiences that we can offer that content to, may decrease demand for our service offerings and increase our cost of doing business. Future regulations, or changes in laws and regulations or their existing interpretations or applications, could also hinder our operational flexibility, raise compliance costs and result in additional historical or future liabilities for us, resulting in adverse impacts on our business and our operating results.

While we expect and plan for new laws, regulations and standards to be adopted over time that will be directly applicable to the Internet and to our student-focused activities, any existing or new legislation applicable to our business could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations and potential penalties or fees for non-compliance, and could negatively impact the growth in the use of the Internet for educational purposes and for our services in particular. We may also run the risk of retroactive application of new laws to our business practices that could result in liability or losses. Due to the global nature of the Internet, it is possible that the governments of other states and foreign countries might attempt to change previous regulatory schemes or choose to regulate transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments could harm our business, operating results and financial condition. We may be subject to legal liability for our offerings.

We collect, process, store and use personal information and data, which subjects us to governmental regulation and other legal obligations related to privacy and our actual or perceived failure to comply with such obligations could harm our business.

In the ordinary course of business, and in particular in connection with merchandising our service to students, we collect, process, store and use personal information and data supplied by students and tutors. We may enable students to share their personal information with each other and with third parties and to communicate and share information into and across our platform. Other businesses have been criticized by privacy groups and governmental bodies for attempts to link personal identities and other information to data collected on the Internet regarding users' browsing and other habits. There are numerous federal, state and local laws regarding privacy and the collection, storing, sharing, using, processing, disclosing and protecting of personal information and other user data, the scope of which are changing, subject to differing interpretations, and which may be costly to comply with and may be inconsistent between countries and jurisdictions or conflict with other rules.

We currently face certain legal obligations regarding the manner in which we treat such information. Increased regulation of data utilization practices, including self-regulation or findings under existing laws, or new regulations restricting the collection, use and sharing of information from minors under the age of 18, that limit our ability to use collected data could have an adverse effect on our business. In addition, if unauthorized access to our students' data were to occur or if we were to disclose data about our student users in a manner that was objectionable to them, our business reputation and brand could be adversely affected, and we could face legal claims that could impact our operating results. Our reputation and brand and relationships with students would be harmed if our billing data were accessed by unauthorized persons.

We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. However, U.S. federal, U.S. state and international laws and regulations regarding privacy and data protection are rapidly evolving and may be inconsistent and we could be deemed out of compliance as such laws and their interpretation change. In addition, foreign privacy, data protection, and other laws and regulations, particularly in Europe and including the DPD and the GDPR, are often more restrictive than those in the United States. Many of these laws and regulations, including the GDPR, are relatively new and it is not clear how these acts will be interpreted and the breadth of

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services and the methods of how we conduct or propose to conduct our business that will be restricted or otherwise effected by them. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to our business operations may limit the use and adoption of our services and reduce overall demand for them. Furthermore, foreign court judgments or regulatory actions could impact our ability to transfer, process and/or receive transnational data, including data relating to students or partners outside the United States, or alter our ability to use cookies to deliver advertising and other products to users. Such judgments or actions could affect the manner in which we provide our services or adversely affect our financial results if foreign students and partners are not able to lawfully transfer data to us. For example, the European Court of Justice recently invalidated the U.S.-EU Safe Harbor framework that had been in place since 2000, which allowed companies to meet certain European legal requirements for the transfer of personal data from the European Economic Area to the United States. While other adequate legal mechanisms to lawfully transfer such data remain, the invalidation of the U.S.-EU Safe Harbor framework may result in different European data protection regulators applying differing standards for the transfer of personal data, which could result in increased regulation, cost of compliance and limitations on data transfer for us and our customers. In addition, some countries and states are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services. Any changes in such laws and regulations or a change or differing interpretation or application to our business of the existing laws and regulations, including the recently implemented GDPR, could also hinder our operational flexibility, raise compliance costs and, particularly if our compliance efforts are deemed to be insufficient, result in additional historical or future liabilities for us, resulting in adverse impacts on our business and our operating results.

Any failure or perceived failure by us to comply with our privacy policies, our privacy or data-protection obligations to students or other third parties, our privacy or data-protection legal obligations or any compromise of security that results in the unauthorized release or transfer of sensitive information, which may include personally identifiable information or other data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause students to lose trust in us, which could have an adverse effect on our business. Additionally, if third parties we work with, such as colleges and brands, violate applicable laws or our policies, such violations may also put our student users' information at risk and could in turn have an adverse effect on our business.

