# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2020**
**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)**

| **Title of each class** | **Trading symbol(s)** | **Name of each exchange on which registered** |
|---|---|---|
| Common stock, $0.001 par value per share | CHGG | The New York Stock Exchange |

- Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
- Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐
- Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer (Do not check if a smaller reporting company) | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

- If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
- Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
- As of May 1, 2020, the Registrant had 123,646,480 outstanding shares of Common Stock.

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

Chegg, Chegg.com, Chegg Study, internships.com, Research Ready, EasyBib, the Chegg “C” logo, and Thinkful, 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, our objectives for future operations, and the impact of the ongoing coronavirus (COVID-19) pandemic on our financial condition and results of operations are forward-looking statements. The words “believe,” “may,” “will,” “would,” “could,” “estimate,” “continue,” “anticipate,” “intend,” “project,” “endeavor,” “expect,” “plans to,” “if,” “future,” “likely,” “potentially,” 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, such as the COVID-19 global pandemic. Many of the risks and uncertainties are currently elevated by, and may or will continue to be elevated by, the current COVID-19 pandemic. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

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

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 359,101 | $ 387,520 |
| Short-term investments | 404,794 | 381,074 |
| Accounts receivable, net of allowance of $160 and $56 at March 31, 2020 and December 31, 2019, respectively | 6,493 | 11,529 |
| Prepaid expenses | 17,852 | 10,538 |
| Other current assets | 19,528 | 16,606 |
| Total current assets | 807,768 | 807,267 |
| Long-term investments | 273,114 | 310,483 |
| Textbook library, net | 31,673 | — |
| Property and equipment, net | 97,889 | 87,359 |
| Goodwill | 214,323 | 214,513 |
| Intangible assets, net | 32,075 | 34,667 |
| Right of use assets | 14,608 | 15,931 |
| Other assets | 23,554 | 18,778 |
| Total assets | $ 1,495,004 | $ 1,488,998 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities | | |
| Accounts payable | $ 13,605 | $ 7,362 |
| Deferred revenue | 35,753 | 18,780 |
| Current operating lease liabilities | 5,234 | 5,283 |
| Accrued liabilities | 47,241 | 39,964 |
| Total current liabilities | 101,833 | 71,389 |
| Long-term liabilities | | |
| Convertible senior notes, net | 913,249 | 900,303 |
| Long-term operating lease liabilities | 13,012 | 14,513 |
| Other long-term liabilities | 3,983 | 3,964 |
| Total long-term liabilities | 930,244 | 918,780 |
| Total liabilities | 1,032,077 | 990,169 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $0.001 par value – 10,000,000 shares authorized, no shares issued and outstanding | — | — |
| Common stock, $0.001 par value 400,000,000 shares authorized; 123,542,833 and 121,583,501 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively | 124 | 122 |
| Additional paid-in capital | 890,258 | 916,095 |
| Accumulated other comprehensive loss | (5,362) | (1,096) |
| Accumulated deficit | (422,093) | (416,292) |
| Total stockholders' equity | 462,927 | 498,829 |
| Total liabilities and stockholders' equity | $ 1,495,004 | $ 1,488,998 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Net revenues | $ 131,590 | $ 97,409 |
| Cost of revenues | 42,390 | 23,335 |
| Gross profit | 89,200 | 74,074 |
| Operating expenses: | | |
| Research and development | 39,541 | 32,692 |
| Sales and marketing | 20,238 | 18,717 |
| General and administrative | 26,145 | 23,670 |
| Restructuring charges | — | 22 |
| Total operating expenses | 85,924 | 75,101 |
| Income (loss) from operations | 3,276 | (1,027) |
| Interest expense, net and other income, net: | | |
| Interest expense, net | (13,427) | (4,232) |
| Other income, net | 4,960 | 1,567 |
| Total interest expense, net and other income, net | (8,467) | (2,665) |
| Loss before provision for income taxes | (5,191) | (3,692) |
| Provision for income taxes | 522 | 626 |
| Net loss | $ (5,713) | $ (4,318) |
| Net loss per share, basic and diluted | $ (0.05) | $ (0.04) |
| Weighted average shares used to compute net loss per share, basic and diluted | 122,428 | 116,730 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Net loss | $ (5,713) | $ (4,318) |
| Other comprehensive (loss) income: | | |
| Change in net unrealized (loss) gain on available for sale investments, net of tax | (3,267) | 119 |
| Change in foreign currency translation adjustments, net of tax | (999) | — |
| Other comprehensive (loss) income | (4,266) | 119 |
| Total comprehensive loss | $ (9,979) | $ (4,199) |

See Notes to Condensed Consolidated Financial Statements.

