

CHEGG, INC
Form 10-Q/A
December 21, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from _____ to _____
Commission file number 001-36180

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

Delaware
(State or other jurisdiction of
incorporation or organization)

3990 Freedom Circle
Santa Clara, CA, 95054

(Address of principal executive offices)
(408) 855-5700

(Registrant’s telephone number, including area code)

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

Title of each class

Common Stock, \$0.001 par value per share

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

None

(Title of class)

20-3237489

(I.R.S. employer
identification no.)

Name of each exchange on which registered
The New York Stock Exchange

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of November 30, 2015, the Registrant had 88,085,295 outstanding shares of Common Stock.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (“Amendment No. 1”) amends the Quarterly Report on Form 10-Q of Chegg, Inc. (the “Company”) for the fiscal quarter ended March 31, 2015, filed with the Securities and Exchange Commission (“SEC”) on May 8, 2015 (the “Original 10-Q”). The sole purpose of this Amendment No. 1 is to file corrected certifications required by Rules 13a-14(e) and 15d-15(e) of the Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the “302 Certifications”), because certain provisions of the 302 Certifications were inadvertently omitted when the Original 10-Q was filed. The amended 302 Certifications are being filed in their entirety as Exhibits 31.01 and 31.02 to this Amendment No. 1.

Except as described above, no changes have been made to the Original 10-Q and this Amendment No. 1 does not modify, amend, or update in any way any of the financial or other information set forth in the Original 10-Q. This Amendment No. 1 does not reflect any events that have occurred subsequent to May 8, 2015, the filing date of the Original 10-Q. Accordingly, this Amendment No. 1 should be read in conjunction with the Original 10-Q and the Company’s subsequent filings made with the SEC since May 8, 2015.

The filing of this Amendment No. 1 shall not be deemed an admission that the Original 10-Q, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHEGG, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except for number of shares and par value)

	March 31, 2015 (unaudited)	December 31, 2014 *
Assets		
Current assets:		
Cash and cash equivalents	\$50,028	\$56,117
Short-term investments	28,867	33,346
Accounts receivable, net of allowance for doubtful accounts of \$326 and \$559 at March 31, 2015 and December 31, 2014, respectively	10,674	14,396
Prepaid expenses	8,611	3,091
Other current assets	3,986	3,864
Total current assets	102,166	110,814
Long-term investments	—	1,451
Textbook library, net	84,571	80,762
Property and equipment, net	17,892	18,369
Goodwill	91,301	91,301
Intangible assets, net	12,066	13,626
Other assets	1,732	1,804
Total assets	\$309,728	\$318,127
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$4,846	\$10,945
Deferred revenue	44,969	24,591
Accrued liabilities	20,187	31,183
Total current liabilities	70,002	66,719
Long-term liabilities:		
Other liabilities	4,285	4,365
Total long-term liabilities	4,285	4,365
Total liabilities	74,287	71,084
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.001 par value – 10,000,000 shares authorized, no shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	—	—
Common stock, \$0.001 par value 400,000,000 shares authorized at March 31, 2015 and December 31, 2014, respectively; 85,849,349 and 84,008,043 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	86	84
Additional paid-in capital	533,739	516,845
Accumulated other comprehensive gain (loss)	31	(13)
Accumulated deficit	(298,415)	(269,873)
Total stockholders' equity	235,441	247,043
Total liabilities and stockholders' equity	\$309,728	\$318,127

* Derived from audited consolidated financial statements as of and for the year ended December 31, 2014.