Public scrutiny of Internet privacy issues may result in increased regulation and different industry standards, which could deter or prevent us from providing our current products and services to students, thereby harming our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, display, processing, transmission and security of personal information by companies offering online services have recently come under increased public scrutiny. The U.S. government, including the White House, the FTC and the U.S. Department of Commerce, are reviewing the need for greater regulation of the collection and use of information concerning consumer behavior with respect to online services, including regulation aimed at restricting certain targeted advertising practices. The FTC in particular has approved consent decrees resolving complaints and their resulting investigations into the privacy and security practices of a number of online, social media companies. Similar actions may also impact us directly, particularly because high school students who use our Chegg Writing, Chegg Tutors, Chegg Test Prep and College Admissions and Scholarship Services are typically under the age of 18, which subjects our business to laws covering the protection of minors. For example, various U.S. and international laws restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. The FTC has also revised the rules under the Children's Online Privacy Protection Act effective July 1, 2013. Although our services are not primarily directed to children under 13, our Chegg Writing service, in particular, could be used by students as early as in middle school, and the FTC could decide that our site now or in the future has taken inadequate precautions to prevent children under 13 from accessing our site and providing us information.

In 2012, the White House published a report calling for a consumer privacy Bill of Rights that could impact the collection of data, and the Department of Commerce seeks to establish a consensus-driven Do-Not-Track standard that could impact on-line and mobile advertising. The State of California and several other states have adopted privacy guidelines with respect to mobile applications. Our business, including our ability to operate internationally, could be adversely affected if legislation or regulations are adopted, interpreted or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices, the design of our websites, mobile applications, products, features or our privacy policy. In particular, the success of our business has been, and we expect will continue to be, driven by our ability to responsibly use the data that students share with us. Therefore, our business could be harmed by any significant change to applicable laws, regulations or industry standards or practices regarding the use or disclosure of data that students choose to share with us or regarding the manner in which the express or implied consent of consumers for such use and disclosure is obtained. Such changes may require us to modify our products and services, possibly in a material manner, and may limit our ability to develop new products and services that make use of the data that we collect about our student users.

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If we become subject to liability for the Internet content that we publish or that is uploaded to our websites by students, our results of operations could be adversely affected.

As a publisher and distributor of online content, we face potential liability for negligence, copyright or trademark infringement or other claims based on the nature and content of materials that we publish or distribute. We also may face potential liability for content uploaded by students in connection with our community-related content. If we become liable, then our business may suffer. Third parties may initiate litigation against us without warning. For example, in June 2017, the Examinations Institute of the American Chemical Society filed a complaint against us in the U.S. District Court for the Northern District of California claiming, among other things, that we infringed their copyrights by answering and displaying questions uploaded by our users to our Q&A service. Others may send us letters or other communications that make allegations without initiating litigation. We have in the past and may in the future receive such communications, which we assess on a case-by-case basis. We may elect not to respond to the communication if we believe it is without merit or we may attempt to resolve disputes out-of-court by removing content or services we offer or paying licensing or other fees. If we are unable to resolve such disputes, litigation may result. Litigation to defend these claims could be costly and harm our results of operations. We may not be adequately insured to cover claims of these types or indemnified for all liability that may be imposed on us. Any adverse publicity resulting from actual or potential litigation may also materially and adversely affect our reputation, which in turn could adversely affect our results of operations.

In addition, the Digital Millennium Copyright Act (DMCA) has provisions that limit, but do not necessarily eliminate, our liability for caching or hosting or for listing or linking to, content or third-party websites that include materials or other content that infringe copyrights or other intellectual property or proprietary rights, provided we comply with the strict statutory requirements of the DMCA. The interpretations of the statutory requirements of the DMCA are constantly being modified by court rulings and industry practice. Accordingly, if we fail to comply with such statutory requirements or if the interpretations of the DMCA change, we may be subject to potential liability for caching or hosting, or for listing or linking to, content or third-party websites that include materials or other content that infringe copyrights or other intellectual property or proprietary rights.

We maintain content usage review systems that, through a combination of manual and automated blocks, monitors for and makes us aware of potentially infringing content on our platform. Nevertheless, claims may continue to be brought and threatened against us for negligence, intellectual property infringement, or other theories based on the nature and content of information, its origin and its distribution and there is no guarantee that we will be able to resolve any such claims quickly and without damage to us, our business model, our reputation or our operations. From time to time, we have been subject to copyright infringement claims, some of which we have settled. While these settlements have not had a material impact on our financial condition, we may be subject to similar lawsuits in the future, including in connection with our other services. The outcome of any such lawsuits may not be favorable to us and could have a material adverse effect on our financial condition.

