CHEGG, INC
Form 10-Q
August 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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)	(Zip Code)

(408) 855-5700

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	The New York Stock Exchange

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

None

(Title of class)

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

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

As of July 31, 2014, there were 83,687,485 shares of the registrant's common stock outstanding.

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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.

"Campus Special," "Chegg," "Chegg.com," "Chegg for Good," "CourseRank," "Cramster," "InstaEDU," "Zinch" and "#1 in T
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.

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," "estimate," "continue," "anticipate," "intend," "expect," "plan to," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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.

PART i – FINANCIAL INFORMATION

Item 1. Financial Statements

CHEGG, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2014	December 31, 2013 *
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 30,783	$ 76,864
Short-term investments	28,430	37,071
Accounts receivable, net of allowance for doubtful accounts of $516 and $317 at June 30, 2014 and December 31, 2013, respectively	9,913	7,091
Prepaid expenses	3,652	2,134
Other current assets	1,774	1,149
Total current assets	74,552	124,309
Long-term investments	19,295	24,320
Textbook library, net	100,233	105,108
Property and equipment, net	18,933	18,964
Goodwill	86,685	49,545
Intangible assets, net	12,664	3,311
Other assets	2,160	1,814
Total assets	$ 314,522	$ 327,371
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 9,813	$ 4,078
Deferred revenue	24,175	22,804
Accrued liabilities	19,991	21,270
Total current liabilities	53,979	48,152
Long-term liabilities		
Other liabilities	5,187	4,979
Total long-term liabilities	5,187	4,979
Total liabilities	59,166	53,131
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.001 par value –10,000,000 shares authorized, no shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	—	—
Common stock, $0.001 par value – 400,000,000 shares authorized at June 30, 2014 and	84	82

December 31, 2013, respectively; 83,644,883 and 81,708,202 shares issued and outstanding at		
June 30, 2014 and December 31, 2013, respectively		
Additional paid-in capital	494,364	479,279
Accumulated other comprehensive income (loss)	28	(6)
Accumulated deficit	(239,120)	(205,115)
Total stockholders' equity	255,356	274,240
Total liabilities and stockholders' equity	$ 314,522	$ 327,371

* Derived from audited consolidated financial statements as of and for the year ended December 31, 2013
See Notes to Condensed Consolidated Financial Statements.

CHEGG, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net revenues	$64,492	$55,857	$138,885	$116,872
Cost of revenues	38,596	29,607	104,081	79,061
Gross profit	25,896	26,250	34,804	37,811
Operating expenses:				
Technology and development	12,189	9,799	23,509	19,352
Sales and marketing	14,817	8,674	29,844	22,422
General and administrative	10,654	7,574	20,494	14,283
(Gain) loss on liquidation of textbooks	(2,122)	1,670	(3,800)	(609)
Total operating expenses	35,538	27,717	70,047	55,448
Loss from operations	(9,642)	(1,467)	(35,243)	(17,637)
Interest and other income (expense), net:				
Interest expense, net	(127)	(1,183)	(188)	(2,356)
Other income (expense), net	156	(551)	276	(848)
Total interest and other income (expense), net	29	(1,734)	88	(3,204)
Loss before provision for (benefit from) income taxes	(9,613)	(3,201)	(35,155)	(20,841)
Provision for (benefit from) income taxes	(1,367)	152	(1,150)	337
Net loss	$(8,246)	$(3,353)	$(34,005)	$(21,178)
Net loss per share, basic and diluted	$(0.10)	$(0.27)	$(0.41)	$(1.72)
Weighted average shares used to compute net loss per share, basic and diluted	83,209	12,558	82,686	12,295

See Notes to Condensed Consolidated Financial Statements.

Chegg, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(8,246)	$(3,353)	$(34,005)	$(21,178)
Other comprehensive income (loss):				
Net change in unrealized loss on available for sale investments	54	—	38	—
Change in foreign currency translation adjustments	(27)	(18)	(4)	(47)
Other comprehensive income (loss)	27	(18)	34	(47)
Total comprehensive loss	$(8,219)	$(3,371)	$(33,971)	$(21,225)

See Notes to Condensed Consolidated Financial Statements.

CHEGG, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2014	2013
Operating activities		
Net loss	$(34,005)	$(21,178)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Textbook library depreciation expense	38,130	30,817
Amortization of warrants and deferred loan costs	117	781
Other depreciation and amortization expense	4,544	5,628
Stock-based compensation expense	15,411	8,031
Provision for bad debts	197	77
Gain on liquidation of textbooks	(3,800)	(609)
Loss from write-offs of textbooks	6,805	2,283
Deferred income taxes	(1,626)	—
Realized gain on sale of securities	(18)	—
Revaluation of preferred stock warrants	—	1,026
Change in assets and liabilities net of effect of acquisition of businesses:		
Accounts receivable	(2,211)	(2,233)
Prepaid expenses and other current assets	(1,774)	(1,031)
Other assets	(470)	(2,563)
Accounts payable	2,988	(2,999)
Deferred revenue	1,241	3,648
Accrued liabilities	(2,803)	567
Other liabilities	(128)	240
Net cash provided by operating activities	22,598	22,485
Cash flows from investing activities		
Purchases of textbooks	(52,781)	(42,226)
Proceeds from liquidations of textbooks	18,737	21,061
Purchases of marketable securities	(54,882)	—
Proceeds from sale of marketable securities	38,860	—
Maturities of marketable securities	29,600	—
Purchases of property and equipment	(2,496)	(3,188)
Acquisition of businesses, net of cash acquired	(43,872)	—
Net cash used in investing activities	(66,834)	(24,353)
Cash flows from financing activities		
Proceeds from issuance of common stock under employee stock plans	1,743	2,477
Payment of taxes related to the net share settlement of RSUs	(3,588)	—
Net cash (used in) provided by financing activities	(1,845)	2,477
Net increase (decrease) in cash and cash equivalents	(46,081)	609

Cash and cash equivalents, beginning of period	76,864	21,030
Cash and cash equivalents, end of period	$30,783	$21,639
Cash paid during the period for:		
Interest	$31	$1,197
Income taxes	$445	$341
Non-cash investing and financing activities:		
Accrued purchases of long-lived assets	$5,528	$3,938
Issuance of common stock warrants in connection with consulting services	$—	$130
Issuance of common stock related to acquisition	$1,585	$—

See Notes to Condensed Consolidated Financial Statements.

CHEGG, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, which we call the Student Hub, offers products and services that students need throughout the college lifecycle, from choosing a college through graduation and beyond. Our Student Graph builds on the information generated through students' and other participants' use of our platform to increasingly enrich the experience for participants as it grows in scale and power the Student Hub. 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 2013, nearly seven million students used our platform.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of June 30, 2014, the condensed consolidated statements of operations and, the condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2014 and 2013, and the condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 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, 2014 and our results of operations for the three and six months ended June 30, 2014 and 2013 and cash flows for the six months ended June 30, 2014. The results of operations for the three and six months ended June 30, 2014 and cash flows for the six months June 30, 2014 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, 2013 as 2013.

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 for 2013, included in our Annual Report on Form 10-K for 2013 filed with the U.S. Securities and Exchange Commission (the SEC).

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.

Reverse Stock Split

In August 2013, our board of directors and stockholders approved an amendment to our certificate of incorporation to effect a two-for-three reverse split of our common stock. The record date of the reverse stock split was September 3, 2013, the date the amendment to our certificate of incorporation was filed with the Delaware Secretary of State. In accordance with our certificate of incorporation, the conversion ratios of the convertible preferred stock were adjusted to reflect the reverse stock split. The number of outstanding shares of convertible preferred stock was not adjusted. Additionally, the par value and the authorized shares of common stock and convertible preferred stock were not adjusted as a result of the reverse stock split. The reverse stock split has been reflected in the accompanying consolidated financial statements and related notes on a retroactive basis for all periods presented.

Initial Public Offering

In November 2013, we completed our initial public offering (IPO), whereby 14,400,000 shares of common stock were sold to the public at a price of $12.50 per share.

CHEGG, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 assets and 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, valuation of preferred stock warrants, and stock-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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASU 2014-09). This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 provides companies with two implementation methods. Companies can choose to apply the standard retrospectively to each prior reporting period presented (full retrospective application) or retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (modified retrospective application). This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is not permitted. We are currently in the process of evaluating this new guidance.

Note 2. 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, 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, RSUs and convertible preferred stock prior to its conversion in our IPO, 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 basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Numerator:				
Net loss	$(8,246)	$(3,353)	$(34,005)	$(21,178)
Denominator:				
Weighted-average common shares outstanding	83,255	12,812	82,760	12,590
Less: Weighted-average unvested common shares subject to repurchase or forfeiture	(46)	(254)	(74)	(295)
Weighted-average common shares used in computing basic and diluted net loss per share	83,209	12,558	82,686	12,295
Net loss per share, basic and diluted	$(0.10)	$(0.27)	$(0.41)	$(1.72)

CHEGG, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following potential common shares 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,	
	2014	2013	2014	2013
Options to purchase common stock	15,579	12,812	14,925	13,142
Restricted stock units	714	1,322	260	1,313
Common stock subject to repurchase or forfeiture	40	234	40	234
Warrants to purchase common stock	996	36	996	36
Warrants to purchase convertible preferred stock	—	1,132	—	1,132
Convertible preferred stock	—	42,242	—	42,242
Total common stock equivalents	17,329	57,778	16,221	58,099

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

The following tables show our cash and cash equivalents, restricted cash and investments' adjusted cost, unrealized gain (loss) and fair value (in thousands):

	June 30, 2014			December 31, 2013		
	Cost	Net Unrealized Gain/(Loss)	Fair Value	Cost	Net Unrealized Gain/(Loss)	Fair Value
Cash and cash equivalents:						
Cash	$22,449	$ —	$22,449	$33,322	$ —	$33,322
Money market funds	6,334	—	6,334	42,042	—	42,042
Commercial paper	2,000	—	2,000	1,500	—	1,500
Total cash and cash equivalents	$30,783	$ —	$30,783	$76,864	$ —	$76,864

Short-term investments:

Commercial paper	$17,214	$ 3	$17,217	$35,571	$ —	$35,571
Corporate securities	5,200	2	5,202	—	—	—
Certificate of deposit	6,010	1	6,011	1,500	—	1,500
Total short-term investments	$28,424	$ 6	$28,430	$37,071	$ —	$37,071
Long-term investments:						
Corporate securities	$16,531	$ 11	$16,542	$24,338	$ (18)	$24,320
U.S. treasuries	1,751	1	1,752	—	—	—
Agency bond	1,000	1	1,001	—	—	—
	$19,282	$ 13	$19,295	$24,338	$ (18)	$24,320
Short-term restricted cash	$352	$ —	$352	$352	$ —	$352
Long-term restricted cash	1,350	—	1,350	1,350	—	1,350
Total restricted cash	$1,702	$ —	$1,702	$1,702	$ —	$1,702

CHEGG, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The amortized cost and fair value of available-for-sale investments as of June 30, 2014 by contractual maturity were as follows (in thousands):

	Cost	Fair Value
Due in 1 year or less	$30,424	$30,430
Due in 1-2 years	19,282	19,295
Investments not due at a single maturity date	6,334	6,334
Total	$56,040	$56,059

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

As of June 30, 2014, 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 nine 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 six months ended June 30, 2014, 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.