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 March 31,	
	2015	2014
Net revenues		
Rental	\$37,714	\$46,856
Services	31,367	17,246
Sales	15,791	10,291
Total net revenues	84,872	74,393
Cost of revenues		
Rental	38,555	47,697
Services	11,837	7,656
Sales	15,101	10,132
Total cost of revenues	65,493	65,485
Gross profit	19,379	8,908
Operating expenses:		
Technology and development	16,144	11,320
Sales and marketing	21,392	15,027
General and administrative	11,777	9,840
Restructuring charges	2,514	—
Gain on liquidation of textbooks	(4,185)	(1,678)
Total operating expenses	47,642	34,509
Loss from operations	(28,263)	(25,601)
Interest expense and other income, net:		
Interest expense, net	(61)	(61)
Other income, net	76	120
Total interest expense and other income, net	15	59
Loss before provision for income taxes	(28,248)	(25,542)
Provision for income taxes	294	217
Net loss	\$(28,542)	\$(25,759)
Net loss per share, basic and diluted	\$(0.34)	\$(0.31)
Weighted average shares used to compute net loss per share, basic and diluted	84,794	82,181
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	
	March 31,	
	2015	2014
Net loss	\$(28,542	) \$(25,759
Other comprehensive (loss) income:		
Net change in unrealized gain (loss) on available for sale investments	22	(16
Change in foreign currency translation adjustments	22	23
Other comprehensive income	44	7
Total comprehensive loss	\$(28,498) \$(25,752
See Notes to Condensed Consolidated Financial Statements.		

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CHEGG, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities		
Net loss	\$(28,542	) \$(25,759
Adjustments to reconcile net loss to net cash provided by operating activities:		
Textbook library depreciation expense	14,674	20,095
Amortization of warrants and deferred loan costs	35	29
Other depreciation and amortization expense	3,172	2,035
Share-based compensation expense	15,020	6,930
Provision for bad debts	(224	) (41
Gain on liquidation of textbooks	(4,185	) (1,678
Loss from write-offs of textbooks	2,544	4,402
Loss from disposal of property and equipment	202	—
Change in assets and liabilities net of effect of acquisition of business:		
Accounts receivable	2,434	(2,227
Prepaid expenses and other current assets	(5,598	) (1,902
Other assets	47	(241
Accounts payable	(4,938	) (786
Deferred revenue	20,378	29,312
Accrued liabilities	(8,270	) (1,098
Other liabilities	(58	) 71
Net cash provided by operating activities	6,691	29,142
Cash flows from investing activities		
Purchases of textbooks	(29,142	) (42,963
Proceeds from liquidations of textbooks	11,979	11,276
Purchases of marketable securities	(6,243	) (42,829
Maturities of marketable securities	12,140	13,100
Purchases of property and equipment	(1,486	) (1,285
Acquisition of business	—	(500
Net cash used in investing activities	(12,752	) (63,201
Cash flows from financing activities		
Proceeds from exercise of common stock under employee stock plans	6,626	89
Payment of taxes related to the net share settlement of RSUs	(4,391	) (3,454
Repurchase of common stock	(2,263) —
Net cash used in financing activities	(28	) (3,365
Net decrease in cash and cash equivalents	(6,089	) (37,424
Cash and cash equivalents, beginning of period	56,117	76,864
Cash and cash equivalents, end of period	\$50,028	\$39,440
Cash paid during the period for:		
Interest	\$25	\$31
Income taxes	\$423	\$360
Non-cash investing and financing activities:		
Accrued purchases of long-lived assets	\$2,759	\$2,661
Issuance of common stock related to prior acquisition	\$825	\$—

See Notes to Condensed Consolidated Financial Statements.

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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 on July 29, 2005. Chegg is the leading student-first connected learning platform, empowering students to take control of their education to save time, save money and get smarter. We are driven by our passion to help students become active consumers in the educational process. Our integrated platform offers products and services that students need throughout the college lifecycle, from choosing a college through graduation and beyond. By helping students learn more in less time and at a lower cost, we help them improve the overall return on investment in education. In 2014, nearly 7.5 million students used our platform.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2015, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss and the condensed consolidated statements of cash flows for the three months ended March 31, 2015 and 2014, and the related footnote disclosures are unaudited. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, including normal recurring adjustments, necessary to present fairly our financial position as of March 31, 2015 and our results of operations and cash flows for the three months ended March 31, 2015 and 2014. The results of operations for the three months ended March 31, 2015 and cash flows for the three months ended March 31, 2015 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, 2014 as 2014.

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, included in our Annual Report on Form 10-K for the year ended December 31, 2014 (the Annual Report on Form 10-K) filed with the U.S. Securities and Exchange Commission (SEC).

Except for Restructuring charges, which is discussed below, 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.