**CHEGG, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(in thousands)**
**(unaudited)**

| | Three Months Ended March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | | | | | |
| | Shares | Par Value | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
| **Balances at December 31, 2019** | 121,584 | $ 122 | $ 916,095 | $ (1,096) | $ (416,292) | $ 498,829 |
| Cumulative-effect adjustment to accumulated deficit related to adoption of ASU 2016-13 | — | — | — | — | (88) | (88) |
| Issuance of common stock upon exercise of stock options and ESPP | 360 | — | 2,665 | — | — | 2,665 |
| Net issuance of common stock for settlement of RSUs | 1,599 | 2 | (46,836) | — | — | (46,834) |
| Share-based compensation expense | — | — | 18,334 | — | — | 18,334 |
| Other comprehensive loss | — | — | — | (4,266) | — | (4,266) |
| Net loss | — | — | — | — | (5,713) | (5,713) |
| **Balances at March 31, 2020** | 123,543 | $ 124 | $ 890,258 | $ (5,362) | $ (422,093) | $ 462,927 |

| | Three Months Ended March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | | | | | |
| | Shares | Par Value | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
| **Balances at December 31, 2018** | 115,500 | $ 116 | $ 818,113 | $ (1,019) | $ (406,576) | $ 410,634 |
| Cumulative-effect adjustment to accumulated deficit related to adoption of ASU 2016-02 | — | — | — | — | (111) | (111) |
| Equity component of convertible senior notes, net of issuance costs | — | — | 180,887 | — | — | 180,887 |
| Purchase of convertible senior notes capped call | — | — | (85,050) | — | — | (85,050) |
| Repurchase of common stock | (504) | (1) | (19,999) | — | — | (20,000) |
| Issuance of common stock upon exercise of stock options and ESPP | 709 | 1 | 5,819 | — | — | 5,820 |
| Net issuance of common stock for settlement of RSUs | 2,451 | 2 | (76,044) | — | — | (76,042) |
| Issuance of common stock in connection with prior acquisition | 41 | — | 1,160 | — | — | 1,160 |
| Share-based compensation expense | — | — | 15,038 | — | — | 15,038 |
| Other comprehensive income | — | — | — | 119 | — | 119 |
| Net loss | — | — | — | — | (4,318) | (4,318) |
| **Balances at March 31, 2019** | 118,197 | $ 118 | $ 839,924 | $ (900) | $ (411,005) | $ 428,137 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Cash flows from operating activities | | |
| Net loss | $ (5,713) | $ (4,318) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Print textbook depreciation expense | 3,527 | — |
| Other depreciation and amortization expense | 9,243 | 6,785 |
| Share-based compensation expense | 18,334 | 15,038 |
| Amortization of debt discount and issuance costs | 12,946 | 4,005 |
| Gain on textbook library, net | (1,175) | — |
| Deferred income taxes | (311) | — |
| Operating lease expense, net of accretion | 1,053 | 1,049 |
| Other non-cash items | (1) | (44) |
| Change in assets and liabilities: | | |
| Accounts receivable | 4,929 | 4,024 |
| Prepaid expenses and other current assets | (9,707) | (11,522) |
| Other assets | (1,425) | (1,166) |
| Accounts payable | (436) | (1,836) |
| Deferred revenue | 16,973 | 8,858 |
| Accrued liabilities | 15,972 | 216 |
| Other liabilities | (1,242) | (3,148) |
| Net cash provided by operating activities | 62,967 | 17,941 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (19,965) | (14,060) |
| Purchases of textbooks | (36,830) | — |
| Proceeds from disposition of textbooks | 2,170 | — |
| Purchases of investments | (112,421) | (21,572) |
| Maturities of investments | 121,784 | 48,805 |
| Purchase of strategic equity investment | (2,000) | — |
| Net cash (used in) provided by investing activities | (47,262) | 13,173 |
| Cash flows from financing activities | | |
| Common stock issued under stock plans, net | 2,667 | 6,982 |
| Payment of taxes related to the net share settlement of equity awards | (46,836) | (76,044) |
| Proceeds from issuance of convertible senior notes, net of issuance costs | — | 682,594 |
| Purchase of convertible senior notes capped call | — | (85,050) |
| Repurchase of common stock | — | (20,000) |
| Net cash (used in) provided by financing activities | (44,169) | 508,482 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (28,464) | 539,596 |
| Cash, cash equivalents and restricted cash, beginning of period | 389,432 | 375,945 |
| Cash, cash equivalents and restricted cash, end of period | $ 360,968 | $ 915,541 |