Failure to protect or enforce our intellectual property and other proprietary rights could adversely affect our business and financial condition and results of operations.

We rely and expect to continue to rely on a combination of trademark, copyright, patent and trade secret protection laws, as well as confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships to protect our intellectual property and proprietary rights. As of June 30, 2018, we had 23 issued patents and 22 patent applications pending in the United States. We own three U.S. copyright registrations and have unregistered copyrights in our software documentation, marketing materials and website content that we develop. We own 35 U.S. trademark registrations and 26 foreign registrations. As of June 30, 2018, we owned over 600 registered domain names. We also have a number of pending trademark applications in the United States and foreign jurisdictions and unregistered marks that we use to promote our brand. From time to time we expect to file additional

patent, copyright and trademark applications in the United States and abroad. Nevertheless, these applications may not be approved or otherwise provide the full protection we seek. Third parties may challenge any patents, copyrights, trademarks and other intellectual property and proprietary rights owned or held by us. Third parties may knowingly or unknowingly infringe, misappropriate or otherwise violate our patents, copyrights, trademarks and other proprietary rights and we may not be able to prevent infringement, misappropriation or other violation without substantial expense to us.

Furthermore, we cannot guarantee that:

- our intellectual property and proprietary rights will provide competitive advantages to us;
- our competitors or others will not design around our intellectual property or proprietary rights;
- our ability to assert our intellectual property or proprietary rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;

- our intellectual property and proprietary rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak;
- any of the patents, trademarks, copyrights, trade secrets or other intellectual property or proprietary rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned; or
- we will not lose the ability to assert our intellectual property or proprietary rights against or to license our intellectual property or proprietary rights to others and collect royalties or other payments.

If we pursue litigation to assert our intellectual property or proprietary rights, an adverse decision in any of these legal actions could limit our ability to assert our intellectual property or proprietary rights, limit the value of our intellectual property or proprietary rights or otherwise negatively impact our business, financial condition and results of operations. If the protection of our intellectual property and proprietary rights is inadequate to prevent use or misappropriation by third parties, the value of our brand and other intangible assets may be diminished, competitors may be able to more effectively mimic our service and methods of operations, the perception of our business and service to customers and potential customers may become confused in the marketplace and our ability to attract customers may be adversely affected.

We are a party to a number of third-party intellectual property license agreements. For example, we have entered into agreements with textbook publishers that provide access to textbook solutions content or questions for our Chegg Study service, for which we often pay an upfront license fee. In addition, we have agreements with certain eTextbook publishers under which we incur non-refundable fees at the time we provide students access to an eTextbook. We cannot guarantee that the third-party intellectual property we license will not be licensed to our competitors or others in our industry. In the future, we may need to obtain additional licenses or renew existing license agreements. We are unable to predict whether these license agreements can be obtained or renewed on acceptable terms, or at all. Any failure to obtain or renew such third-party intellectual property license agreements on commercially competitive terms could adversely affect our business and financial results.

We are, and may in the future be, subject to intellectual property claims, which are costly to defend and could harm our business, financial condition and operating results.

From time to time, third parties have alleged and are likely to allege in the future that we or our business infringes, misappropriates or otherwise violates their intellectual property or proprietary rights. Many companies, including various “non-practicing entities” or “patent trolls,” are devoting significant resources to developing or acquiring patents that could potentially affect many aspects of our business. There are numerous patents that broadly claim means and methods of conducting business on the Internet. We have not exhaustively searched patents related to our technology. In addition, the publishing industry has been, and we expect in the future will continue to be, the target of counterfeiting and piracy. We have in the past and may continue to receive communications alleging that physical textbooks sold or rented by us are counterfeit. For example, we recently cooperated, and continue to cooperate, with a group of publishers in a series of audits which have identified several thousand potentially fraudulent textbooks which we have removed from our inventory. While our fulfillment partner, Ingram, has a system for inspecting the physical textbooks in our catalog of books, many of the books sold or rented to students are shipped directly from our suppliers, and, despite this inspection, unauthorized or counterfeit textbooks may inadvertently be included in the catalog of books we offer and may be subsequently sold or rented by us to students, or purchased by us through our buyback program, including on behalf of other buyers participating in our buyback program, and we may be subject to allegations of civil or criminal liability. We may implement measures in an effort to protect against these potential liabilities that could require us to spend substantial resources. Any costs incurred as a result of liability or asserted liability relating to sales of unauthorized or counterfeit textbooks could harm our business, reputation and financial condition.