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.

CHEGG, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Financial instruments measured and recorded at fair value on a recurring basis as of June 30, 2014 and December 31, 2013 are classified based on the valuation technique level in the tables below (in thousands):

	June 30, 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	$6,334	$ 6,334	$ —	$ —
Commercial paper	2,000	—	2,000	—
Short-term investments:				
Commercial paper	17,217	—	17,217	—
Corporate securities	5,202	—	5,202	—
Certificate of deposit	6,011	—	6,011	—
Long-term investments:				
Corporate securities	16,542	—	16,542	—
U.S. treasuries	1,752	1,752	—	—
Agency bond	1,001	—	1,001	—
Total assets measured and recorded at fair value	$56,059	$ 8,086	$ 47,973	$ —
Liabilities:				
Put option liability	$1,567	$ —	$ —	$ 1,567

	December 31, 2013			
	Total	Quoted Prices in Active Markets for	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs

		Identical Assets (Level 1)		(Level 3)
Assets:				
Cash equivalents:				
Money market funds	$42,042	$ 42,042	$ —	$ —
Commercial paper	1,500	—	1,500	—
Short-term investments:				
Commercial paper	35,571	—	35,571	—
Certificate of deposit	1,500	—	1,500	—
Corporate securities, long-term	24,320	—	24,320	—
Total assets measured and recorded at fair value	$104,933	$ 42,042	$ 62,891	$ —
Liabilities:				
Put option liability	$1,521	$ —	$ —	$ 1,521

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.

CHEGG, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table summarizes the change in the fair value of our Level 3 liabilities (in thousands):

	Level 3 June 30, 2014
Beginning balance	$1,521
Vesting of put options	250
Fair value adjustment related to put options	(204)
Total financial liabilities	$1,567

As of June 30, 2014, we did not have observable inputs for the valuation of our put option liability, 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. As shares associated with these put options vest, the liability is recognized as stock-based compensation expense in our condensed consolidated statements of operations and results in a change in our Level 3 liabilities.

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. Acquisition

On June 5, 2014, we acquired 100% of the outstanding shares and voting interest of InstaEDU, Inc. (InstaEDU), headquartered in San Francisco, California. With this acquisition, we aimed to expand our digital offerings to help students excel in school by including real time tutoring services. We see the acquisition of InstaEDU as a method to connect the book offering and service offerings of Chegg together. The total fair value of the purchase consideration was $31.1 million in cash, which included $4.5 million, placed into an escrow, for general representations and warranties, and will be released 18 months from the closing date of the acquisition.

On April 9, 2014, we acquired 100% of the outstanding shares and voting interest of The Campus Special, LLC and The Campus Special Food, LLC (together, the Campus Special), headquartered in Duluth, Georgia for a total fair value purchase consideration of $16.0 million, consisting of $14 million in cash, 250,000 in shares, which were placed in escrow for general representations and warranties and will be released one year from acquisition date, and a fair value contingent consideration of additional shares of common stock, which is payable on the attainment of certain performance metrics. With the Campus Special acquisition, we aimed to expand our offerings to students to include coupon specials on consumer goods and services. The probability-weighted fair value contingent consideration was recorded in other accrued liabilities in our condensed consolidated balance sheet as of the date of acquisition, and we will record any future fair value adjustments to other acquisition costs.

The acquisition date fair value of the consideration for the above two transactions consisted of the following as of June 30, 2014 (in thousands):

Cash consideration	$45,037
Fair value of stock escrow consideration	1,585
Fair value of stock contingent consideration	193
Fair value of purchase consideration	$46,815

The fair value of the intangible assets acquired was determined under the acquisition method of accounting for business combinations. The excess of purchase consideration paid over the fair value of identifiable intangible assets acquired was recorded as goodwill.

CHEGG, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table summarizes the fair value of the net identifiable assets acquired as of June 30, 2014 (in thousands):

	June 30, 2014
Cash	$1,667
Other acquired assets	415
Acquired intangible assets:	
Developed technology	3,894
Customer list	2,720
Trade name	2,390
Non-compete agreements	1,270
Corporate partnerships	243
Total acquired intangible assets	10,517
Total identifiable assets acquired	12,599
Liabilities assumed	(2,864)
Net identifiable assets acquired	9,735
Goodwill	37,080
Net assets acquired	$46,815

For the three months ended June 30, 2014, we incurred $0.5 million of acquisition-related expenses associated with the acquisitions which have been included in general and administrative expenses in the condensed consolidated statements of operations.

On March 7, 2014, we acquired certain assets from Bookstep LLC, (Bookstep) a California limited liability company to expand our technical resources and research and development capabilities. The total fair value of the purchase consideration was $0.5 million. In addition, the agreement requires the payment of approximately $2.5 million in cash, payable over two years contingent upon the continuation of services by a certain number of consultants during the period after acquisition. The fair value of the subsequent payments was $2.5 million, which is being accounted for as post-combination compensation expense.

The results of operations of the above acquisitions have been included in our condensed consolidated results of operations from the date of acquisition and were not material to our results of operations.

The fair value of the intangible assets acquired was determined under the acquisition method of accounting for business combinations. The excess of purchase consideration paid over the fair value of identifiable intangible assets acquired was recorded as goodwill.

The following table summarizes the fair value of the identifiable intangible assets acquired during the three months ended March 31, 2014 (in thousands):

Master service agreement intangible asset	$400
Non-compete covenant intangible asset	40
Goodwill	60
Fair value of purchase consideration	$500

The amounts recorded for goodwill related to the Campus Special and Bookstep transactions are expected to be deductible for tax purposes. The amount recorded for goodwill related to the InstaEDU transaction is not deductible for tax purposes.

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Note 6. Goodwill and Intangible Assets

Goodwill consists of the following (in thousands):

	June 30, 2014
Beginning balance	$49,545
Additions due to acquisition	37,140
Ending balance	$86,685

Intangible assets consist of the following (in thousands):

	June 30, 2014			
	Weighted-Average Amortization Period (in months)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	51	$9,512	$ (3,822)	$5,690
Customer list	26	3,312	(589)	2,723
Trade name	44	3,132	(703)	2,429
Non-compete agreements	24	1,318	(86)	1,232
Master service agreement	36	400	(42)	358
Corporate partnerships	60	243	(11)	232
Total intangible assets		$17,917	$ (5,253)	$12,664

December 31, 2013

Weighted- Gross Accumulated Net

	Average Amortization Period (in months)	Carrying Amount	Amortization	Carrying Amount
Developed technology	46	$ 8,008	$ (5,386)	$ 2,622
Customer list	24	5,472	(5,029)	443
Trade name	33	1,182	(942)	240
Non-compete agreements	34	1,068	(1,062)	6
Total intangible assets		$ 15,730	$ (12,419)	$ 3,311

During the three and six months ended June 30, 2014, amortization expense related to our acquired intangible assets totaled approximately $1.0 million and $1.6 million, respectively. During the three and six months ended June 30, 2013, amortization expense related to our acquired intangible assets totaled approximately $1.2 million and $2.7 million, respectively.

As of June 30, 2014, the estimated future amortization expense related to our intangible assets, subject to amortization, is as follows (in thousands):

Remaining six months of 2014	$ 3,127
2015	4,297
2016	2,078
2017	1,586
2018	1,204
Thereafter	372
Total	$ 12,664

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Note 7. Debt Obligations

In May 2012, we entered into a term loan facility with the aggregate principal of $20.0 million, (“the Term Loan”), with interest payable on a monthly basis at the rate of 11.5%. In connection with the Term Loan, we issued preferred stock warrants to the lender. In August 2013, we repaid the loan in full, including the outstanding principal balance of $20.0 million and an end-of-term fee of $850,000.

On June 30, 2014 we amended the revolving credit facility, which was originally entered into on August 12, 2013 to reduce the facility 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 Prime, 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 on August 12, 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 stock-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 June 30, 2014, we were in compliance with these financial covenants. On August 12, 2013, we drew down $21.0 million in proceeds from this credit facility and with these proceeds we repaid our $20.0 million Term Loan in full. On October 18, 2013, we drew down an additional $10.0 million in proceeds. On November 18, 2013, we repaid the $31.0 million outstanding balance in full.

Note 8. Commitments and Contingencies

We lease our office and warehouse facilities under operating leases, which expire at various dates through 2019. Our primary operating lease commitments at June 30, 2014, related to our headquarters in Santa Clara, California, and our warehouse in Shepardsville, 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 $0.8 million and $0.7 million, in the three months ended June 30, 2014 and 2013, respectively, and $1.6 million and $1.4 million in the six months ended June 30, 2014 and 2013, respectively.

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 on July 23, 2013 and the Board issued a ruling in favor of the Department of Revenue on January 13, 2014. On February 7, 2014, we filed an appeal to the Franklin Circuit Court in Kentucky and on June 17, 2014 the court held in abeyance our motion to appeal. Due to the preliminary status and uncertainties related to this matter, 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 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

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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 9. 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.

Note 10. Stock-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenues	$134	$142	$312	$296
Technology and development	2,635	1,730	5,017	3,344
Sales and marketing	2,263	450	3,595	1,499
General and administrative	3,449	1,559	6,487	2,892
Total stock-based compensation expense	$8,481	$3,881	$15,411	$8,031

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 the input of subjective assumptions.

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Expected term (years)	6.07	5.95	6.07	5.96
Expected volatility	55.91 %	57.39 %	56.15 %	57.25 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %
Risk-free interest rate	1.88 %	1.05 %	1.91 %	1.03 %
Weighted-average grant-date fair value per share	$3.66	$2.98	$3.82	$3.03

Fair Value of Restricted Stock Units (RSUs)

Restricted stock units are converted into shares of Chegg common stock upon vesting on a one-for-one basis. Vesting of restricted stock units is subject to the employee's continuing service to the Company. The compensation expense related to these awards 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. Restricted stock units are typically fully vested at the end of four years.

Fair Value of Employee Stock Purchase Plan

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

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Stock Option Activity

Option activity under our option plans was as follows:

	Options Outstanding		
	Number of Options Outstanding	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
Balance at December 31, 2013	17,971,969	$ 8.35	$22,253,373
Granted	640,138	7.09	
Exercised	(581,865)	1.38	
Cancelled	(1,463,808)	8.45	
Balance at June 30, 2014	16,566,434	$ 8.53	$7,331,991

As of June 30, 2014, our total unrecognized compensation expense for stock options granted to employees, officers, directors, and consultants was approximately $31.7 million, which will be recognized over a weighted-average vesting period of approximately 2.3 years.