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Supplemental cash flow data: | | |
| Cash paid during the period for: | | |
| Interest | $ 500 | $ — |
| Income taxes | $ 756 | $ 626 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |

| | | |
|---|---|---|
| Operating cash flows from operating leases | $ 1,572 | $ 1,126 |
| Non-cash investing and financing activities: | | |
| Accrued purchases of long-lived assets | $ 8,020 | $ 5,127 |

| | March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Reconciliation of cash, cash equivalents and restricted cash: | | |
| Cash and cash equivalents | $ 359,101 | $ 914,500 |
| Restricted cash included in other current assets | 306 | 121 |
| Restricted cash included in other assets | 1,561 | 920 |
| Total cash, cash equivalents and restricted cash | $ 360,968 | $ 915,541 |

See Notes to Condensed Consolidated Financial Statements.

**CHEGG, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## Note 1. Background and Basis of Presentation

### *Company and Background*

Chegg, Inc. (Chegg, the Company, we, us, or our), headquartered in Santa Clara, California, was incorporated as a Delaware corporation in July 2005. Chegg is a Smarter Way to Student. As the leading direct-to-student learning platform, we strive to improve educational outcomes by putting the student first in all our decisions. We support students on their journey from high school to college and into their career with tools designed to help them pass their test, pass their class, and save money on required materials. Our services are available online, anytime and anywhere, so we can reach students when they need us most.

### *Basis of Presentation*

The accompanying condensed consolidated balance sheet as of March 31, 2020, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss, the condensed consolidated statements of stockholder's equity, and the condensed consolidated statements of cash flows for the three months ended March 31, 2020 and 2019, 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, 2020, our results of operations, results of comprehensive loss, stockholder's equity, and cash flows for the three months ended March 31, 2020 and 2019. Our results of operations, results of comprehensive loss, stockholder's equity, and cash flows for the three months ended March 31, 2020 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, 2019 as 2019.

The condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2019 (the Annual Report on Form 10-K) filed with the U.S. Securities and Exchange Commission (SEC).

Except for our policies on investments, textbook library, revenue recognition and deferred revenue, and cost of revenues, 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.

### *Investments*

We hold investments in commercial paper, corporate debt securities, U.S. treasury securities, and agency bonds. We classify our investments as available-for-sale based on the nature of each security that are either short or long-term based on the remaining contractual maturity of the investment. Our available-for-sale investments are carried at estimated fair value with any unrealized gains and losses unrelated to credit loss factors, net of taxes, included in other comprehensive (loss) income in our condensed consolidated statements of stockholders' equity. Beginning in 2020, unrealized losses related to credit loss factors are now recorded through an allowance for credit losses in other income, net in our condensed consolidated statements of operations, rather than as a reduction to the amortized cost basis in other comprehensive (loss) income, when a decline in fair value has resulted from a credit loss. We did not record any such credit loss charges in the periods presented. We determined realized gains or losses on the sale of investments on a specific identification method, and recorded such gains or losses as other income, net in our condensed consolidated statements of operations.

### *Textbook Library*

Beginning in January 2020, we began our transition back to print textbook ownership by purchasing print textbooks to establish our textbook library. We consider our print textbook library to be a long-term productive asset and, as such, classify it as a non-current asset in our condensed consolidated balance sheets. All print textbooks in our textbook library are stated at cost, which includes the purchase price less accumulated depreciation. We record allowances for lost, damaged, or excess print textbooks on a book-by-book basis.

We depreciate our print textbooks, less an estimated salvage value, over an estimated useful life of four years using an accelerated method of depreciation, as we estimate this method most accurately reflects the actual pattern of decline in their economic value. The salvage value considers the historical trend and projected proceeds for print textbooks. The useful life is determined based on the estimated time period in which the print textbooks are held and rented. We review the estimated salvage value and useful life of our print textbook library on an ongoing basis.