We have presented revenue and cost of revenues separately for rental, service and sale beginning with our Annual Report on Form 10-K. Rental revenue includes the rental of print textbooks; service revenue includes Chegg Study, brand advertising, eTextbooks, tutoring, enrollment marketing, and commerce; sale revenue includes just-in-time sale of print textbooks and the sale of other required materials. We have reclassified amounts in the prior periods to conform to the current period presentation. None of the changes impacts previously reported condensed consolidated revenue, cost of revenue, operating income, or earnings per share.

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 revenue and expenses during the reporting periods. Significant estimates, assumptions and judgments are used for, but not limited to: revenue recognition, recoverability of accounts receivable, determination of the useful lives and salvage value related to our textbook library, restructuring charges, share-based compensation expense including estimated forfeitures, accounting for income taxes, useful lives assigned to long-lived assets for depreciation and amortization, impairment of goodwill and long-lived assets, 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.

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Restructuring Charges

Restructuring charges are primarily comprised of severance costs, contract and program termination costs, asset impairments and costs of facility consolidation and closure. Restructuring charges are recorded upon approval of a formal management plan and are included in the operating results of the period in which such plan is approved and the expense becomes estimable. To estimate restructuring charges, management utilizes assumptions of the number of employees that would be involuntarily terminated and of future costs to operate and eventually vacate duplicate facilities. Severance and other employee separation costs are accrued when it is probable that benefits will be paid and the amount is reasonably estimable. The rates used in determining severance accruals are based on our policies and practices and negotiated settlements. Restructuring charges for employee workforce reductions are recorded upon employee notification for employees whose required continuing service period is 60 days or less and ratably over the employee's continuing service period for employees whose required continuing service period is greater than 60 days.

Recent Accounting Pronouncements

There have been no material changes to recent accounting pronouncements as compared to recent accounting pronouncements described in our Annual Report on Form 10-K.

Note 2. Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options, warrants and RSUs, 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 March 31,	
	2015	2014
Numerator:		
Net loss	\$(28,542)	\$(25,759)
Denominator:		
Weighted-average common shares outstanding	84,794	82,259
Less: Weighted-average unvested common shares subject to repurchase or forfeiture	—	(78)
Weighted-average common shares used in computing basic and diluted net loss per share	84,794	82,181
Net loss per share, basic and diluted.	\$(0.34)	\$(0.31)

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

	Three Months Ended March 31,	
	2015	2014
Options to purchase common stock	12,398	17,598
Restricted stock units	54	3,991
Employee stock purchase plan	26	23

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Common stock subject to repurchase or forfeiture	—	70
Warrants to purchase common stock	634	1,118
Total common stock equivalents	13,112	22,800

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Note 3. Cash and Cash Equivalents, Investments and Restricted Cash

The following table shows our cash and cash equivalents, restricted cash and investments' adjusted cost, unrealized gain (loss) and fair value (in thousands) as of March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014		
	Cost	Net Unrealized Gain/(Loss)	Fair Value	Cost	Net Unrealized Gain/(Loss)	Fair Value
Cash and cash equivalents:						
Cash	\$37,780	\$—	\$37,780	\$49,836	\$—	\$49,836
Money market funds	7,299	—	7,299	5,828	—	5,828
Commercial paper	4,949	—	4,949	453	—	453
Total cash and cash equivalents	\$50,028	\$—	\$50,028	\$56,117	\$—	\$56,117
Short-term investments:						
Commercial paper	\$10,744	\$—	\$10,744	\$13,435	\$—	\$13,435
Corporate securities	18,117	6	18,123	18,426	(15)	18,411
Certificate of deposit	—	—	—	1,499	1	1,500
Total short-term investments	\$28,861	\$6	\$28,867	\$33,360	\$(14)	\$33,346
Long-term corporate securities	\$—	\$—	\$—	\$1,453	\$(2)	\$1,451
Short-term restricted cash	\$300	\$—	\$300	\$300	\$—	\$300
Long-term restricted cash	1,480	—	1,480	1,480	—	1,480
Total restricted cash	\$1,780	\$—	\$1,780	\$1,780	\$—	\$1,780

The amortized cost and fair value of available-for-sale investments as of March 31, 2015 by contractual maturity were as follows (in thousands):

	Cost	Fair Value
Due in 1 year or less	\$33,810	\$33,816
Investments not due at a single maturity date	7,299	7,299
Total	\$41,109	\$41,115

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

As of March 31, 2015, we considered the declines in market value of our investment portfolio to be temporary in nature and did not consider any of our investments to be other-than-temporarily impaired. We typically invest in highly-rated securities with a minimum credit rating of A- and a weighted average maturity of four 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 March 31, 2015, we did not recognize any impairment charges.