Third parties may initiate litigation against us without warning. Others may send us letters or other communications that make allegations without initiating litigation. We have in the past and may in the future receive such communications, which we assess on a case-by-case basis. We may elect not to respond to the communication if we believe it is without merit or we may attempt to resolve disputes out-of-court by electing to pay royalties or other fees for licenses. If we are forced to defend ourselves against intellectual property claims, whether they are with or without merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel, inability to use our current website or inability to market our service or merchandise our products. As a result of a dispute, we may have to develop non-infringing technology, enter into licensing agreements, adjust our merchandising or marketing activities or take other action to resolve the claims. These actions, if required, may be unavailable on terms acceptable to us or may be costly or unavailable. If we are unable to obtain sufficient rights or develop non-infringing intellectual property or otherwise alter our business practices, as appropriate, on a timely basis, our reputation or brand, our business and our competitive position may be affected adversely and we may be subject to an injunction or be required to pay or incur substantial damages and/or fees.

In addition, we use open source software in connection with certain of our products and services. Companies that incorporate open source software into their products have, from time to time, faced claims challenging the ownership of open

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source software and/or compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute or use open source software as part of their software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our proprietary source code or pay damages for breach of contract could have a material adverse effect on our business, financial condition and results of operations.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and proprietary information.

We have devoted substantial resources to the development of our intellectual property and proprietary rights. In order to protect our intellectual property and proprietary rights, we rely in part on confidentiality agreements with our employees, book vendors, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information and in such cases we could not assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

If we are unable to protect our domain names, our reputation and brand could be adversely affected.

As of June 30, 2018, we owned over 600 registered domain names relating to our brand, including Chegg.com. Failure to protect our domain names could affect adversely our reputation and brand and make it more difficult for students to find our website, our content and our services. The acquisition and maintenance of domain names generally are regulated by governmental agencies and their designees. The regulation of domain names in the United States may change in the near future. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar intellectual property and proprietary rights is unclear. We may be unable to prevent third parties from acquiring and using domain names that are similar to, infringe upon or otherwise decrease the value of our brand name, trademarks or other intellectual property or proprietary rights.

Our business depends on general economic conditions and their effect on funding levels of colleges, spending behavior by students and advertising budgets.

Our business is dependent on, among other factors, general economic conditions, which affect college funding, student spending and brand advertising. While the U.S. economy has recovered since the "Great Recession," state and federal funding levels at colleges across the United States remain below historic levels, which has led to increased tuition and decreased amounts of financial aid offered to students. To the extent that these trends continue or the economy stagnates or worsens, students may reduce the amount they spend on textbooks and other educational content, which could have a serious adverse impact on our business. In addition to decreased spending by students, the colleges and brands that use our marketing services have advertising budgets that are often constrained during periods of stagnant or deteriorating economic conditions. In a difficult economic environment, customer spending in each of our products and services is likely to decrease, which could adversely affect our operating results and financial condition. A deterioration of the current economic environment may also have a material adverse effect on our ability to fund our growth and strategic business initiatives.

Our international operations are subject to increased challenges and risks.

We have employees in Germany, Israel, and India, we indirectly contract with individuals in the Ukraine and we own a minority stake in a learning platform for high school and college students in Brazil. Although today our international operations represent approximately 5% of our total consolidated operating expenses and we currently do not expect our international operations to materially increase in the near future, we expect to continue to expand our international operations and such operations may expand more quickly than we currently anticipate. However, we have limited operating history as a company outside the United States and our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, tax systems, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. Operating internationally has required and will continue to require us to invest significant funds and other resources, subjects us to new risks and may increase the risks that we currently face, including risks associated with:

- recruiting and retaining talented and capable employees in foreign countries and maintaining our company culture across all of our offices;
- compliance with applicable foreign laws and regulations;
- compliance with anti-bribery laws including, without limitation, compliance with the Foreign Corrupt Practices Act;
- currency exchange rate fluctuations;
- additional taxation of international costs and intercompany payments to our international subsidiaries associated with the U.S. Tax Cuts and Jobs Act of 2017 (the 2017 Tax Act);
- political and economic instability; and
- higher costs of doing business internationally.