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 in the three and six months ended June 30, 2014 or 2013. Total stock-based compensation expense for consultants was not significant for the three and six months ended June 30, 2014 or 2013.

There was no capitalized stock-based compensation as of June 30, 2014 or 2013.

Restricted Stock Units Activity

	Restricted Stock Units Outstanding	
	Number of RSUs Outstanding	Weighted Average Grant Date Fair Value
Balance at December 31, 2013	1,479,898	$ 10.01
Granted	9,337,260	6.21
Released	(1,337,260)	9.69
Cancelled	(203,506)	6.52
Balance at June 30, 2014	9,276,392	$ 6.30

During the three and six months ended June 30, 2014, 29,052 and 1,285,261 RSUs granted prior to our IPO vested, respectively, and were settled for shares of our common stock. Of those shares, we withheld 10,859 and 527,778 shares valued at approximately $3.6 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 condensed 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, or the 2013 Plan.

In February 2014, the Compensation Committee of the Board of Directors (“the Compensation Committee”) approved a grant of performance-based restricted stock units (PSUs) under the 2013 Plan to certain of our executive officers. The PSUs entitle the executives to receive a certain number of shares of our common stock based on our satisfaction of certain financial and strategic performance goals, including net revenue growth, digital revenue growth and free cash flow during 2014 (the “Performance Period”). Based on the achievement of the performance conditions during the Performance Period for both the February grants, the final settlement of the PSU awards will range between 0 and 150% of the target shares underlying the PSU awards based on a specified

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objective formula approved by the Compensation Committee. If earned, the PSUs will vest annually over a three year period. In June 2014, the Compensation Committee approved a grant of PSUs under the 2013 Plan to the employees of InstaEDU, which is based on achieving certain revenue targets in years 2014 and 2015.

The target number of shares underlying the PSUs that were granted to certain executive officers during the three and six months ended June 30, 2014, totaled 24,193 and 1,208,560 shares, respectively, and had a weighted average grant date fair value of $5.58 and $6.37 per share, respectively. The target number of shares underlying the PSUs that were granted to certain employees of our InstaEDU acquisition during the three months ended June 30, 2014 totaled 2,280,081, and had a weighted average grant date fair value of $6.00 per share. As of June 30, 2014, we expect that 100% of the PSUs will vest.

As of June 30, 2014, we had a total of approximately $40.0 million of unrecognized compensation costs related to RSUs and PSUs that is expected to be recognized over the remaining weighted average period of 2.3 years.

Note 11. Income Taxes

We recorded an income tax benefit of approximately $1.4 million and $1.2 million for the three and six months ended June 30, 2014, respectively and an income tax provision of $0.2 million and $0.3 million, respectively for the three and six months ended June 30, 2013, respectively. The income tax benefit in the three and six months ended June 30, 2014 was the result of the release of valuation allowance resulting from our acquisition of InstaEDU, offset by foreign and state income tax expense. The income tax expense in the three and six months ended June 30, 2013 was due to state and foreign income tax expense.

Note 12. Related-Party Transactions

During the three months ended June 30, 2014 and 2013, we had purchases of $0.3 million and $0.1 million, respectively, and during the six months ended June 30, 2014 and 2013, we had purchases of $0.7 million and $0.2 million, respectively, of products from Adobe Systems, or Adobe. Further, we had revenues of $0.2 million and $0, respectively, in the three months ended June 30, 2014 and 2013, respectively, and $1.0 million and $0 in the six months ended June 30, 2014 and 2013, respectively of products from Adobe for which our Chief Executive Officer is a member of the Board of Directors. As of June 30, 2014, we had no outstanding accounts receivable and $0.1 million payables to Adobe. There was no outstanding accounts receivable from and payable to Adobe as of December 31, 2013.

During the six months ended June 30, 2014, one of our board members was appointed to the Board of Directors of Cengage Learning, or Cengage. During the three and six months ended June 30, 2014, we had purchases of $0.5 million and $6.4 million, respectively, of products from Cengage. As of June 30, 2014, we had accounts payable of

$0.3 million and no outstanding accounts receivable from Cengage.

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

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 Information" of this Quarterly Report on Form 10-Q and our audited financial consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC. In addition to historical condensed 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 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, which we call the Student Hub, offers products and services that students need throughout the college lifecycle, from choosing a college through graduation and beyond. Our Student Graph builds on the information generated through students' and other participants' use of our platform to increasingly enrich the experience for participants as it grows in scale and power the Student Hub. By helping students learn more in less time and at a lower cost, we help them improve the overall return on investment in education.

We have an extensive print textbook and eTextbook library available for rent and sale. Our Chegg Study service helps students solve problems and master challenging concepts on their own. We also offer free services to students, such as helping high school students find colleges and scholarship opportunities and helping college students decide which courses to take and find supplemental materials. These and other free services we offer are designed to round out the Student Hub as a one-stop destination for critical student needs. We intend to expand our user base to reach students beyond college, including graduate and professional school students and other lifelong learners.

We partner with other key constituents in the education ecosystem, such as publishers, colleges and brands, to provide a comprehensive, student-first connected learning platform. We currently 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 are working to become the digital distribution platform of choice for these publishers. We also partner with approximately 875 colleges in the United States to help them achieve greater efficiency in student recruiting by offering connections to interested students. We offer leading brands compelling marketing solutions for reaching the college demographic. As we continue to grow our platform, we believe it will become increasingly valuable to the education ecosystem and benefit publishers, content providers, colleges, educators and brands as they connect to our student user base.

Our digital learning and advertising offerings, which we refer to as "digital offerings" are experiencing rapid growth. During the three months ended June 30, 2014 and 2013, we generated net revenues of $64.5 million and $55.9 million, respectively, and in the same periods had net losses of $8.2 million and $3.4 million. During the six months ended June 30, 2014 and 2013, we generated net revenues of $138.9 million and $116.9 million, respectively, and in the same periods had net losses of $34.0 million and $21.2 million. We plan to continue to invest in the long-term growth of the company, particularly further investment in the technology that powers the Student Hub and the Student Graph and in the development of products and services that serve students. On June 5, 2014, we acquired InstaEDU, Inc., (InstaEDU) to expand our digital offerings to help students excel in school. The acquisition of InstaEDU will provide us a method to connect Chegg's book offering and service offerings. On April 9, 2014, we acquired The

Campus Special, LLC and The Campus Special Food, LLC (together, the Campus Special), a company offering local campus deals, serving students at over 500 universities nationwide. We plan to rebrand Campus Special as Chegg Deals. We see the acquisition of Campus Special as a future growth opportunity to expand into local and national advertising. On March 7, 2014, we acquired Bookstep LLC, (Bookstep) to expand our technical resources and research and development capabilities. We cannot assure you that our newer products and services, or any other products and services we may introduce or acquire, will be integrated effectively into our business, achieve or sustain profitability or achieve market acceptance at levels sufficient to justify our investment.

Our strategy for achieving and maintaining profitability is centered upon our ability to expand the number of students using our products and services and increase student engagement with our connected learning platform. For the foreseeable future we expect to continue to invest in our print textbook business as a means of expanding student acquisition and generating operating cash flow. To deepen student engagement we will continue to invest in the expansion of our digital offerings to provide a more compelling and personalized solution. We believe this expanded and deeper penetration of the student demographic will allow us to drive growth in our enrollment and brand marketing services. 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 higher margin digital offerings, will enable us to accomplish profitability and become cash-flow positive for the long-term. Our ability to accomplish these long-term objectives is subject to numerous risks and uncertainties, including our ability to attract, retain and increasingly engage the student population, intense competition in our markets, the ability to achieve sufficient contributions from our digital offerings and other factors described in greater detail in “Risk Factors.”

Our Print Textbook Business

With our print textbook business, we purchase textbooks, rent them to students for the academic term at a substantial discount from list price to attract volume and realize return on our investment by renting the same book over multiple academic terms.

Our print textbook rental business is highly capital intensive. While we generate positive cash flows from operations on an annual basis, this has been more than offset by the cash we use for our investing activities, primarily due to the purchase of print textbooks. We expect this trend to continue in the foreseeable future. We capitalize the investment in our textbook library and record depreciation expense in cost of revenues over its useful life using an estimated liquidation value. During the six months ended June 30, 2014, our investment in print textbooks, net of proceeds from textbook liquidation, was $34.0 million. We recently entered into an agreement whereby, for an initial period of eight months, Ingram Content Group (Ingram) will own and provide the fulfillment services for a portion of the books rented by our student customers. We expect Ingram will purchase approximately $25 million of textbooks during the initial period, some directly from Chegg and some in the open marketplace.

We also increasingly use our website to liquidate textbooks from our textbook library, which allows us to generate greater recovery on our textbooks compared to bulk liquidations, while at the same time providing students substantial savings over the retail price of a new book. We are able to adjust what we liquidate based on expected rental demand. As an example, in the second half of 2013, we elected to optimize our textbook library more for rental than liquidation in anticipation of greater rental demand for the winter rush cycle. This decision led to less site liquidations in that quarter of the books that typically have higher source cost recovery but also increased our available inventory of books for rent. We source both new and used print textbooks for rental or resale from wholesalers, publishers and students. Purchasing used textbooks allows us to reduce the investments necessary to maintain our textbook library while at the same time attracting students to our website by offering them more for their textbooks than they could generally get by selling them back to their campus bookstore. Through these refinements to our model, we have achieved greater overall efficiency, enabling us to lower our per unit rental rates, which has driven revenue growth and, to a greater extent, print textbook unit volumes beginning in 2012.

Our Digital Offerings Business

Our digital offerings for students include the Student Hub, our connected learning platform, our web-based, multiplatform eTextbook Reader, eTextbooks and supplemental materials from approximately 120 publishers, which we offer as a rental-equivalent solution and for free for students awaiting the arrival of their print textbook rental, online tutoring, our Chegg Study service, College Admissions and Scholarship Services and free course planning and internship services. In addition, we offer enrollment marketing services to colleges, allowing them to reach interested college-bound high school students that use our College Admissions and Scholarship Services. We also work with leading brands, such as Adobe, Microsoft, Red Bull and Serve from American Express, to provide students with discounts, promotions and other products that, based on student feedback, delight them. For example, for Red Bull, we inserted a free can of Red Bull in select textbook rental shipments to students, and Microsoft sponsored a “Free Study Week,” which included free access to our Chegg Study service as well as additional free study materials. All of our brand advertising services and the discounts, promotions and other products provided to students are paid for by the brands.