Note 4. 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.

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

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

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

Financial instruments measured and recorded at fair value on a recurring basis as of March 31, 2015 and December 31, 2014 are classified based on the valuation technique level in the tables below (in thousands):

	March 31, 2015		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash equivalents:			
Money market funds	\$7,299	\$ 7,299	\$ —
Commercial paper	4,949	—	4,949
Short-term investments:			
Commercial paper	10,744	—	10,744
Corporate securities	18,123	—	18,123
Total assets measured and recorded at fair value	\$41,115	\$ 7,299	\$ 33,816

	December 31, 2014			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	\$5,828	\$ 5,828	\$ —	\$ —
Commercial paper	453	—	453	—
Short-term investments:				
Commercial paper	13,435	—	13,435	—
Corporate securities	18,411	—	18,411	—
Certificate of deposit	1,500	—	1,500	—
Long-term investments, corporate securities	1,451	—	1,451	—
Total assets measured and recorded at fair value	\$41,078	\$ 5,828	\$ 35,250	\$ —
Liabilities:				
Put option liability	\$1,079	\$ —	\$ —	\$ 1,079

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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. We classify all of 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.

As of March 31, 2015, the put option liability (Level 3) which relates to a previous acquisition and provides certain employees of the acquired company the right to require us to acquire vested common shares at a stated contractual price were fully exercised and shares were repurchased from employees, with cash payment being made in the first quarter of 2015. We no longer hold any Level 3 assets or liabilities as of March 31, 2015.

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.

Note 5. Intangible Assets

Intangible assets as of March 31, 2015 and December 31, 2014 consist of the following (in thousands):

	March 31, 2015				
	Weighted-Average Amortization Period (in months)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Developed technologies	52	\$9,418	\$(5,369)	\$4,049	
Customer lists	20	2,820	(1,638)	1,182	
Trade names	48	2,343	(481)	1,862	
Non-compete agreements	28	1,220	(420)	800	
Master service agreements	21	1,030	(457)	573	
Indefinite-lived trade name	—	3,600	—	3,600	
Total intangible assets		\$20,431	\$(8,365)	\$12,066	
	December 31, 2014				
	Weighted-Average Amortization Period (in months)	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Developed technologies	50	\$9,792	\$(5,000)	\$(194)	\$4,598
Customer lists	15	4,363	(1,816)	(829)	1,718
Trade names	44	3,132	(1,085)	(39)	2,008
Non-compete agreements	21	1,637	(421)	(278)	938
Master service agreements	21	1,030	(266)	—	764
Corporate partnerships	0	243	(31)	(212)	—
Indefinite-lived trade name	—	3,600	—	—	3,600
Total intangible assets		\$23,797	\$(8,619)	\$(1,552)	\$13,626

During the three months ended March 31, 2015 and 2014, amortization expense related to our acquired intangible assets totaled approximately \$1.6 million and \$0.6 million, respectively.

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As of March 31, 2015, the estimated future amortization expense related to our finite-lived intangible assets is as follows (in thousands):

Remaining nine months of 2015	\$3,202
2016	2,238
2017	1,701
2018	1,018
2019	307
Total	\$8,466