As part of our business strategy, we may make our products and services available in more countries outside of the U.S. market, where we are currently focused. The markets in which we may undertake international expansion may have educational systems, technology and online industries that are different or less well developed than those in the United States, and if we are unable to address the challenges of operating in international markets, it could have an adverse effect on our results of operations and financial condition.

Colleges and certain governments may restrict access to the Internet or our website, which could lead to the loss of or slowing of growth in our student user base and their level of engagement with our platform.

The growth of our business and our brand depends on the ability of students to access the Internet and the products and services available on our website. Colleges that provide students with access to the Internet either through physical computer terminals on campus or through wired or wireless access points on campus could block or restrict access to our website, content or services or the Internet generally for a number of reasons including security or confidentiality concerns, regulatory reasons, such as compliance with the Family Educational Rights and Privacy Act, which restricts the disclosure of student information or concerns that certain of our products and services, such as Chegg Study, may contradict or violate their policies.

We depend in part on colleges to provide their students with access to the Internet. If colleges modify their policies in ways that are detrimental to the growth of our student user base or in ways that make it harder for students to use our website, or if our competitors' are able to reach more students than us, the overall growth in our student user base would slow, student engagement would decrease and we would lose revenues. Any reduction in the number of students directed to our website would harm our business and operating results.

Our operations are susceptible to earthquakes, floods, rolling blackouts and other types of power loss. If these or other natural or man-made disasters were to occur, our operations and operating results would be adversely affected.

Our business and operations could be materially adversely affected in the event of earthquakes, blackouts or other power losses, floods, fires, telecommunications failures, break-ins, acts of terrorism, inclement weather, shelving accidents or similar events. Our executive offices are located in the San Francisco Bay Area, an earthquake-sensitive area. If floods, fire, inclement weather including extreme rain, wind, heat or cold or accidents due to human error were to occur and cause damage to a warehouse of Ingram or its textbook library, Ingram's ability to fulfill orders for textbook rental and sales transactions could be materially and adversely affected and our results of operations would suffer, especially if such events were to occur during peak periods. We may not be able to effectively shift our operations due to disruptions arising from the occurrence of such events, and our business could be affected adversely as a result. Moreover, damage to or total destruction of our executive offices resulting from earthquakes may not be covered in whole or in part by any insurance we may have.

If we are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy, and timeliness of our financial reporting may be adversely affected.

The Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and the effectiveness of our disclosure controls and procedures quarterly. If we are not able to comply with the requirements of the Sarbanes-Oxley Act in a timely manner, the market price of our stock could decline and we could be subject to sanctions or investigations by the New York Stock Exchange, the SEC or other regulatory authorities, which would require additional financial and management resources.
If we conclude in future periods that our internal control over financial reporting is not effective, we may be required to expend significant time and resources to correct the deficiency and could be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs,

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pay fines, settlements or judgments and causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our stock.

Additionally, our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation. If we are unable to maintain effective internal control over financial reporting to meet the demands placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, we may be unable to accurately report our financial results, or report them within the timeframes required by law or exchange regulations.

We may be subject to greater than anticipated liabilities for income, property, sales and other taxes, and any successful action by federal, state, foreign or other authorities to collect additional taxes could adversely harm our business.

We are subject to regular review and audit by both U.S. federal and state and foreign tax authorities and such jurisdictions may assess additional taxes against us. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax provisions and accruals and could have a negative effect on our financial position and results of operations. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing and allocating income from our intercompany transactions, which could increase our worldwide effective income tax rate. We collect sales taxes in all U.S. states with a sales tax and most local jurisdictions on our sales, rentals, and digital services sold through our commerce system including sales and rentals on behalf of our third-party publishers. In June 2018, the U.S. Supreme Court in South Dakota v. Wayfair, Inc. et al ruled that a state can require an online retailer with no in-state property or personnel to collect and remit sales and use tax on sales made to the state's residents. It is possible that such taxes could be assessed by certain states retroactively for periods before the Wayfair decision on acquired products that are not sold through our commerce system. In addition, we do not collect similar taxes outside of the U.S. and in some U.S. localities where we believe such taxes are inapplicable to our business. Any successful action by federal, state, foreign or other authorities to impose or collect additional income tax or compel us to collect and remit additional sales, use or similar taxes, either retroactively, prospectively or both, could harm our business, financial position and results of operations.

We may not be able to utilize a significant portion of our net operating loss or tax credit carryforwards, which could adversely affect our profitability.