Students typically pay to access eTextbooks for the academic term or subscribe for other services such as Chegg Study on a monthly or annual basis, while colleges subscribe to our enrollment marketing services and brands pay us depending on the nature of the campaign. While none of our digital offerings individually has amounted to more than 10% of our net revenues to date, in the aggregate these offerings amounted to 29% and 26% of net revenues during the three and six months ended June 30, 2014, up from less than 1% in 2010.

Seasonality of Our Business

A substantial majority of our revenue is recognized ratably over the term the student rents our textbooks or has access to our digital offerings. This generally results in our highest revenue in the fourth quarter as it reflects more days of the academic year and our lowest revenue in the second quarter as colleges conclude their academic year for summer and there are fewer days of rentals. The variable expenses associated with our shipments of textbooks and marketing activities are highest in the first and third quarters as shipping and other fulfillment costs and marketing expenses are expensed when incurred, generally at the beginning of academic terms. As a result of these factors, the most concentrated periods for our revenue and expenses do not necessarily coincide, and comparisons of our 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 consolidated statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net revenues	$64,492	$55,857	$138,885	$116,872
Cost of revenues (1)	38,596	29,607	104,081	79,061
Gross profit	25,896	26,250	34,804	37,811
Operating expenses(1):				
Technology and development	12,189	9,799	23,509	19,352
Sales and marketing	14,817	8,674	29,844	22,422
General and administrative	10,654	7,574	20,494	14,283
(Gain) loss on liquidation of textbooks	(2,122)	1,670	(3,800)	(609)
Total operating expenses	35,538	27,717	70,047	55,448
Loss from operations	(9,642)	(1,467)	(35,243)	(17,637)
Interest and other income (expense), net	29	(1,734)	88	(3,204)
Loss before provision for (benefit from) income taxes	(9,613)	(3,201)	(35,155)	(20,841)
Provision for (benefit from) income taxes	(1,367)	152	(1,150)	337
Net loss	$(8,246)	$(3,353)	$(34,005)	$(21,178)
(1) Includes stock-based compensation expense as follows:				
Cost of revenues	$134	$142	$312	$296
Technology and development	2,635	1,730	5,017	3,344
Sales and marketing	2,263	450	3,595	1,499
General and administrative	3,449	1,559	6,487	2,892
Total stock-based compensation expense	$8,481	$3,881	$15,411	$8,031

The following table summarizes our historical condensed consolidated statements of operations data as a percentage of net revenues for the periods shown:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net revenues	100%	100 %	100%	100 %
Cost of revenues	60	53	75	68
Gross profit	40	47	25	32

Operating expenses:				
Technology and development	19	18	17	17
Sales and marketing	23	16	21	19
General and administrative	16	14	15	12
(Gain) loss on liquidation of textbooks	(3)	3	(3)	(1)
Total operating expenses	55	51	50	47
Loss from operations	(15)	(4)	(25)	(15)
Interest and other income (expense), net	—	(2)	—	(3)
Loss before provision for (benefit from) income taxes	(15)	(6)	(25)	(18)
Provision for (benefit from) income taxes	(2)	—	(1)	—
Net loss	(13)%	(6)%	(24)%	(18)%

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Three and Six Months Ended June 30, 2014 and 2013

Net Revenues

The following table sets forth our net revenues for the periods shown, in addition to revenue details for our print textbook business and digital offerings business (dollars in thousands):

	Three Months Ended June 30,		Change	
	2014	2013	$	%
Print textbooks	$45,796	$43,748	$2,048	5 %
Digital offerings	18,696	12,109	6,587	54
Net revenues	$64,492	$55,857	$8,635	15%

	Six Months Ended June 30,		Change	
	2014	2013	$	%
Print textbooks	$102,421	$94,043	$8,378	9 %
Digital offerings	36,464	22,829	13,635	60
Net revenues	$138,885	$116,872	$22,013	19%

Net revenues in the three months ended June 30, 2014 increased $8.6 million, or 15%, compared to the same period during 2013 as a result of an increase in our digital offerings of 54% primarily from growth in new memberships of our Chegg Study service, an increase in eTextbook volumes, and growth in our enrollment marketing services. Digital offerings represented 29% and 22% of net revenues during the three months ended June 30, 2014 and 2013, respectively. Revenue from print textbooks increased $2.0 million in the three months ended June 30, 2014 as compared to the same period last year as a result of higher rental units and sales of textbooks.

Net revenue in the six months ended June 30, 2014 increased $22.0 million, or 19%, compared to the same period during 2013 as a result of an increase in our digital offerings of 60% primarily from growth in new memberships of our Chegg Study service, an increase in eTextbook volumes, growth in brand advertising and growth in our enrollment marketing services. Digital offerings represented 26% and 20% of net revenues during the six months ended June 30, 2014 and 2013, respectively. Revenue from print textbooks increased $8.4 million in the six months ended June 30, 2014 as compared to the same period last year as a result of higher rental units and sales of textbooks.

We anticipate that our digital offerings will continue to grow at a rate greater than our overall revenue growth in future periods.

Cost of Revenues

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

	Three Months Ended			
	June 30,		Change	
	2014	2013	$	%
Cost of revenues[1]	$38,596	$29,607	$8,989	30%
(1) Includes stock-based compensation expense	$134	$142	$(8)	(6)%

	Six Months Ended			
	June 30,		Change	
	2014	2013	$	%
Cost of revenues[1]	$104,081	$79,061	$25,020	32%
(1) Includes stock-based compensation expense	$312	$296	$16	5 %

Cost of revenues in the three months ended June 30, 2014 increased $9.0 million, or 30%, compared to the same period during 2013. The increase in absolute dollars and as a percentage of revenues for the three months ended June 30, 2014 was primarily due to an increase in, textbook depreciation of $3.7 million, write-offs and reserves related to our textbook library of $2.2 million and the cost of digital content of $1.1 million. The cost of digital content increased during the three months ended June 30, 2014 due to our expansion of digital content solutions made available to students. In addition we experienced an increase in the cost of textbooks purchased of $2.3 million, which was primarily driven by increased unit shipments.

Cost of revenues in the six months ended June 30, 2014 increased $25.0 million, or 32%, compared to the same period during 2013. The increase in absolute dollars and as a percentage of revenues for the six months ended June 30, 2014 was primarily due to an increase in order fulfillment and payment processing costs of $4.3 million, textbook depreciation of $7.3 million, write-offs and reserves related to our textbook library of $4.5 million and the cost of digital content of $1.9 million. The costs of digital content increased during the six months ended June 30, 2014 due to our expansion of digital content solutions made available to students. In addition we experienced an increase in the cost of textbooks purchased of $6.2 million, which was primarily driven by increased unit shipments.

Operating Expenses

The following table sets forth our operating expenses for the periods shown (dollars in thousands):

	Three Months Ended			
	June 30,		Change	
	2014	2013	$	%
Technology and development[1]	$12,189	$9,799	$2,390	24 %
Sales and marketing[1]	14,817	8,674	6,143	71
General and administrative[1]	10,654	7,574	3,080	41
(Gain) loss on liquidation of textbooks	(2,122)	1,670	(3,792)	n/m
	$35,538	$27,717	$7,821	28 %
(1) Includes stock-based compensation expense of:				
Technology and development	$2,635	$1,730	$905	52 %
Sales and marketing	2,263	450	1,813	n/m
General and administrative	3,449	1,559	1,890	121
Stock-based compensation expense	$8,347	$3,739	$4,608	123 %

	Six Months Ended			
	June 30,		Change	
	2014	2013	$	%
Technology and development[1]	$23,509	$19,352	$4,157	21 %
Sales and marketing[1]	29,844	22,422	7,422	33
General and administrative[1]	20,494	14,283	6,211	43

Gain on liquidation of textbooks	(3,800)	(609)	(3,191)	n/m
	$70,047	$55,448	$14,599	26 %
(1) Includes stock-based compensation expense of:				
Technology and development	$5,017	$3,344	$1,673	50 %
Sales and marketing	3,595	1,499	2,096	140
General and administrative	6,487	2,892	3,595	124
Stock-based compensation expense	$15,099	$7,735	$7,364	95 %

n/m – Not meaningful

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Technology and Development

Technology and development expenses during the three months ended June 30, 2014 increased $2.4 million, or 24%, compared to the three months ended June 30, 2013. During the three months ended June 30, 2014 our employee-related expenses and stock-based compensation expenses totaled $0.8 million and $0.9 million, respectively, compared to the same period in 2013. Stock-based compensation expense increased primarily due to expense associated with restricted stock units (RSUs) for which there was no expense prior to our IPO. In addition, we experienced an increase in web hosting costs of $0.7 million. Technology and development as a percentage of net revenues was 19% of net revenues in the three months ended June 30, 2014 compared to 18% of net revenues in the three months ended June 30, 2013.

Technology and development expenses during the six months ended June 30, 2014 increased $4.2 million, or 21%, compared to the six months ended June 30, 2013. During the six months ended June 30, 2014 our employee-related expenses and stock-based compensation expenses increased by $3.2 million compared to the same period in the prior year. Stock-based compensation expense increased primarily due to expense associated with RSUs for which there was no expense prior to our IPO. In addition, we experienced an increase in web hosting costs of $1.0 million. Technology and development as a percentage of net revenues was 17% of net revenues in each of the six month periods ended June 30, 2014 and 2013.

Sales and Marketing

Sales and marketing expenses during the three months ended June 30, 2014 increased by $6.1 million, or 71%, compared to the three months ended June 30, 2013. The increase in absolute dollars and as a percentage of revenues is primarily attributable to an increase in advertising and marketing expenses of $1.0 million as a result of search engine marketing to increase customer acquisition and online or social media marketing during the period compared to the three months ended June 30, 2013. In addition, during the three months ended June 30, 2014 our employee-related expenses and stock-based compensation increased $2.4 million and $1.8 million, respectively, compared to the same period in the prior year. The increase in employee related expenses increased primarily due to a higher average headcount and stock-based compensation increased primarily due to expense associated with RSUs for which there was no expense prior to our IPO. Sales and marketing expenses as a percentage of net revenues increased 23% during the three months ended June 30, 2014 compared to 16% of net revenues during the three months ended June 30, 2013.

Sales and marketing expenses during the six months ended June 30, 2014 increased by $7.4 million, or 33%, compared to the six months ended June 30, 2013. The increase in absolute dollars and as a percentage of revenues is primarily attributable to an increase in advertising and marketing expenses of $2.1 million as a result of search engine marketing to increase customer acquisition and online or social media marketing during the period compared to the six months ended June 30, 2013. In addition, during the six months ended June 30, 2014 our employee-related expenses and stock-based compensation increased $3.1 million and $2.1 million, respectively, compared to the same period in the prior year. The increase in employee related expenses increased primarily due to a higher average headcount and stock-based compensation increased primarily due to expense associated with RSUs for which there was no expense prior to our IPO. Sales and marketing expenses as a percentage of net revenues increased 21% during the six months ended June 30, 2014 compared to 19% of net revenues during the six months ended June 30, 2013.