Note 6. Debt Obligations

In August 2013, we entered into a revolving credit facility with an aggregate principal amount of \$50.0 million (the Revolving Credit Facility). In June 2014 we amended the Revolving Credit Facility to reduce the aggregate principal amount to \$40.0 million with an accordion feature subject to certain financial criteria that would allow us to draw down to \$75.0 million in total. The Revolving Credit Facility carries, at our election, a base interest rate of the greater of the Federal Funds Rate plus 0.5% or one-month LIBOR plus 1% or a LIBOR based interest rate plus additional interest of up to 4.5% depending on our leverage ratio. The Revolving Credit Facility will expire in August 2016. The Revolving Credit Facility requires us to repay the outstanding balance at expiration, or to prepay the outstanding balance, if certain reporting and financial covenants are not maintained. These financial covenants are as follows: (1) maintain specified quarterly levels of consolidated EBITDA, which is defined as net income (loss) before tax plus interest expense, provision for (benefit from) income taxes, depreciation and amortization expense, non-cash share-based compensation expense and costs and expenses not to exceed \$2.0 million in closing fees related to the revolving credit facility; and (2) maintain a leverage ratio greater than 1.5 to 1.0 as of the end of each quarter, based on the ratio of the consolidated outstanding debt balance to consolidated EBITDA for the period of the four fiscal quarters most recently ended. As of March 31, 2015, we were in compliance with these financial covenants.

Note 7. Commitments and Contingencies

We lease our office and warehouse facilities under operating leases, which expire at various dates through 2021. Our primary operating lease commitments at March 31, 2015, related to our headquarters in Santa Clara, California and our warehouse in Shepherdsville, Kentucky. 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 \$0.9 million and \$0.8 million in the three months ended March 31, 2015 and 2014, respectively.

On April 10, 2015, we signed an agreement to sublease effectively one half of our warehouse in Kentucky. We expect this sublease agreement to generate \$0.1 million of sublease income per month through the end of November 2016.

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, from time to time, we may 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, from time to time, also 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.

In July 2010, the Kentucky Tax Authority issued a property tax assessment of approximately \$1.0 million related to our textbook library located in our Kentucky warehouse for the 2009 and 2010 tax years under audit. In March 2011, we filed a protest with the Kentucky Board of Tax Appeals that was rejected in March 2012. In September 2012, we filed a complaint seeking declaratory rights against the Commonwealth of Kentucky in the Bullitt Circuit Court of Kentucky, and that case was subsequently dismissed in favor of administration remedies with the Kentucky Tax Authority. We received a final Notice of Tax due in October 2012 from the Kentucky Tax Authority and we appealed this notice in November 2012 with the Kentucky Board of Tax Appeals. In May 2013, we presented an Offer in Judgment to the Tax Authority of approximately \$150,000, excluding tax and penalties, an amount that we have accrued for the two years under audit. We accrued this amount as of December 31, 2012. We appealed to the Kentucky Board of Tax Appeals in July 2013 and the Board issued a ruling in favor of the Department of Revenue in January 2014 maintaining the property tax assessment. In February 2014, we filed an appeal to the

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Franklin Circuit Court in Kentucky and in June 2014 the Circuit Court held in abeyance our motion to appeal. In October 2014 the Franklin Circuit Court in Kentucky issued its opinion and order reversing the Board of Tax Appeal's decision, setting aside the Kentucky Department of Revenue's tax assessments against Chegg and further vacating all penalties and interest. The Kentucky Department of Revenue has appealed the Circuit Court ruling. Due to the preliminary status of the appeal by the Kentucky Department of Revenue and the uncertainties related to the appeal, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We believe that it is reasonably possible that we will incur a loss; however, we cannot currently estimate a range of any possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the effects of this matter on our financial condition, results of operations, or cash flows.

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 8. Guarantees and Indemnifications

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

We believe the fair value of these indemnification agreements is minimal. We have not recorded any liabilities for these agreements as of March 31, 2015.

Note 9. Stockholders' Equity

Share-Based Compensation

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

	Three Months Ended March 31,	
	2015	2014
Cost of revenues	\$ 134	\$ 178
Technology and development	4,707	2,382
Sales and marketing	5,054	1,332
General and administrative	5,125	3,038
Total share-based compensation expense	\$ 15,020	\$ 6,930

Fair Value of Stock Options

We estimate the fair value of each stock option award using the Black-Scholes-Merton option-pricing model, which utilizes the estimated fair value of our common stock and requires input on the following subjective assumptions:

Expected Term — The expected term for options granted to employees, officers, and directors is calculated as the midpoint between the vesting date and the end of the contractual term of the options. The expected term for options granted to consultants is determined using the remaining contractual life.