Allowances for print textbooks, print textbook depreciation expense, and the net gain or loss on print textbooks previously rented are recorded in cost of revenues in our condensed consolidated statements of operations and classified as an adjustment to cash flows from operating activities. Cash outflows for the acquisition of our print textbook library, net of changes in related accounts payable and accrued liabilities, and cash inflows received from the proceeds from the disposition of print textbooks, net of changes in related accounts receivable, are classified as cash flows from investing activities in our condensed consolidated statements of cash flows.

As of March 31, 2020, our net textbook library of $31.7 million consisted of gross textbook library of approximately $35.1 million net of accumulated depreciation of approximately $3.4 million.

During the three months ended March 31, 2020, print textbook depreciation expense was approximately $3.5 million and our net gain on textbook library was approximately $1.2 million.

***Revenue Recognition and Deferred Revenue***

We recognize revenues when the control of goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Revenues are presented net of sales tax collected from customers to be remitted to governmental authorities and net of allowances for estimated cancellations and customer returns, which are based on historical data. Customer refunds from cancellations and returns are recorded as a reduction to revenues.

We determine revenue recognition through the following steps:

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

We generate revenues from our Chegg Services product line which primarily includes Chegg Study, Chegg Writing, Chegg Tutors, Chegg Math Solver, and Thinkful. Revenues from Chegg Study, Chegg Writing, Chegg Tutors, and Chegg Math Solver are recognized ratably over the respective weekly or monthly subscription period. Revenues from Thinkful, our skills-based learning platform, are recognized either ratably over the term of the course, generally six months, or upon completion of the lessons, depending on the instruction type of the course.

Revenues from our Required Materials product line includes revenues from print textbooks that we own or that are owned by a partner as well as revenues from eTextbooks. Beginning in 2020, our Required Materials product line includes operating leases with students for the rental of print textbooks that we own. Operating lease income is recognized as the total transaction amount, paid upon commencement of the lease, ratably over the lease term which is generally a two- to five-month lease period. Students generally have the option to extend the term of their rental or purchase the print textbook at the end of the term otherwise the print textbook is returned to our textbook library for future rental. Revenues from print textbooks owned by a partner are recognized as a revenue share on the total transactional amount of a rental or sale transaction immediately when a print textbook ships to a student. Shipping and handling activities are expensed as incurred. Revenues from eTextbooks are recognized ratably over the contractual period, generally a two- to five-month period.

Some of our customer arrangements include multiple performance obligations. We have determined these performance obligations qualify as distinct performance obligations, as the customer can benefit from the service on its own or together with other resources that are readily available to the customer, and our promise to transfer the service is separately identifiable from other promises in the contract. For these arrangements that contain multiple performance obligations, we allocate the transaction price based on the relative standalone selling price method by comparing the standalone selling price (SSP) of each distinct performance obligation to the total value of the contract. We determine the SSP based on our historical pricing and discounting practices for the distinct performance obligation when sold separately. If the SSP is not directly observable, we estimate the SSP by considering information such as market conditions, and information about the customer. Additionally, we

limit the amount of revenues recognized for delivered promises to the amount that is not contingent on future delivery of services or other future performance obligations.

Some of our customer arrangements may include an amount of variable consideration in addition to a fixed revenue share that we earn. This variable consideration can either increase or decrease the total transaction price depending on the nature of the variable consideration. We estimate the amount of variable consideration that we will earn at the inception of the contract, adjusted during each period, and include an estimated amount each period.

For sales of third-party products, we evaluate whether we are acting as a principal or an agent, and therefore would record the gross sales amount as revenues and related costs or the net amount earned as a revenue share from the sale of third-party products. Our determination is based on our evaluation of whether we control the specified goods or services prior to transferring them to the customer. In relation to print textbook rental and sale agreements with our partners, we recognize revenues on a net basis based on our role in the transaction as an agent as we have concluded that we do not control the use of the print textbooks, and therefore record only the revenue share we earn upon the shipment of a print textbook to a student. We have concluded that we control our eTextbook service and therefore we recognize revenues and cost of revenues on a gross basis ratably over the term the student has access to the eTextbook.