At December 31, 2017, we had federal and state net operating loss carryforwards due to prior period losses of approximately $257 million and $195 million, respectively, which if not utilized will begin to expire in 2028 and 2018 for federal and state purposes, respectively. A portion of the state net operating loss carryforwards expired in 2017. At December 31, 2017, we also had federal tax credit carryforwards of approximately $5.6 million, which if not utilized will begin to expire in 2030, and state tax credit carryforwards of approximately $6.4 million, which do not expire. These net operating loss and tax credit carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability. For example, we have net operating loss carryforwards of $22 million related to our previous operations in Kentucky that will expire unused unless we have similar operations in Kentucky.

The 2017 Tax Act changed both the federal deferred tax value of the net operating loss carryforwards and the rules of utilization of federal net operating loss carryforwards. The 2017 Tax Act lowered the corporate tax rate from 35% to 21% effective for our 2018 financial year. For net operating loss carryforwards generated in years prior to 2018, there is no annual limitation on the utilization and the carryforward period remains at 20 years. However, net operating loss carryforwards generated in years after 2017 will only be available to offset 80% of future taxable income in any single

year but will not expire.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended (the Code), our ability to utilize net operating loss carryforwards or other tax attributes, such as tax credits, in any taxable year may be limited if we experience an “ownership change.” A Section 382 “ownership change” generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. As a result of prior equity issuances and other transactions in our stock, we have previously experienced “ownership changes” under Section 382 of the Code and comparable state tax laws. We may experience ownership changes in the future as a result of future issuances and other transactions of our stock. It is possible that any future ownership change could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our profitability.

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U.S. federal income tax reform could adversely affect us.

On December 22, 2017, the 2017 Tax Act was signed into law, enacting a broad range of changes to the U.S. Internal Revenue Code. The 2017 Tax Act, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, executive compensation, other expenses, and future net operating losses, allows for the expensing of certain capital expenditures, and puts into effect a number of changes impacting operations outside of the United States. In the fourth quarter of 2017, we reduced our net deferred tax asset by approximately $42 million as a result. The revaluation of our deferred tax assets including U.S. federal net operating losses is offset by an equal reduction in our valuation allowance and therefore there were no additional changes to our results of operations. We will continue to assess the impact of the new tax legislation on our net deferred tax assets and liabilities including state conformity, and will continue to examine the impact this tax legislation may have on our cash taxes and on our business.

Under the 2017 Tax Act, a corporation's interest expense generally is limited to the business interest income of the corporation and 30% of the corporation's "adjusted taxable income." Adjusted taxable income is defined generally as taxable income with certain add-backs, including in years before 2022, any deductions allowable for depreciation and amortization. Interest expense in excess of the above limitation is not deductible by the corporation but carries forward indefinitely. Depending on our future results, it is possible that our deductions for interest expense arising from the Notes and the Capped Call Transactions could be limited, in which case our after-tax cost of borrowing could increase.
Our effective tax rate may fluctuate as a result of new tax laws and our interpretations of those new tax laws, which are subject to significant judgments and estimates. The ongoing effects of the new tax laws and the refinement of provisional estimates could make our results difficult to predict.

Our effective tax rate may fluctuate in the future as a result of the 2017 Tax Act, which was enacted on December 22, 2017. The 2017 Tax Act introduces significant changes to U.S. income tax law that will have a meaningful impact on our provision for income taxes once we release our valuation allowance. Accounting for the income tax effects of the Act requires significant judgments and estimates in the interpretation and calculations of the provisions of the 2017 Tax Act.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Act, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements for the year ended December 31, 2017. The U.S. Treasury Department, the Internal Revenue Service (IRS), and other standard-setting bodies may issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that is different from our interpretation. As we collect and prepare necessary data, and interpret the 2017 Tax Act and any additional guidance issued by the IRS or other standard-setting bodies, we may make adjustments to the provisional amounts that could materially affect our financial position and results of operations as well as our effective tax rate in the period in which the adjustments are made. Further, foreign governments may enact local tax laws in response to the 2017 Tax Act which may result in additional changes that could materially affect our financial position and results of operations.

Our failure to comply with the terms of our revolving line of credit could have an adverse effect on us.

We have a revolving line of credit pursuant to a credit facility with Wells Fargo Bank, National Association (Bank) that provides an aggregate principal amount of $30.0 million with an accordion feature that, subject to the Bank's discretion, allows us to borrow up to a total of $50.0 million (the Line of Credit). The Line of Credit expires in September 2019. We currently have no amount drawn down under our Line of Credit. Our personal property secures the Line of Credit. If we default on our credit obligations, the Bank may, among other things, require immediate repayment of amounts drawn on the Line of Credit or terminate the Line of Credit or may foreclose on our personal

property that secures the Line of Credit.

