

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

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended June 30, 2015

or

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

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

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

Delaware
(State or other jurisdiction of
incorporation or organization)
3990 Freedom Circle
Santa Clara, CA, 95054
(Address of principal executive offices)
(408) 855-5700
(Registrant's telephone number, including area code)

20-3237489
(I.R.S. employer
identification no.)

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

Title of each class
Common Stock, \$0.001 par value per share

Name of each exchange on which registered
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 No

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

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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

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (“Amendment No. 1”) amends the Quarterly Report on Form 10-Q of Chegg, Inc. (the “Company”) for the fiscal quarter ended June 30, 2015, filed with the Securities and Exchange Commission (“SEC”) on August 6, 2015 (the “Original 10-Q”). The sole purpose of this Amendment No. 1 is to file corrected certifications required by Rules 13a-14(e) and 15d-15(e) of the Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the “302 Certifications”), because certain provisions of the 302 Certifications were inadvertently omitted when the Original 10-Q was filed. The amended 302 Certifications are being filed in their entirety as Exhibits 31.01 and 31.02 to this Amendment No. 1.

Except as described above, no changes have been made to the Original 10-Q and this Amendment No. 1 does not modify, amend, or update in any way any of the financial or other information set forth in the Original 10-Q. This Amendment No. 1 does not reflect any events that have occurred subsequent to August 6, 2015, the filing date of the Original 10-Q. Accordingly, this Amendment No. 1 should be read in conjunction with the Original 10-Q and the Company’s subsequent filings made with the SEC since August 6, 2015.

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHEGG, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2015	December 31, 2014
	(unaudited)	*
Assets		
Current assets		
Cash and cash equivalents	\$35,087	\$56,117
Short-term investments	27,409	33,346
Accounts receivable, net of allowance for doubtful accounts of \$261 and \$559 at June 30, 2015 and December 31, 2014, respectively	12,131	14,396
Prepaid expenses	7,657	3,091
Other current assets	16,872	3,864
Total current assets	99,156	110,814
Long-term investments	4,727	1,451
Textbook library, net	61,260	80,762
Property and equipment, net	18,569	18,369
Goodwill	91,301	91,301
Intangible assets, net	10,629	13,626
Other assets	1,922	1,804
Total assets	\$287,564	\$318,127
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$3,832	\$10,945
Deferred revenue	19,752	24,591
Accrued liabilities	23,903	31,183
Total current liabilities	47,487	66,719
Long-term liabilities		
Total other long-term liabilities	4,732	4,365
Total liabilities	52,219	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 June 30, 2015 and December 31, 2014, respectively	—	—
Common stock, \$0.001 par value 400,000,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; 87,560,103 and 84,008,043 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	88	84
Additional paid-in capital	543,789	516,845
Accumulated other comprehensive gain (loss)	14	(13
Accumulated deficit	(308,546	) (269,873
Total stockholders' equity	235,345	247,043
Total liabilities and stockholders' equity	\$287,564	\$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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net revenues:				
Rental	\$32,782	\$42,257	\$70,496	\$89,113
Services	29,276	18,599	60,643	35,845
Sales	5,003	3,636	20,794	13,927
Total net revenues	67,061	64,492	151,933	138,885
Cost of revenues:				
Rental	21,238	29,889	59,793	77,586
Services	9,975	4,912	21,812	12,568
Sales	5,043	3,795	20,144	13,927
Total cost of revenues	36,256	38,596	101,749	104,081
Gross profit	30,805	25,896	50,184	34,804
Operating expenses:				
Technology and development	13,268	12,189	29,412	23,509
Sales and marketing	12,382	14,817	33,774	29,844
General and administrative	11,943	10,654	23,720	20,494
Restructuring charges	464	—	2,978	—
Loss (gain) on liquidation of textbooks	2,445	(2,122)	(1,740)	(3,800)
Total operating expenses	40,502	35,538	88,144	70,047
Loss from operations	(9,697)	(9,642)	(37,960)	(35,243)
Interest expense and other income, net:				
Interest expense, net	(60)	(127)	(121)	(188)
Other income, net	56	156	132	276
Total interest expense and other income, net	(4)	29	11	88
Loss before provision for (benefit from) income taxes	(9,701)	(9,613)	(37,949)	(35,155)
Provision for (benefit from) income taxes	430	(1,367)	724	(1,150)
Net loss	\$(10,131)	\$(8,246)	\$(38,673)	\$(34,005)
Net loss per share, basic and diluted	\$(0.12)	\$(0.10)	\$(0.45)	\$(0.41)
Weighted average shares used to compute net loss per share, basic and diluted	86,741	83,209	85,771	82,686
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		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net loss	\$(10,131	) \$(8,246	) \$(38,673	) \$(34,005
Other comprehensive (loss) income:				
Net change in unrealized loss (gain) on available for sale investments	(17	) 54	5	38
Change in foreign currency translation adjustments	—	(27	) 22	(4
Other comprehensive (loss) income:	(17	) 27	27	34
Total comprehensive loss	\$(10,148) \$(8,219) \$(38,646) \$(33,971

See Notes to Condensed Consolidated Financial Statements.