General and Administrative

General and administrative expenses in the three months ended June 30, 2014 increased $3.1 million, or 41%, compared to the three months ended June 30, 2013. The increase in absolute dollars and as a percentage of net revenues was due to an increase in stock-based compensation expense of $1.9 million primarily due to expense associated with RSUs which did not incur expense prior to our IPO. In addition, employee-related and benefit expenses, audit and legal fees, and insurance increased by $0.8 million, as a result of Chegg now being a publicly traded company. General and administrative expenses as a percentage of net revenues increased to 16% during the three months ended June 30, 2014 compared to 14% of net revenues during the three months ended June 30, 2013.

General and administrative expenses in the six months ended June 30, 2014 increased $6.2 million, or 43%, compared to the six months ended June 30, 2013. The increase in absolute dollars and as a percentage of net revenues was due to an increase in stock-based compensation expense of $3.6 million primarily due to expense associated with RSUs which did not incur expense prior to our IPO.   Our employee-related and benefit expenses, audit and legal fees, insurance and professional fees increased by $2.2 million, as a result of Chegg now being a publicly traded company. General and administrative expenses as a percentage of net revenues increased to 15% during the six months ended June 30, 2014 compared to 12% of net revenues during the six months ended June 30, 2013.

(Gain) loss on Liquidation of Textbooks

In the three months ended June 30, 2014 and 2013, we had a net gain on liquidations of $2.1 million and a loss of $1.7 million, respectively, resulting from proceeds received from liquidation of previously rented print textbooks on our website and through various other liquidation channels. Our loss of $1.7 million in the three months ended June 30, 2013 was the result of liquidating textbooks through other liquidation channels resulting in lower proceeds than the net book value of the textbook.

In the six months ended June 30, 2014 and 2013, we had a net gain on liquidations of $3.8 million and $0.6 million, respectively, resulting from proceeds received from liquidation of previously rented print textbooks on our website and through various other liquidation channels.

Interest and Other Income (Expense), Net

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

	Three Months Ended June 30,		Change	
	2014	2013	$	%
Interest expense, net	$(127)	$(1,183)	$1,056	(89)%
Other income (expense), net	156	(551)	707	(128)
Total interest and other income (expense), net	$29	$(1,734)	$1,763	(102)%

	Six Months Ended June 30,		Change	
	2014	2013	$	%
Interest expense, net	$(188)	$(2,356)	$2,168	(92)%
Other income (expense), net	276	(848)	1,124	(133)
Total interest and other income (expense), net	$88	$(3,204)	$3,292	(103)%

Interest expense, net decreased by $1.1 million during the three months ended June 30, 2014 and $2.2 million during the six months ended June 30, 2014 primarily due to the pay-off of our outstanding loan balance in 2013.

Other income (expense), net was a net income during the three and six months ended June 30, 2014 primarily due to the interest earned on our investments compared to a net expense during the three and six months ended June 30, 2013 which resulted from an increase in the fair value of our preferred stock warrants prior to their conversion into common stock warrants.

Provision for (Benefit from) Income Taxes

The following table sets forth our provision (benefit) for income taxes for the periods shown (dollars in thousands):

	Three Months Ended June 30,		Change

	2014	2013	$	%
Provision from (benefit for) income taxes	$(1,367)	$152	$(1,519)	n/m

	Six Months Ended			
	June 30,		Change	
	2014	2013	$	%
Provision from (benefit for) income taxes	$(1,150)	$337	$(1,487)	n/m

n/m – Not meaningful

We recognized income tax benefit of $1.4 million and $1.2 million during the three and six months ended June 30, 2014, respectively, which was the result of the release of valuation allowance resulting from our acquisition of InstaEDU, offset by foreign and state income tax expense. We recognized income tax expense of $0.2 million and $0.3 million during the three and six months ended June 30, 2013, respectively, which was comprised of state and foreign income tax expense.

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Liquidity and Capital Resources

As of June 30, 2014, our principal sources of liquidity were cash, cash equivalents and investments totaling $78.5 million, which were held for working capital purposes. Our cash equivalents and investments are composed primarily of commercial paper, corporate securities, U.S. government treasuries and money market funds. We have $40.0 million available for draw down under our revolving credit facility with an accordion feature subject to certain financial criteria that would allow us to draw down to $75.0 million in total, which expires in August 2016. As of June 30, 2014, we were in compliance with all financial covenants.

Our print textbook business is highly capital intensive, and we typically use cash for our investing activities while we generate positive cash flows from operations. We capitalize the investment in our print textbook library and depreciate the value of our textbooks over their useful life as cost of revenues. During the six months ended June 30, 2014 and 2013, our investment in print textbooks, net of proceeds from textbook liquidations, was $34.0 million and $21.2 million, respectively. To the extent our business continues to grow, or as new textbook versions are published, we anticipate we will continue to purchase additional textbooks, resulting in a use of cash from investing activities. As of June 30, 2014, we have incurred cumulative losses of $239.1 million from our operations, and we expect to incur additional losses in the future. Our operations have been financed primarily by net proceeds from the sales of shares of our convertible preferred stock, through various debt financing activities and our IPO.

We believe that our existing sources of liquidity will be sufficient to fund our operations, debt service and repayment obligations for at least the next 12 months. However, our future capital requirements will depend on many factors, including the level of investment in textbooks to support our print textbook business and our ability to recover our source costs through the rental of textbooks and as we liquidate textbooks at the end of their lifecycle, our rate of revenue growth, our sales and marketing activities and the timing and extent of our spending to support our technology and development efforts. To the extent that existing cash and cash equivalents, investments 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.

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

	Six Months Ended June 30,	
	2014	2013
Consolidated Statements of Cash Flows Data:		
Net cash provided by operating activities	$22,598	$22,485
Net cash used in investing activities	(66,834)	(24,353)
Net cash provided by (used in) financing activities	(1,845)	2,477

Cash Flows from Operating Activities

Although we incurred net losses during the six months ended June 30, 2014 and 2013, we generated positive cash flows from operating activities, which was primarily the result of our increased textbook and digital offerings revenue. Cash flows from operating activities are also influenced by the increase in expenses we incur to support the growth in our business. The substantial majority of our net revenue is from e-commerce transactions with students, which are settled immediately through payment processors, and our accounts payable are settled based on contractual payment terms with our suppliers. As a result, changes in our operating accounts are generally a source of cash overall, although they can be a use of cash in the second and fourth quarters of each year as payables become due and new bookings are generally at their low point. In addition, we have significant non-cash operating expenses such as textbook library depreciation expense, other depreciation and amortization expense and stock-based compensation expense. During the six months ended June 30, 2014 and 2013, our non-cash operating expenses and changes in operating assets and liabilities more than offset our net loss.

Net cash provided by operating activities during the six months ended June 30, 2014 was $22.6 million. However, we incurred a net loss of $34.0 million, our net loss was more than offset by significant non-cash operating expenses, including textbook library depreciation expense of $38.1 million, other depreciation and amortization expense of $4.7 million, stock-based compensation expense of $15.4 million and loss from write-offs of textbooks of $6.8 million.

Net cash provided by operating activities in the six months ended June 30, 2013 was $22.5 million. Although we incurred a net loss of $21.2 million, our net loss was offset by significant non-cash operating expenses, including textbook library depreciation expense of $30.8 million, other depreciation and amortization expense of $6.4 million, stock-based compensation expense of $8.0 million and loss from write-offs of textbooks of $2.3 million.

Cash Flows from Investing Activities

Cash flows from investing activities have been primarily related to the acquisition of businesses, purchase of textbooks, investments and property and equipment, offset by proceeds from the sale or maturity of investments and the proceeds from the liquidation of textbooks. Net cash used in investing activities during the six months ended June 30, 2014 was $66.8 million and was primarily used for the acquisition of businesses of $43.9 million, purchases of textbooks of $52.8 million, purchases of investments of $54.9 million and purchases of property and equipment of $2.5 million, partially offset by proceeds from the sale or maturity of investments of $68.5 million and proceeds from the liquidation of textbooks of $18.7 million.

Net cash used in investing activities in the six months ended June 30, 2013 was $24.4 million and was primarily used for purchases of textbooks of $42.2 million and purchases of property and equipment of $3.2 million, partially offset by proceeds from liquidation of textbooks of $21.1 million.

Cash Flows from Financing Activities

Net cash used in financing activities during the six months ended June 30, 2014 was $1.8 million and was primarily related to the payment of $3.6 million in taxes related to the net share settlement of RSUs which became fully vested during the period off set by the issuance of common stock from our 2013 ESPP and proceeds from the exercise of stock options totaling $1.8 million.

Net cash provided by financing activities during the six months ended June 30, 2013 was $2.5 million and was related to proceeds from the exercise of stock options.

Contractual Obligations and Other Commitments

There were no 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.

Off-Balance Sheet Arrangements

Through June 30, 2014, 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 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, revenue, costs and expenses and related disclosures. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes in our critical accounting policies and estimates during the six months ended June 30, 2014 as compared to the critical accounting policies and estimates disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in our Annual Report on Form 10-K.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASU 2014-09). This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 provides companies with two implementation methods. Companies can choose to apply the standard retrospectively to each prior reporting period presented (full retrospective application) or retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (modified retrospective application). We are currently in the process of evaluating this new guidance. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is not permitted.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk during the six months ended June 30, 2014, compared to the disclosures in "Quantitative and Qualitative Disclosures about Market Risk" in Part II, Item 7A of our Annual Report on Form 10-K.

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.

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, 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 using similar rates for the two years under audit. We appealed to the Commonwealth of Kentucky Board of Tax Appeals on July 23, 2013 and the Board issued a ruling in favor of the Kentucky Department of Revenue on January 13, 2014. On February 7, 2014, we filed an appeal to the Franklin Circuit Court in Kentucky and on June 17, 2014 the court held in abeyance our motion to appeal. Due to the preliminary status and uncertainties related to this matter, 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 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 makes 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 revenue at scale from print textbook rentals until 2010. Since July 2010, we have expanded our free and paid offerings, in many instances through the acquisition of other companies, to include digital textbooks, (eTextbooks), supplemental materials in digital and print form, multiplatform eTextbook Reader software, Chegg Study, on-line tutoring, College Admissions and Scholarship Services, course selection tools, purchases of used textbooks, internships, careers, on-campus advertising, enrollment marketing services and brand advertising. We cannot assure you that our newer products and services, or any other products and services we may introduce or acquire, will be integrated effectively into our business, achieve or sustain profitability or achieve market acceptance at levels sufficient to justify our investment.

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Our ability to fully integrate these new products and services with our textbook offerings or achieve satisfactory financial results from them is unproven. Because we have a limited operating history 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 digital offerings, and the ultimate size of the market for our products and services. If the market for a connected learning platform does not develop as we expect, or if we fail to address the needs of this market, our business will be harmed.