Contract assets are contained within other current assets and other assets on our condensed consolidated balance sheets. Contract assets represent the goods or services that we have transferred to a customer before invoicing the customer. Contract receivables are contained within accounts receivable, net on our condensed consolidated balance sheets and represent unconditional consideration that will be received solely due to the passage of time. Contract liabilities are contained within deferred revenue on our condensed consolidated balance sheets. Deferred revenue primarily consists of advanced payments from students related to rental and subscription performance obligations that have not been satisfied and estimated variable consideration. Deferred revenue related to rental and subscription performance obligations is recognized as revenues ratably over the term for subscriptions or when the services are provided and all other revenue recognition criteria have been met. Deferred revenue related to variable consideration is recognized as revenues during each reporting period based on the estimated amount we believe we will earn over the life of the contract.

We have elected a practical expedient to record incremental costs to obtain or fulfill a contract when the amortization period would have been one year or less as incurred. These incremental costs primarily relate to sales commissions costs and are recorded in sales and marketing expense in our condensed consolidated statements of operations.

***Cost of Revenues***

Our cost of revenues consists primarily of expenses associated with the delivery and distribution of our products and services. Cost of revenues primarily consists of publisher content fees for eTextbooks, content amortization expense related to content that we develop, licenses from publishers for which we pay one-time license fees, or acquire through acquisitions, allowances for print textbooks, the net gain or loss on print textbooks previously rented, print textbook depreciation expense, payment processing costs, the payments made to tutors through our Chegg Tutors service, personnel costs and other direct costs related to providing products or services. In addition, cost of revenues includes allocated information technology and facilities costs.

***Use of Estimates***

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

***Recent Accounting Pronouncements***

*Recently Issued Accounting Pronouncements Not Yet Adopted*

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides temporary optional expedients and exceptions for applying reference rate reform to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance can be applied immediately and only applies to contract modifications made or hedging relationships entered into or evaluated before December 31, 2022. While we do not have any hedging relationships and currently do not believe we have material contracts impacted by reference rate reform, we are in the process of evaluating the impact of this guidance.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* ASU 2019-12 key changes include hybrid tax regimes, intraperiod tax allocation exception, and interim-period accounting for enacted changes in tax law. Early adoption is permitted, including adoption in any interim period or annual reports for which financial statements have not yet been made available for issuance. The guidance is effective for annual periods beginning after December 15, 2020, and we are currently in the process of evaluating the impact of this guidance.

*Recently Adopted Accounting Pronouncements*

The FASB issued four ASUs related to Accounting Standards Codification (ASC) 326, *Financial Instruments - Credit Losses*. In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses.* In May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief.* In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.* In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. On January 1, 2020, we adopted ASC 326, which replaces the existing incurred loss impairment model for financial assets, including trade receivables, with an expected loss model which requires the use of forward-looking information to calculate expected credit loss estimates. Additionally, the concept of other-than-temporary impairment for available-for-sale investments is eliminated and instead requires us to focus on determining whether any unrealized loss is a result of a credit loss or other factors. We adopted ASC 326 under the modified retrospective method for all financial assets measured at amortized cost. Results for reporting periods beginning after adoption are presented under ASC 326 while we have not changed previously disclosed amounts or provided additional disclosures for comparative periods. We recorded an immaterial cumulative-effect adjustment to trade receivables to the opening balance of accumulated deficit in our condensed consolidated balance sheet. We adopted ASC 326 under the prospective transition approach for available-for-sale investments which resulted in no change to amortized cost basis before and after adoption. Credit losses related to available-for-sale investments will now be recorded through an allowance for credit losses with immediate recognition to our condensed consolidated statement of operations rather than as a reduction to the amortized cost basis and recognition to our condensed consolidated statements of comprehensive loss. See above within Note 1, “Background and Basis of Presentation”, for updates to our significant accounting policies impacted by our adoption of ASC 326 as well as Note 4 “Cash and Cash Equivalents, and Investments” for more information.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with existing guidance contained within subtopic 350-40 to develop or obtain internal-use software. We adopted ASU 2018-15 on January 1, 2020 under the prospective method of adoption.

**Note 2. Revenues**

***Revenue Recognition***

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The majority of our revenues are recognized over time as services are performed, with certain revenues, most significantly the revenue share we earn from our print textbook partners, being recognized at the point in time when print textbooks are shipped to students.