Expected Volatility — The expected volatility is based on the average volatility of similar public entities within our peer group as our common stock has not been publicly trading for a long enough period to rely on our own expected volatility.

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Expected Dividends — The dividend assumption is based on our historical experience. To date we have not paid any dividends on our common stock.

Risk-Free Interest Rate — The risk-free interest rate used in the valuation method is the implied yield currently available on the United States treasury zero-coupon issues, with a remaining term equal to the expected life term of our options.

The following table summarizes the key assumptions used to determine the fair value of our stock options granted to employees, officers and directors:

	Three Months Ended March 31, 2014	
Expected term (years)	6.07	
Expected volatility	56.83	%
Dividend yield	—	%
Risk-free interest rate	2.02	%
Weighted-average grant-date fair value per share	\$4.23	

No option awards were granted to employees during the three months ended March 31, 2015.

Fair Value of Restricted Stock Units (RSUs) and of Performance-Based Restricted Stock Units (PSUs)

RSUs and PSUs are converted into shares of Chegg common stock upon vesting on a one-for-one basis. Vesting of RSUs is subject to the employee's continuing service to us, while vesting of PSUs is subject to our achievement of specified corporate financial performance objectives and also the employee's continuing service to us. The compensation expense related to RSUs and PSUs is determined using the fair value of our common stock on the date of grant and the expense is recognized on a straight-line basis over the vesting period. RSUs are typically fully vested at the end of four years while PSUs vest subject to the achievement of corporate financial performance objectives and if achieved, typically vest over two to three years.

Fair Value of Employee Stock Purchase Plan

Under the 2013 Employee Stock Purchase Plan (the 2013 ESPP), rights to purchase shares are generally granted during the second and fourth quarter of each year. The fair value of rights granted under the 2013 ESPP was estimated at the date of grant using the Black-Scholes-Merton option-pricing model.

Stock Option Activity

Option activity under our equity incentive plans was as follows:

	Options Outstanding	Weighted- Average Exercise Price per Share	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Balance at December 31, 2014	14,962,099	\$8.53	7.11	\$6,646,629
Exercised	(959,997)	\$6.90		
Canceled	(344,420)	\$8.72		

Balance at March 31, 2015	13,657,682	\$8.64	6.77	\$10,356,198
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As of March 31, 2015, our total unrecognized compensation expense for stock options granted to employees, officers, directors and consultants was approximately \$19.9 million, which will be recognized over a weighted-average vesting period of approximately 1.6 years.

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We recognize only the portion of the option award granted to employees that is ultimately expected to vest as compensation expense. Estimated forfeitures are determined based on historical data and management's expectation of exercise behaviors. Forfeiture rates and the resulting compensation expense are revised in subsequent periods if actual forfeitures differ from the estimate.

No option awards were granted to consultants during the three months ended March 31, 2015 and 2014. Total share-based compensation expense for consultants was not significant for the three months ended March 31, 2015 and 2014.

There was no capitalized share-based compensation expense as of March 31, 2015 or 2014.

RSU and PSU Activity

	RSUs and PSUs Outstanding	
	Number of	Weighted Average
	RSUs and	Grant Date Fair Value
	PSUs	
	Outstanding	
Balance at December 31, 2014	9,125,190	\$ 6.25
Granted	6,225,055	6.64
Released	(1,404,733)	7.73
Canceled	(294,760)	6.34
Balance at March 31, 2015	13,650,752	\$ 6.28

During the three months ended March 31, 2014, 1,256,209 RSUs granted prior to our IPO vested and were settled for shares of our common stock. Of those shares, we withheld 516,919 shares valued at approximately \$3.5 million in satisfaction of tax withholding obligations for employees who elected to net settle, i.e., surrender shares of common stock to satisfy their tax obligations. Payment of taxes related to this net share settlement of RSUs is reflected as a financing activity in our consolidated statements of cash flows. The shares withheld by us as a result of the net settlement are no longer considered issued and outstanding, thereby reducing our shares outstanding used to calculate earnings per share. These shares are returned to the reserves and are available for future issuance under the 2013 Equity Incentive Plan (the 2013 Plan).