You should consider our business and prospects in light of 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, evolving and unproven 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 connected learning platform and our mobile applications;
- attract and retain colleges, universities and other academic institutions, which we refer to collectively as "colleges," and brands 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;
- compete with companies that offer similar services or products;
- expand into adjacent markets;
- develop a profitable business model and pricing strategy;
- navigate the ongoing evolution and uncertain application of regulatory requirements, such as privacy laws, to our innovative business;
- maintain relationships with strategic partners, including publishers, wholesalers, distributors, colleges and brands;
- integrate and realize synergies of business 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.

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, 2014 and 2013 were $8.3 million and $3.4 million, respectively and for the six months ended June 30, 2014 and 2013 our net losses were $34.0 million and $21.2 million, respectively. As of June 30, 2014, we had an accumulated deficit of $239.1 million. We expect to make significant investments in the development and expansion of our business and anticipate that our cost of revenues and operating expenses will increase. We may not succeed in increasing our revenue 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, slowing demand for 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, difficulties, complications and delays and other unknown factors as we pursue our business plan and our business model continues to evolve. While our revenue has grown in recent periods, this growth may not be sustainable and we cannot assure you that we will be able to achieve profitability. To achieve profitability, we may need to change our operating infrastructure and scale our operations more efficiently. For example, we may need to reduce our costs or implement changes in our print textbook and digital offerings models to improve the predictability of our revenue. 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 operate in a rapidly changing market and our business model is evolving. If we do not successfully adapt to known or unforeseen market developments, our business and financial condition could be materially and adversely affected.

The market for our connected learning platform is still unproven and rapidly changing. Historically, we generated the majority of our revenue from our print textbook business. During the three and six months ended June 30, 2014, this business accounted for

71% and 74% of our revenue, respectively. The print textbook rental business is highly capital intensive and presents both business planning and logistical challenges that are complex. In part to address the highly capital intensive nature of the print textbook rental business, we recently entered into an agreement whereby, a third party will own and provide the fulfillment services for a portion of the books that we rent. This program may not be successful or the third party may not elect to extend the program.

Our investments in and the growth of our print textbook rental business are subject to risks as a result of changes taking place in the publishing industry and the increasing shift towards digital content. To the extent eTextbooks increase in popularity and demand for print textbooks declines, we anticipate that more and more eTextbooks will be published and distributed in the retail market, which could reduce the demand for print textbooks and materially and adversely affect our operating results. For example, publishers have significant flexibility in pricing eTextbooks due to their low production costs and may change their pricing strategies in the future, especially in light of increasing competition in the print textbook market and the rising costs of education. If the retail price of eTextbooks were to be significantly lower than print textbooks, consumers may purchase eTextbooks directly from the publisher or other retailers rather than use our print textbook or eTextbook services. In the short term, this would have a negative effect on our ability to utilize our print textbook library and could decrease revenue. In addition, the transition to eTextbooks will greatly reduce the capital requirements that currently serve as a barrier to entry in the textbook distribution market, may result in increased competition and may require us to make significant changes to our business model.

In recent years we have added and plan to continue to add new digital offerings to our platform to diversify our sources of revenue, which will require us to make substantial investments in the products and services we develop or acquire. New digital offerings may not achieve market success at levels that recover our investment or contribute to profitability. Because digital 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 digital offerings does not develop as we expect, or if we fail to address the needs of this market, our business will 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, universities or other academic institutions and brands find compelling, we will not be able to continue our recent growth and increase our revenue, margins and profitability. For all of these reasons, the evolution of our business model is ongoing and the future revenue and income potential of our business is uncertain.

Our business is highly seasonal and our reliance on a concentration of activity at the beginning of each academic term exposes our business to increased risk from disruption during peak periods and makes our operating results difficult to predict.

We derive a majority of our net revenues from print textbook rental 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 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 have to process during these limited periods of time means that any shortfalls or disruptions in our business 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 revenue fluctuates significantly quarter to quarter depending upon the timing of where we are in our “rush” cycle and sequential quarter-to-quarter comparisons of our revenue 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 digital offerings are relatively new and, as a result, we have limited experience with forecasting revenues from them. If we fail to meet our forecasts or investor expectations regarding these future results, the value of your investment could decline.

The fourth quarter is typically our highest performing quarter as we are recognizing a full quarter of revenue from peak volumes in August and September and partial revenue from peak volumes in December, while the second quarter typically is our lowest performing quarter as students start their summer vacations and the volume of textbook rentals and sales and purchases of supplemental materials and Chegg Study decreases. Because of our reliance on the academic calendar, we expect this seasonal fluctuation of sequential revenue decline from the fourth to the first then second quarters, followed by sequential increases in the third and fourth quarters, to continue in future periods.

We base our operating expense budgets on expected net revenue trends. Operating expenses, similar to revenue 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 textbook acquisition, shipping, other fulfillment and marketing expense in connection with our peak periods at the beginning of each academic term. Because our revenue is 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 comparison of our financial results may not be meaningful. In addition, a portion of our expenses, such as office space and warehouse facility lease obligations and personnel costs, are largely fixed and are based on our expectations of our peak levels of operations. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in net revenues may cause significant variation in operating results in any quarter.

If our efforts to attract new students and increase student engagement with our 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 connected learning platform. The substantial majority of our revenue 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 platform may decline or fluctuate because of several factors, including:

our ability to consistently provide students with a convenient, high quality experience for selecting, receiving and returning print textbooks;
our ability to accurately forecast and respond to student demand for textbooks;
the pricing of our textbooks for rental or sale in relation to other alternatives, including the textbook prices offered by publishers or by other competing textbook rental providers;
the quality and prices of the digital offerings that we offer to students compared to those of our competitors;
our ability to engage high school students with our College Admissions and Scholarship Services;
changes in student spending levels;
the effectiveness of our sales and marketing efforts;
our ability to introduce new products and services that are favorably received by students; and
the rate of adoption of eTextbooks and our ability to capture a significant share of that market.

If we do not attract more students to our connected learning platform and the products and services that we offer or if students do not increase their level of engagement with our platform, our revenue 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 revenues will be adversely affected.

Our failure to convince colleges and brands of the benefits of advertising on our platform or using our marketing services could harm our business.

Our business strategy includes increasing our revenue from enrollment marketing services and brand advertising. Colleges and brands may view our connected 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 colleges that use our enrollment marketing services and brands that use our brand advertising, and ultimately to generate advertising and marketing services revenue, depends on a number of factors, including:

competing effectively for advertising and marketing dollars from colleges, brands, online marketing and media companies and advertisers;
penetrating the market for student-focused advertising;

successfully developing a platform that can deliver advertising and marketing services across multiple channels, including print, email, personal computer and mobile and other connected devices;

our ability to improve our analytics and measurement solutions to demonstrate the value of our advertising and marketing services;

maintaining the retention, growth and engagement of our student user base;

legal developments relating to data privacy, advertising or marketing services, legislation and regulation and litigation;

- the strength of our brand and media reports and other publicity involving us or other companies that utilize online platforms for advertising and marketing purposes;
- our ability to create new products that sustain or increase the value of our advertising and marketing services and other commercial content;
- changes in the way online advertising and marketing services are priced; and
- the impact of macroeconomic conditions and conditions in the advertising industry and higher education in general.

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

Our ability to attract and retain students and increase their engagement with our 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. 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. If our new or enhanced products and services fail to engage our 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 revenue, operating margin or other value to justify our investments, and our business may be adversely affected. In the future, we may invest in new products and services and other initiatives to generate revenue, but there is no guarantee these approaches will be successful. Acquisitions of new companies and products creates integration risk, while development of new products and services and enhancements to existing products and services involves significant time, labor and expense and is 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 revenue as anticipated or recover any associated development costs, and our financial results could 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 base and increase student engagement with our platform. A strong brand also helps to counteract the significant student turnover we experience from year to year as students graduate.

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

- maintain our reputation as a trusted source of content and services for students;
- maintain the quality of and improve our existing products and services;
- continue to introduce products and services that are favorably received;
- adapt to changing technologies;
- adapt to students' rapidly changing tastes, preferences, behavior and brand loyalties;
- protect our students' data, such as passwords, personally identifiable information and credit card data;
- 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 the Zinch brand and the students who use Zinch.com, the InstaEDU brand and the students who use InstaEDU.com and the Campus Special brand, into the Chegg brand and Chegg.com.

Our ability to successfully achieve these goals is not entirely within our control and we cannot assure you that we will 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 products and services;
- concern from colleges about the ways students use our content offerings, such as our 24/7 Online Study Help 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;
- 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; and
- technical or other problems that prevent us from delivering our products and services in a rapid and reliable manner or that otherwise affect the student experience on our website.

Our future revenue depends 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. 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 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 revenue 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 platform.

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 students 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 business may 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 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, including the following:

an acquisition may negatively impact our results of operations because it:
may require us to incur charges and substantial debt or liabilities,
may cause adverse tax consequences, substantial depreciation or deferred compensation charges,
may 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, or
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may give rise to various litigation risks, including the increased likelihood of litigation;
we may not generate sufficient financial return to offset acquisition costs;
we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, 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 result in a delay in adoption rates or reduction in 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
an acquisition may involve the entry into geographic or business markets in which we have little or no prior experience.

Acquired companies can be complex and time consuming to integrate. For example, we have recently expanded into online tutoring, student deals and food ordering with the acquisition of InstaEDU in June 2014 and Campus Special in April 2014 and Zinch in 2011 and are currently in the process of transitioning those users to the Chegg platform and integrating these brands into Chegg by the end of 2014. We may not successfully transition these users to the Chegg platform.

In addition, we have made, and may make in the future, acquisitions that we later determine are not complementary with our evolving business model. For example, in 2011 we acquired, but later decided not to integrate into our business, Notehall and Student of Fortune and, as a result, in 2012 recorded an aggregate impairment charge of $0.6 million related to the write-off of intangible assets from both acquisitions.

Litigation arising from claims and lawsuits against companies that we acquire could be time-consuming, costly and detrimental to our reputation. For example, shortly after our acquisition of Student of Fortune in September 2011, a consortium of five publishers threatened litigation against us and the founders of Student of Fortune for copyright infringement for acts that occurred prior to the acquisition date. We settled the matter in October 2011. In February 2013, Apollo Group and University of Phoenix filed a complaint against us, our Chief Executive Officer and others in the U.S. District Court for the Southern District of New York for copyright infringement relating to content uploaded by third parties and made available through the Student of Fortune website that occurred prior to and following the acquisition date. We settled this matter in June 2013. We decided to discontinue the Student of Fortune business and shut down the website in August 2013. 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.

We may pursue additional acquisitions in the future to add specialized employees, complementary companies, products services or technologies. Our ability to acquire and integrate larger or more complex companies, products, 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 and require substantial restrictions on the conduct of our business. If we fail to successfully complete any acquisitions, integrate the services, products or technologies associated with such acquisitions into our company, or identify and address liabilities associated with the acquired business or assets, our business, revenue and operating results could be adversely affected. Any future acquisitions we complete may not achieve our goals.