The agreements governing our indebtedness contain various covenants, including those that restrict our ability to, among other things:

- borrow money and guarantee or provide other support for indebtedness of third-parties;
- pay dividends on, redeem or repurchase our capital stock;
- acquire entities or assets;
- make investments in entities that we do not control, including joint ventures;
- consummate a merger, consolidation or sale of all or substantially all of our assets;
- enter into certain asset sale transactions; and
- enter into secured financing arrangements;

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These covenants may limit our ability to effectively operate our businesses. Any failure to comply with the restrictions of any agreement governing our other indebtedness may result in an event of default under those agreements.

Our reported financial results may be harmed by changes in the accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. For example, in May 2014 the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as amended (Topic 606), for which certain elements affected our accounting for revenue and costs incurred to acquire contracts. We adopted Topic 606 using the modified retrospective transition method. Other companies in our industry may apply these accounting principles differently than we do, adversely affecting the comparability of our financial statements. See Note 2 to our accompanying financial statements for information about Topic 606.

Risks Related to Ownership of Our Common Stock

Our stock price has been and will likely continue to be volatile.

The trading price of our common stock has been, and is likely to continue to be, volatile. Since shares of our common stock were sold in our IPO in November 2013 at a price of $12.50 per share, our stock price has ranged from $3.15 to $29.76 through June 30, 2018. In addition to the factors discussed in this Quarterly Report on Form 10-Q, the trading price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results, including as a result of the seasonality in our business that results from the academic calendar;
- our announcement of actual results for a fiscal period that are higher or lower than projected results or our announcement of revenues or earnings guidance that is higher or lower than expected, including as a result of difficulty forecasting seasonal variations in our financial condition and operating results or the revenues generated by our offerings;
- issuance of new or updated research or reports by securities analysts, including the publication of unfavorable reports or change in recommendation or downgrading of our common stock;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic relationships and partnerships, joint ventures or capital commitments;
- actual or anticipated changes in our growth rate relative to our competitors;
- changes in the economic performance or market valuations of companies perceived by investors to be comparable to us;
- the expiration of market standoff or contractual lock-up agreements and future sales of our common stock by our officers, directors and existing stockholders or the anticipation of such sales;
- issuances of additional shares of our common stock in connection with acquisitions;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- lawsuits threatened or filed against us;
- regulatory developments in our target markets affecting us, students, colleges or brands, publishers or our competitors;
- political climate in the United States, with a focus on cutting or limiting budgets, higher education and taxation;
- terrorist attacks or natural disasters or other such events impacting countries where we have operations;
- international stock market conditions; and

- general economic and market conditions, such as recessions, unemployment rates, the limited availability of consumer credit, interest rate changes and currency fluctuations.

Furthermore, both domestic and international stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of companies in general and technology companies in particular. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. We believe our stock price may be particularly susceptible to volatility as the stock prices of technology and Internet companies have often been subject to wide fluctuations. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could seriously harm our business.

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Our management, with the oversight of the board of directors, has broad discretion as to the use of the proceeds from previous and future sales of securities and we may not use the proceeds effectively.

Our management, with the oversight of the board of directors, has broad discretion in the application of the net proceeds from our past and future sales of securities and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock or with which our stockholders otherwise disagree. The failure of our management to apply these funds effectively could result in unfavorable returns and uncertainty about our prospects, each of which could cause the price of our common stock to decline.

If securities or industry analysts do not publish research reports about our business or publish inaccurate or unfavorable research about our business, our stock price could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, our stockholders may only receive a return on their investment in our common stock if the market price of our common stock increases. In addition, our credit facility contains restrictions on our ability to pay dividends.

Delaware law and provisions in our restated certificate of incorporation and restated bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and restated bylaws contain provisions that may make the acquisition of our company more difficult, including the following:

- our board of directors is classified into three classes of directors with staggered three-year terms and directors can only be removed from office for cause and by the approval of the holders of at least two-thirds of our outstanding common stock;
- subject to certain limitations, our board of directors has the sole right to set the number of directors and to fill a vacancy resulting from any cause or created by the expansion of our board of directors, which prevents stockholders from being able to fill vacancies on our board of directors;
- only our board of directors is authorized to call a special meeting of stockholders;
- certain litigation against us can only be brought in Delaware;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued, without the approval of the holders of common stock;
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders;

- our stockholders cannot act by written consent;
- our restated bylaws can only be amended by our board of directors or by the approval of the holders of at least two-thirds of our outstanding common stock; and
- certain provisions of our restated certificate of incorporation can only be amended by the approval of the holders of at least two-thirds of our outstanding common stock.