In February 2015, we granted PSUs under the 2013 Plan to certain of our key employees. The PSUs entitle the employees to receive a certain number of shares of our common stock based on our satisfaction of certain financial and strategic performance targets during 2015 (the Performance Period). Based on the achievement of the performance conditions during the Performance Period for the February grants, the final settlement will range between zero and 100% of the target shares underlying the PSU awards based on a specified objective formula approved by the Compensation Committee. If earned, these PSUs will vest annually over a two or three year period depending on the employee, with the initial vesting in February 2016.

The target number of shares underlying the PSUs that were granted to certain key employees during the three months ended March 31, 2015 totaled 2,300,824 shares and had a weighted average grant date fair value of \$6.59 per share. As of March 31, 2015, 100% of the PSUs are expected to vest.

As of March 31, 2015, we had a total of approximately \$59.0 million of unrecognized compensation costs related to RSUs and PSUs that is expected to be recognized over the remaining weighted average period of 2.0 years.

Note 10. Income Taxes

We recorded an income tax provision of approximately \$0.3 million and \$0.2 million for the three months ended March 31, 2015 and 2014, respectively. The income tax provision for the three months ended March 31, 2015, was primarily due to state and foreign income taxes offset by the release of valuation allowance resulting from our acquisition of InstaEDU. The income tax provision for the three months ended March 31, 2014 was primarily due to state and foreign income tax expense.

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Note 11. Restructuring Charges

2015 Restructuring Plan

For the three months ended March 31, 2015, we recorded restructuring charges of \$2.5 million related to the closure of our print coupon business and our Kentucky warehouse. The charges include one-time employee termination benefits of \$0.8 million for approximately 71 employees and lease termination and other costs of \$1.7 million. As a result of the expanded partnership with Ingram, we expect to exit our warehouse facilities by the end of 2015 and to incur additional charges in 2015 under the restructuring plan related to these exit activities and related severance costs of approximately \$6.0 million. Costs incurred to date related to employee termination benefits are expected to be paid within the next twelve months. Costs incurred to date related to the lease termination and other costs are expected to be fully paid by 2021.

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

	Workforce Reduction Costs	Lease Termination and Other Costs	Total
Balances at January 1, 2015	\$—	\$—	\$—
Restructuring charges	834	1,680	2,514
Cash payments	(439)	—	(439)
Write-offs	—	(350)	(350)
Balances at March 31, 2015	\$395	\$ 1,330	\$ 1,725

As of March 31, 2015, the \$1.7 million liability was comprised of a short term accrual of \$0.8 million included within Accrued liabilities and a long term accrual of \$0.9 million included within Other liabilities on the condensed consolidated balance sheet.

Note 12. Related-Party Transactions

Our Chief Executive Officer is a member of the Board of Directors of Adobe Systems (Adobe). During the three months ended March 31, 2015 and 2014 we purchased products totaling \$0.1 million and \$0.2 million, respectively from Adobe. We had \$0.8 million in revenues in the three months ended March 31, 2014 from Adobe. We had \$22,000 and \$0.1 million in payables as of March 31, 2015 and December 31, 2014, respectively, to Adobe.

One of our board members is also a member of the Board of Directors of Cengage Learning (Cengage). During the three months ended March 31, 2015 and 2014, we had purchases of \$4.3 million and \$5.9 million, respectively, of products from Cengage. We had \$0.2 million and \$0.1 million in payables as of March 31, 2015 and December 31, 2014, respectively, to Cengage. We had \$0.1 million in outstanding accounts receivables to Cengage as of December 31, 2014.

One of our board members is the Chief Executive Officer of Shutterfly Inc. (Shutterfly). During the three months ended March 31, 2015, we had purchases of \$1.1 million of products from Shutterfly. There were no outstanding accounts receivables or payables to Shutterfly as of March 31, 2015.

The terms of our contracts with the above related parties are consistent with our contracts with other independent parties.

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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 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

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 6. EXHIBITS

The exhibits listed in the accompanying “Index to Exhibits” are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

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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.

December 21, 2015

CHEGG, INC.

By: /S/ ANDREW BROWN

Andrew Brown

Vice President, Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

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Index to Exhibits

Exhibit No.	Exhibit	Incorporated by Reference			Exhibit No.	Filed Herewith
		Form	File No	Filing Date		
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
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