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 students and increase their engagement with our platform, particularly at the beginning of each academic term;
- the rate of adoption of our digital offerings;
- our ability to manage our fulfillment processes to handle significant increases in the number of students and student selections, both in peak periods and resulting in potential growth in the volume of transactions over time;
- our ability to successfully utilize the Student Graph to target sales of complementary products and services;
- changes by our competitors to their product and service offerings;

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price competition and our ability to react appropriately to such competition;
our ability to manage our textbook library;
disruptions to our internal computer systems and our fulfillment information technology infrastructure, particularly during peak periods;
the effectiveness of our shipping center and those of our partners, particularly in 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 and technology resulting from acquisitions;
governmental regulation and taxation policies; and
general economic conditions and economic conditions specific to higher education.
We purchase and 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.

Our print textbook rental distribution model requires us to make substantial investments in our textbook library based on our expectations regarding numerous factors, including ongoing demand for these titles in print form. To realize a return on these investments, we must rent each purchased textbook multiple times, and as such, we are exposed to the risk of carrying excess or obsolete textbooks. We typically plan our 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 our textbook library. These factors are highly unpredictable and can fluctuate substantially, especially if pricing competition 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 our 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 us in a timely manner and in good condition so that we can re-rent or sell those textbooks. If the information we receive from third parties is not accurate or reliable, if students fail to return books to us or return damaged books to us, or if we for any other reason anticipate inaccurately and acquire insufficient copies of specific textbooks, we may be unable to satisfy student demand or we may have to incur significantly increased cost 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 acquire more copies than needed to satisfy student demand, then our textbook utilization rates would decline 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 us 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 acquire such textbooks and offer them for rent. If the textbooks we acquire are lost or damaged prematurely we may not be able to recover our costs or generate revenue on those textbooks. If we are unable to effectively make decisions about whether 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.

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

Our print textbook business is highly capital intensive. Historically, our use of cash to invest in our textbook library has 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 print textbook business is greater than we anticipated 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. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. 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.

If our relationships with the shipping providers, publishers, wholesalers or distributors 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.

We predominantly rely on United Parcel Service, or UPS, to deliver textbooks from our textbook warehouse and to return textbooks to us from our students. To a lesser extent we rely on FedEx for delivery of print textbook rentals and on publishers, distributors and wholesalers to fulfill textbook sales orders and liquidations. We are 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 the delivery failures or delays or damage rates for our textbooks increase as a result of any such factors, this would increase our cost to deliver textbooks. In addition, if our shipping vendors increased shipping costs for our textbooks, our gross profit could be affected adversely if we elect not to raise our rental rates to offset the increase. If UPS were to limit its services or delivery areas, such as by the discontinuation of Saturday delivery service, our ability to timely deliver textbooks could diminish, and our student satisfaction could be adversely affected. If our relationships with our shipping vendors are terminated or impaired or if our shipping vendors are unable to deliver merchandise for us, we would be required to rely on alternative carriers for delivery and return shipments of textbooks to and from students. We may be unable to sufficiently engage alternative carriers on a timely basis or on terms favorable to us, if at all. If we fail to timely deliver textbooks to students, they could become dissatisfied and discontinue their use of our service, which could adversely affect our operating results.

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. 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 Follet and Barnes & Noble, online marketplaces such as Amazon.com, eBay.com and Half.com and providers of eTextbooks such as Apple iTunes, CourseSmart, Blackboard and Google, 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 print textbook business competes primarily on price and could be adversely affected if our competitors, some of whom are substantially larger than us and have greater financial resources, adopt, or continue with aggressive pricing strategies. Our eTextbook business competes on price, selection and the functionality and the compatibility of our eTextbook Reader across a wide variety of desktop and mobile devices. With respect to the other digital offerings that we offer to students, our competitors include companies that offer students study materials and educational content such as publishers, Web Assign and other smaller tutorial services.

Enrollment Marketing Services. With respect to our enrollment marketing services, we compete against traditional methods of student recruitment, including student data providers such as The College Board, radio, television and Internet advertising and print mail marketing programs. In this area, we compete primarily on the basis of the number of high quality connections between prospective students and institutions of higher learning we are able to provide as well as on price.

Brand Advertising. With respect to brands, we compete with online and offline outlets that generate revenue from advertisers and marketers, especially those that target high school and college students.

Our industry is evolving rapidly and is becoming increasingly competitive. Many 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 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 print textbook rental business because of the added convenience they offer to students, which may result in reduced textbook rentals, loss of market share and reduced revenue. In addition, our competitors also may form or extend strategic alliances with publishers that could adversely affect our ability to obtain textbooks on favorable terms. We face similar risks from strategic alliances by other participants in the education ecosystem with respect to the digital offerings we offer. 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.

We rely heavily on our proprietary technology to process deliveries and returns of our 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 business.

We use complex proprietary software to process deliveries and returns of our 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 of textbooks from and returns of textbooks to our warehouse in a timely and efficient manner, particularly during peak periods, our ability to retain existing students and to add new students may be impaired.

Any significant disruption to our computer systems, especially during peak periods, could result in a loss of students and a decrease in revenue.

We rely on computer systems housed in two facilities, one located on the East Coast and one 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 live 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 could still result in service interruptions. 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. They also are subject to break-ins, sabotage, intentional acts of vandalism, 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. The occurrence of any of these events could result in interruptions in our service and unauthorized access to, theft or alteration of, the content and data contained on our systems. We also rely on systems and infrastructure of the Internet to operate our business and provide our services. Interruptions in our own systems or in the infrastructure of the Internet 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.

We rely on third-party software and service providers, including Amazon Web Services, or 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 and result in a loss of revenue.

We rely on third-party software and service providers, including AWS, to provide systems, storage and services 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. For example, AWS experienced a service disruption during the second quarter of 2012, which affected some aspects of the delivery of our products and services for approximately one day. While this particular event did not adversely impact our business, a similar outage of a longer duration or during peak periods could.

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 revenue or incur substantial recovery costs and distract management from operating our business. AWS may terminate its agreement with us upon 30 day 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 our operating results and financial condition.

We expect a disproportionate amount of activity to occur 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 or prevent us 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. If our platform is unavailable when students attempt to access it or it does not load as quickly as they expect, we may rent or sell fewer textbooks and services. In addition, during peak periods, we utilize independent contractors and temporary personnel to supplement our workforce primarily in our warehouse and student advocacy organizations. Competition for qualified personnel has historically been intense, and we may be unable to adequately staff our warehouse and student advocacy organizations during these peak periods. Moreover, UPS and FedEx, the third-party carriers that we rely 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. 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 revenue.

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. 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 system. 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 beginnings of each academic term, could adversely affect our business and results of operations.

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

It is important to our success that students be able to access our 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, human or software errors and capacity constraints due to an overwhelming number of students accessing our platform simultaneously. If our 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 revenue, 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 revenue any of which could adversely affect our business and financial results.

Growing our student user base and their engagement with our 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 Android and 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 application 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 we are not able to maintain the compatibility of our eTextbook Reader with third-party operating systems, demand for our eTextbooks may decline and have an adverse effect on our operating results.

Our eTextbook Reader 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. Our eTextbook Reader can be used across a variety of third-party operating systems. If we are not able to maintain the compatibility of our eTextbook Reader with third-party operating systems, demand for our eTextbooks could decline and revenue could be adversely affected. We may desire in the future to make our eTextbook Reader compatible with new or existing third-party operating systems that achieve popularity within the education marketplace, and these third-party operating systems may not be compatible with our designs. Any failure on our part to modify our applications to ensure compatibility with such third-party operating systems could reduce demand for our products and services.

If the transition from print to digital distribution does not proceed as we expect, our business and financial condition may 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 write-off excess print textbooks for which the rental demand has eroded. Further, our sale of used print textbooks represents a substantial source of cash from investing activities, and a substantial diminution on the value of these assets due to a shift in demand toward digital, or any other reason, could materially and adversely affect our financial condition. Conversely, if the transition to digital distribution of textbooks does not gain market acceptance as we expect, our 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, the ability to distribute a larger library of eTextbooks compared to print textbooks and lower cost of revenues.

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. We do not have long-term contracts or arrangements with most publishers that guarantee the availability of eTextbooks. If we are unable to secure and maintain rights to distribute eTextbooks to students upon terms that are acceptable to us, or if publishers terminate their agreements with us, we would not be able to acquire eTextbooks 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 eTextbooks 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 consumers 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.

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 providers of mobile application "store fronts" 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' 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.

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 without advertising to students, such as our Courses service that require investment by us, in order to promote a more comprehensive solution. As part of our College Admissions and Scholarship Services marketing efforts, we identify select partner organizations who offer complementary content and services that support students in exploring colleges. We enable these partner organizations to use our college match service through their websites to enable students to request information about colleges of interest. 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 work with the nonprofit conservation organization American Forest to plant trees around the world and our funding has enabled the planting of more than five million trees to date and 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 the student 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 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 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 remains 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.

Our failure to comply with the terms of our revolving credit facility or term loan facility could have a material adverse effect on us.

We have an outstanding $40.0 million revolving credit facility with an accordion feature subject to certain financial criteria that would allow us to draw down to $75.0 million in total, with Bank of America as lender and letter of credit issuer that expires in August 2016. We currently have no amount drawn down under our credit facility. If we default on our credit obligations, our lenders may, among other things, require immediate repayment of amounts drawn on our credit facilities, terminate our credit facilities or require us to pay significant fees, penalties or damages.

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;
- 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;
- enter into secured financing arrangements;
- enter into sale and leaseback transactions; and
- enter into unrelated businesses.

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.

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 United States 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 revenue. 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 is also 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. The adoption of any laws or regulations that adversely affect the popularity or growth in use of the Internet particularly for educational services, including laws limiting the content that we can offer, 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 online services.

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, including credit card information. In the future, 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 to be 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, state and other laws 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. 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, or 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 Federal Trade Commission and the 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 on-line, social media companies. Similar actions may also impact us directly, particularly because high school students who use our 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 directed to children under 13, 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.

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.

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

We maintain personal data regarding students who use our platform, including names and, in many cases, mailing addresses. We take measures to protect against unauthorized intrusion into our student users' data. If, despite these measures, we or our payment processing services experience any unauthorized intrusion into our student users' data, current and potential student users 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 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. Similarly, if a well-publicized breach of the consumer data security of any other major consumer website were to occur, there could be a general public loss of confidence in the use of the Internet for commerce transactions which could adversely affect our business. 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. While we do have safeguards in place, we nonetheless may experience some loss from these fraudulent transactions. A failure to adequately control fraudulent credit card transactions would harm our business and results of operations.