Risks Related to Our Convertible Senior Notes

Servicing our 0.25% convertible senior notes due 2023 (the "notes") requires a significant amount of cash, and we may not have sufficient cash flow to pay our debt.

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In April 2018, we issued $345.0 million aggregate principal amount of notes. Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness, including the notes, depends on our future performance, which is subject to many factors, including, economic, financial, competitive and other, beyond our control. We may not be able to generate cash flow from operations, in the foreseeable future, sufficient to service our debt and make necessary capital expenditures and may therefore be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our notes, which may not be redeemed prior to May 2021 subject to certain conditions related to the price of our common stock, will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations, and limit our flexibility in planning for and reacting to changes in our business.

We may not have the ability to raise the funds necessary to settle conversions of the notes in cash or to repurchase the notes upon a fundamental change, and our existing Line of Credit contains and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the notes.

Holders of the notes will have the right to require us to repurchase all or a portion of their notes upon the occurrence of a fundamental change before the maturity date at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or pay cash with respect to notes being converted.

In addition, our ability to repurchase notes or to pay cash upon conversions of notes may be limited by law, regulatory authority or agreements governing our existing Line of Credit and any future indebtedness. The agreement governing our Line of Credit does not permit us to repurchase the notes, including upon the occurrence of a fundamental change, if an “Event of Default” (as defined in the agreement governing the Line of Credit) then has occurred and is then continuing, or would occur after giving effect to such repurchase. An Event of Default includes non-compliance with financial ratio tests described in the agreement governing our Line of Credit, including a minimum trailing twelve months EBITDA and a minimum cash balance. Our failure to repurchase notes at a time when the repurchase is required by the indenture or to pay cash upon conversions of notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our existing Line of Credit and any future indebtedness. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or to pay cash upon conversions of notes.

The capped call transactions may affect the value of the notes and our common stock.

In connection with the notes, we entered into capped call transactions with certain financial institutions (the option counterparties). The capped call transactions are expected generally to reduce the potential dilution upon any conversion of notes and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of any notes, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the capped call transactions, the option counterparties and/ or their respective affiliates purchased shares of our common stock and/or entered into various derivative transactions with respect to our common stock. This activity could have increased (or reduced the size of any decrease in) the market price of our common stock or the notes at that time.

In addition, the option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in secondary market transactions (and are likely to do so during any observation period related to a conversion of notes or following any repurchase of notes by us on any fundamental change repurchase date or otherwise). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the notes.

The potential effect, if any, of these transactions and activities on the market price of our common stock or the notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our common stock.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Unregistered Sales of Equity Securities

In April 2018, we issued $345 million in aggregate principal amount of the notes, in a private placement to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. The aggregate principal amount of the notes includes $45 million from initial purchasers fully exercising their option to purchase additional notes. The notes are convertible into shares of our common stock on the terms set forth in the indenture governing the notes. Information relating to the issuance of the notes was provided in a Current Report on Form 8-K filed with the Securities and Exchange Commission on April 3, 2018.

(c) Purchases of Equity Securities by the Registrant and Affiliated Purchasers

During the three months ended June 30, 2018, we repurchased the following shares:

Period	Total Number of Shares Repurchased [1]	Average Price Per Share ($)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
April 1 - April 30	983,284	$ 20.34	—	$ —
May 1 - May 31	—	—	—	—
June 1 - June 30	—	—	—	—

[1] Shares repurchased in conjunction with the notes.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit	Incorporated by Reference: Form	File No	Filing Date	Exhibit No.	Filed Herewith
10.01	Summary of 2018 Director Compensation					X
31.01	Certification of Dan Rosensweig, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.02	Certification of Andrew Brown, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.01**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation					X

101.LAB	XBRL Taxonomy Extension Labels	X
101.PRE	XBRL Taxonomy Extension Presentation	X
101.DEF	XBRL Taxonomy Extension Definition	X

** This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CHEGG, INC.
July 30, 2018	By: /S/ ANDREW BROWN
	Andrew Brown
	Vice President, Chief Financial Officer
	(Duly Authorized Officer and Principal Financial Officer)