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CHEGG, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities		
Net loss	\$(38,673	) \$(34,005
Adjustments to reconcile net loss to net cash provided by operating activities:		
Textbook library depreciation expense	27,476	38,130
Amortization of warrants and deferred loan costs	70	117
Other depreciation and amortization expense	6,413	4,544
Share-based compensation expense	22,851	15,411
Provision for bad debts	(269	) 197
Gain on liquidation of textbooks	(1,740	) (3,800
Loss from write-offs of textbooks	3,611	6,805
Deferred income taxes	—	(1,626
Realized gain on sale of securities	—	(18
Loss from disposal of property and equipment	918	—
Change in assets and liabilities net of effect of acquisition of businesses:		
Accounts receivable	116	(2,211
Prepaid expenses and other current assets	(17,405	) (1,774
Other assets	(253	) (470
Accounts payable	(6,150	) 2,988
Deferred revenue	(4,839	) 1,241
Accrued liabilities	(5,574	) (2,803
Other liabilities	389	(128
Net cash (used in) provided by operating activities	(13,059	) 22,598
Cash flows from investing activities		
Purchases of textbooks	(31,275	) (52,781
Proceeds from liquidations of textbooks	22,693	18,737
Purchases of marketable securities	(17,127	) (54,882
Proceeds from sale of marketable securities	—	38,860
Maturities of marketable securities	19,690	29,600
Purchases of property and equipment	(4,146	) (2,496
Acquisition of businesses, net of cash acquired	—	(43,872
Net cash used in investing activities	(10,165	) (66,834
Cash flows from financing activities		
Proceeds from issuance of common stock under employee stock plans	1,399	1,743
Proceeds from exercise of common stock under employee stock plans	10,530	—
Payment of taxes related to the net share settlement of RSUs	(7,472	) (3,588
Repurchase of common stock	(2,263) —
Net cash provided by (used in) financing activities	2,194	(1,845
Net decrease in cash and cash equivalents	(21,030	) (46,081
Cash and cash equivalents, beginning of period	56,117	76,864
Cash and cash equivalents, end of period	\$35,087	\$30,783
Cash paid during the period for:		
Interest	\$50	\$31

Income taxes	\$571	\$445
Non-cash investing and financing activities:		
Accrued purchases of long-lived assets	\$3,805	\$5,528
Issuance of common stock related to prior acquisition	\$825	\$1,585
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 June 30, 2015, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2015 and 2014, the condensed consolidated statements of cash flows for the six months ended June 30, 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 June 30, 2015, our results of operations for the three and six months ended June 30, 2015 and 2014, and cash flows for the six months ended June 30, 2015 and 2014. The results of operations for the three and six months ended June 30, 2015 and cash flows for the six months ended June 30, 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 are 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 for which we take title and bear the risk of loss; service revenue includes Chegg Study, brand advertising, eTextbooks, tutoring, enrollment marketing, and commissions we earn from Ingram and other e-commerce partners; 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 impact previously reported condensed consolidated revenue, cost of revenue, operating income, or earnings per share.

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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 assigned 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.

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.

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Note 2. Net Loss Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net loss	\$(10,131)	\$(8,246)	\$(38,673)	\$(34,005)
Denominator:				
Weighted-average common shares outstanding	86,741	83,255	85,771	82,760
Less: Weighted-average unvested common shares subject to repurchase or forfeiture	—	(46)	—	(74)
Weighted-average common shares used in computing basic and diluted net loss per share	86,741	83,209	85,771	82,686
Net loss per share, basic and diluted.	\$(0.12)	\$(0.10)	\$(0.45)	\$(0.41)

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Options to purchase common stock	8,849	15,579	12,011	14,925
RSUs and PSUs	107	714	98	260
Employee stock purchase plan	8	—	8	—
Common stock subject to repurchase or forfeiture	—	40	—	40
Warrants to purchase common stock	324	996	399	996
Total common stock equivalents	9,288	17,329	12,516	16,221

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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 June 30, 2015 and December 31, 2014:

	June 30, 2015			December 31, 2014		
	Cost	Net Unrealized Gain/(Loss)	Fair Value	Cost	Net Unrealized Gain/(Loss)	Fair Value
Cash and cash equivalents:						
Cash	\$26,093	\$—	\$26,093	\$49,836	\$—	\$49,836
Money market funds	5,995	—	5,995	5,828	—	5,828
Commercial paper	2,999	—	2,999	453	—	453
Total cash and cash equivalents	\$35,087	\$—	\$35,087	\$56,117	\$—	\$56,117
Short-term investments:						
Commercial paper	\$11,044	\$—	\$11,044	\$13,435	\$—	\$13,435
Corporate securities	16,366	(1)	16,365	18,426	(15)	18,411
Certificate of deposit	—	—	—	1,499	1	1,500
Total short-term investments	\$27,410	\$(1)	\$27,409	\$33,360	\$(14)	\$33,346
Long-term investments:						
Corporate securities	\$3,736	\$(10)	\$3,726	\$1,453	\$(2)	\$1,451
Agency bond	1,001	—	1,001	—	—	—
Long-term corporate securities	\$4,737					