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 or course reviews. If we become liable, then our business may suffer. 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 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 cannot assure you that we are 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, or DMCA, has provisions that limit, but do not necessarily eliminate, our liability for caching or hosting, or for listing or linking to, 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 this Act. 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 laws pertaining to this Act change, we may be subject to potential liability for caching or hosting, or for listing or linking to, 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, monitor potentially infringing content of which we become aware. 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. For example, in September 2011, a consortium of five publishers threatened litigation against us and the founders of Student of Fortune, which we had then recently acquired, for copyright infringement for acts that occurred prior to the acquisition date. We settled the matter in October 2011. In February 2013, Apollo Group and University of Phoenix filed a complaint against us, our Chief Executive Officer and others in the U.S. District Court for the Southern District of New York for copyright infringement relating to content uploaded by third parties and made available through the Student of Fortune website prior to and following the acquisition date. We settled this matter in June 2013. Separately, we decided to discontinue the Student of Fortune business and shut down the website in August 2013. 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 results.

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, 2014, we had four patents and 33 patent applications pending, primarily in the United States and ten patents pending internationally. We own four U.S. registered copyrights and have unregistered copyrights in our eTextbook Reader software, software documentation, marketing materials and website content that we develop. We own the registered U.S. trademarks “Campus Special,” “Chegg,” “Chegg.com,” “Chegg for Good,” “CourseRank,” “Cramster,” “InstaEDU,” “Zinch” and “#1 In Textbook Rentals,” among others, as well as a variety of service marks. We own over 350 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, in 2012, we entered into an agreement with a textbook publisher that provides access to textbook solutions content for our Chegg Study service over a five-year term, for which we paid 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 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.

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 merchandizing 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 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.

We currently own over 350 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 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 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.

Students use and earn a virtual reward currency through our 24/7 Online Study Help service, which subjects us to increased risk of fraud and security breaches and may subject us to additional regulatory requirements in the future.

We use a virtual reward currency system to run our 24/7 Online Study Help service. Students use points to ask questions and students that answer questions can earn points. A membership to our Chegg Study service includes 5,000 points a month. Earned points can be redeemed for rewards like iTunes, Starbucks or Target gift cards and discounts on textbook orders. While we develop and maintain systems to process, manage and authenticate our virtual reward currency, including systems to detect and prevent data breaches and fraudulent activity, the development and maintenance of these systems require ongoing monitoring and updating, and we may not be able to prevent breaches of our security measures. The possibility of security breaches and fraudulent or other malicious activities to gain access to our points system to fraudulently issue or obtain points cannot be eliminated entirely. We have, in the past, discovered fraudulent issuances of virtual reward currency, which did not result in any material disruption to our 24/7 Online Study Help service or adversely affect our operating results. However, if our systems are breached again and if actual or perceived fraud or other illegal activities involving our virtual reward currency were to rise due to the actions of third parties, employee error, malfeasance or otherwise, it could lead to student dissatisfaction, increased costs, damage to our reputation and brand and have a material adverse impact on our business.

In addition, if virtual reward assets are lost, or if students do not receive their purchased virtual reward currency, we may be required to issue refunds, receive negative publicity, lose students or become subject to regulatory investigation or class action litigation. Any of these problems could harm our reputation or cause us to lose students or revenue and distract management from operating our business.

Moreover, if existing laws or new laws regarding the regulation of currency and banking institutions were to be interpreted to cover virtual reward currency or goods, we may be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements, and we may be subject to additional regulation and oversight, all of which could significantly increase our operating costs.

Worsening or stagnant economic conditions and their effect on funding levels of colleges, spending behavior by students and advertising budgets, may adversely affect our business and operating results.

Our business is dependent on, among other factors, general economic conditions, which affect college funding, student spending and brand advertising. The economic downturn and slow economic recovery over the last several years has resulted in reductions in both state and federal funding levels at colleges across the United States, which has led to increased tuition and decreased amounts of financial aid offered to students. To the extent that the economy continues to stagnate 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 customer categories 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 Israel, India and the People’s Republic of China (China), we indirectly contract with individuals in the Ukraine, and we expect to continue to expand our international operations in the future. 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;
- 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 could slow, student engagement could decrease, and we could lose revenue. Any reduction in the number of students directed to our website would harm our business and operating results.

In addition to our U.S. operations, we currently offer our college and university matching service in China. The Chinese government may seek to restrict access to the Internet or to our website specifically and our content and services could be suspended, blocked (in whole or in part) or otherwise adversely impacted in China. Any restrictions on the use of our website by students could lead to the loss or slowing of growth in the number of students who use our platform or the level of student engagement.

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. In the recent past, California has experienced deficiencies in its power supply, resulting in occasional rolling blackouts. Our textbook warehouse is located in Shepardsville, Kentucky, which is adjacent to a flood zone. We store our textbook library in a single location in Kentucky and 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 our warehouse and our textbook library, our ability to fulfill orders for textbook rental and sales transactions would 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, investors may lose confidence in the accuracy and completeness of our financial reports, which may cause the trading price of our common stock to decline.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting beginning with our Annual Report on Form 10-K for the year ending December 31, 2014. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting until our first annual report required to be filed with the SEC, following the later of the date we are deemed to be an “accelerated filer” or a “large accelerated filer,” each as defined in the Securities Exchange Act of 1934, as amended (Exchange Act), or the date we are no longer an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (JOBS Act). We will be required to disclose changes made in our internal controls and procedures on a quarterly basis. We may need to undertake various actions to comply with these requirements, such as implementing new internal controls and procedures and hiring accounting or internal audit staff.

We are in the process of designing, implementing and testing the internal control over financial reporting necessary to comply with Section 404 of the Sarbanes-Oxley Act, which is time consuming, costly and complicated. We have not completed these procedures and until these controls are fully implemented and tested there is a possibility that a material misstatement would not be prevented or detected on a timely basis. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective.

If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control at the time that such an opinion would be required, investors could lose confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline, and we may be subject to investigation or sanctions by the SEC.

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. For example, we appealed to the Kentucky Tax Authority’s property tax assessment on our textbook library located in our Kentucky warehouse and the Commonwealth of Kentucky issued a ruling in favor of the Kentucky Department of Revenue in January 2014, which we appealed to the Franklin Circuit Court in Kentucky in February 2014 (see discussion above under Part II Item I “Legal Proceedings”). In addition, 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. Further, we file sales tax returns in a number of states within the United States as required by law and collect and remit sales tax for some content owners. We do not collect sales or other similar taxes in some U.S. and foreign jurisdictions, with respect to some of our sale, rental or subscription transactions; because we believe that they do not apply to the relevant transactions. However, these and other tax laws and regulations are ambiguous or their application to our business is uncertain, and the interpretation of them may be subject to change. In addition, one or more states could seek to impose new or additional sales, use or similar tax collection and record-keeping obligations on us. Any successful action by federal, state, foreign or other authorities to impose or collect additional income or property taxes, or compel us to collect and remit sales, use or similar taxes, either retroactively, prospectively or both, could and 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, 2013, we had federal and state net operating loss carryforwards due to prior period losses of approximately $98.3 million and $37.5 million, respectively, which if not utilized will begin to expire in 2025 and 2014 for federal and state purposes, respectively. At December 31, 2013, we also had federal tax credit carryforwards of approximately $1.7 million, which if not utilized will begin to expire in 2031, and state tax credit carryforwards of approximately $2.0 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.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, 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 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.

Risks Related to Ownership of Our Common Stock

Our stock price has been and will likely continue to be volatile and you could lose all or part of your investment.

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 $4.82 to $11.25 through June 30, 2014. 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 revenue 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 revenue generated by our digital 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 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;
additional shares of our common stock being sold into the market by us or our existing stockholders or the anticipation of such sales;
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;
terrorist attacks or natural disasters or other such events impacting countries where we have operations; and
general economic, political and market conditions, such as recessions, interest rate changes and currency fluctuations.

Furthermore, the 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.

Our insiders who are significant stockholders may control the election of our board of directors and may have interests that conflict with those of other stockholders.

Our directors, executive officers and holders of 5% of more of our common stock, together with their affiliates, beneficially owned, in the aggregate, approximately 60.4% of our outstanding capital stock as of June 30, 2014 (including shares issuable upon settlement of restricted stock units held by the respective person or group that will vest within 60 days of that date and options exercisable by those holders within 60 days of that date). As a result, acting together, this group has the ability to exercise significant control over most matters requiring our stockholders' approval, including the election and removal of directors and significant corporate transactions. This concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could have a material adverse effect on our stock price and may prevent attempts by our stockholders to replace or remove our board of directors or management.

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, you may only receive a return on your 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.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to "emerging growth companies" will make our common stock less attractive to investors.

We are an "emerging growth company," as defined under the JOBS Act. For so long as we are an "emerging growth company," we may take advantage of certain exemptions from reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We could be an "emerging growth company" for up to five years, although we may lose such status earlier, depending on the occurrence of certain events. We will remain an "emerging growth company" until the earliest to occur of (i) the last day of the year (a) following the fifth anniversary of this offering, (b) in which we have total annual gross revenue of at least $1.0 billion or (c) in which we are deemed to be a "large accelerated filer" under the Exchange Act, which means that the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30, and (ii) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period.

We cannot predict if investors will find our common stock less attractive or our company less comparable to certain other public companies because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the JOBS Act, "emerging growth companies" can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and will be subject to the same new or revised accounting standards as other public companies that are not "emerging growth companies."

Delaware law and provisions in our restated certificate of incorporation and restated bylaws that went into effect at the closing of our IPO 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.

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

Use of Proceeds

On November 12, 2013, the SEC declared our registration statement on Form S-1 (File No. 333-190616) effective for initial public offering (IPO). As previously disclosed in our Annual Report on Form 10-K, we received net proceeds of approximately $162.9 million and had $138.3 million of cash and investments remaining as of December 31, 2013. During the six months ended June 30, 2014, (i) we used $14.0 million to acquire Campus Special, $31.1 million to acquire InstaEDU and $0.5 million to acquire Bookstep, (ii) we made payments of taxes related to the net share settlement of RSUs, and (iii) we used cash for working capital purposes. The remaining $78.5 million is invested in short-term and long-term investment grade securities and cash equivalents held for working capital purposes. There has been no material change in our planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on November 13, 2013 pursuant to Rule 424(b) under the Securities Act.

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.

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.
Date: August 8, 2014	By:	/s/ Andrew Brown
		Andrew Brown
		Vice President, Chief Financial Officer
		(Duly Authorized Officer and Principal Financial Officer)

Index to Exhibits

Exhibit No.	Exhibit	Incorporated by Reference Form	File No	Filing Date	Exhibit No.	Filed Herewith
10.01	First Amendment to Credit Agreement, dated June 30, 2014, by and among Bank of America, N.A. and the domestic subsidiaries of Chegg, Inc.					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 (Securities Act) or the Exchange Act.

+ In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.