CHEGG, INC
Form 10-Q
May 08, 2015
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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 March 31, 2015
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-36180

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

Delaware	20-3237489
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

3990 Freedom Circle
Santa Clara, CA, 95054
(Address of principal executive offices)
(408) 855-5700
(Registrant’s telephone number, including area code)
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 ¨
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 April 30, 2015, the Registrant had 86,049,734 outstanding shares of Common Stock.

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

“Chegg,” “Chegg.com,” “Chegg for Good,” “CourseRank,” “Cramster,” “InstaEDU,” "internships.com" “Zinch” and “#1 in Te 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,” “plans to,” “if,” “future,” and similar expressions are intended 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.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

See Notes to Condensed Consolidated Financial Statements

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

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

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2015	2014
Net loss	$(28,542)	$(25,759)
Other comprehensive (loss) income:		
Net change in unrealized gain (loss) on available for sale investments	22	(16)
Change in foreign currency translation adjustments	22	23
Other comprehensive income	44	7
Total comprehensive loss	$(28,498)	$(25,752)

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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CHEGG, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Background and Basis of Presentation

Company and Background

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

Basis of Presentation

The accompanying condensed consolidated balance sheet as of March 31, 2015, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss and the condensed consolidated statements of cash flows for the three months ended March 31, 2015 and 2014, and the related footnote disclosures are unaudited. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, including normal recurring adjustments, necessary to present fairly our financial position as of March 31, 2015 and our results of operations and cash flows for the three months ended March 31, 2015 and 2014. The results of operations for the three months ended March 31, 2015 and cash flows for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year.

We operate in a single segment. Our fiscal year ends on December 31 and in this report we refer to the year ended December 31, 2014 as 2014.

The condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2014 (the Annual Report on Form 10-K) filed with the U.S. Securities and Exchange Commission (SEC).

Except for Restructuring charges, which is discussed below, there have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Annual Report on Form 10-K.

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

Use of Estimates

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

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Restructuring Charges

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

Recent Accounting Pronouncements

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

Note 2. Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options, warrants and RSUs, to the extent dilutive. Basic and diluted net loss per share was the same for each period presented as the inclusion of all potential common shares outstanding would have been anti-dilutive.

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

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net loss	$(28,542)	$(25,759)
Denominator:		
Weighted-average common shares outstanding	84,794	82,259
Less: Weighted-average unvested common shares subject to repurchase or forfeiture	—	(78)
Weighted-average common shares used in computing basic and diluted net loss per share	84,794	82,181
Net loss per share, basic and diluted.	$(0.34)	$(0.31)

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

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

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

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

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