The following table sets forth our total net revenues for the periods shown disaggregated for our Chegg Services and Required Materials product lines (in thousands, except percentages):

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2020 | 2019 | $ | % |
| Chegg Services | $ 100,359 | $ 75,292 | $ 25,067 | 33% |
| Required Materials | 31,231 | 22,117 | 9,114 | 41 |
| Total net revenues | $ 131,590 | $ 97,409 | $ 34,181 | 35 |

During the three months ended March 31, 2020 and 2019, we recognized $17.5 million and $12.4 million, respectively, of revenues that were included in our deferred revenue balance at the beginning of each reporting period. During the three months ended March 31, 2020 and 2019, we recognized an immaterial amount of previously deferred revenues recognized from performance obligations satisfied in previous periods. During the three months ended March 31, 2020, we recognized $12.3 million of operating lease income from print textbook rentals that we own. The aggregate amount of unsatisfied performance obligations is approximately $35.8 million as of March 31, 2020, which are expected to be recognized into revenues over the next year.

***Contract Balances***

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

| | | | Change | |
|---|---|---|---|---|
| | March 31, 2020 | December 31, 2019 | $ | % |
| Accounts receivable, net | $ 6,493 | $ 11,529 | $ (5,036) | (44)% |
| Deferred revenue | 35,753 | 18,780 | 16,973 | 90 |
| Contract assets | 4,482 | 3,531 | 951 | 27 |

During the three months ended March 31, 2020, our accounts receivable, net balance decreased by $5.0 million, or 44%, primarily due to timing of billings and seasonality of our business. During the three months ended March 31, 2020, our deferred revenue balance increased by $17.0 million, or 90%, primarily due to increased bookings for our Chegg Study service and eTextbook service driven by the seasonality of our business as well as from print textbooks that we own that are recognized ratably rather than immediately. During the three months ended March 31, 2020, our contract assets balance increased by $1.0 million, or 27%, primarily due to payment arrangements for Thinkful.

**Note 3. Net Loss Per Share**

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options, restricted stock units (RSUs), performance-based restricted stock units (PSUs), and shares related to convertible senior notes, 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 March 31, | |
|---|---|---|
| | 2020 | 2019 |
| *Numerator:* | | |
| Net loss | $ (5,713) | $ (4,318) |
| *Denominator:* | | |
| Weighted average shares used to compute net loss per share, basic and diluted | 122,428 | 116,730 |
| Net loss per share, basic and diluted | $ (0.05) | $ (0.04) |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Options to purchase common stock | 1,050 | 3,258 |
| RSUs and PSUs | 3,316 | 6,732 |
| Shares related to convertible senior notes | 3,968 | 3,332 |
| Employee stock purchase plan | 10 | 41 |
| Total common stock equivalents | 8,344 | 13,363 |

Shares related to convertible senior notes represents the anti-dilutive impact of our issuance of $345 million in aggregate principal amount of our 2023 notes as the average price of our common stock during the three months ended March 31, 2020 and 2019 was higher than the conversion price of $26.95. While these shares are anti-dilutive during the three months ended March 31, 2020 and 2019, they may be dilutive in periods we report net income. However, as a result of the capped call transactions, there will be no economic dilution from the 2023 notes up to $40.68, as exercise of the capped call instruments will reduce dilution from the 2023 notes that would have otherwise occurred when the average price of our common stock exceeds the conversion price. None of the shares related to our issuance of $800 million in aggregate principal amount of our 2025 notes were anti-dilutive during the three months ended March 31, 2020 and 2019. The average price of our common stock during the three months ended March 31, 2020 and 2019 was lower than the conversion price of our 2025 notes of $51.56.

**Note 4. Cash and Cash Equivalents, and Investments**

The following tables show our cash and cash equivalents, and investments' adjusted cost, unrealized gain, unrealized loss and fair value as of March 31, 2020 and December 31, 2019 (in thousands):

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | Adjusted Cost | Unrealized Gain | Unrealized Loss | Fair Value |
| Cash and cash equivalents: | | | | |
| Cash | $ 198,755 | $ — | $ — | $ 198,755 |
| Money market funds | 160,346 | — | — | 160,346 |
| Total cash and cash equivalents | $ 359,101 | $ — | $ — | $ 359,101 |
| Short-term investments: | | | | |
| Corporate securities | $ 359,108 | $ 149 | $ (1,338) | $ 357,919 |
| U.S. treasury securities | 31,729 | 127 | — | 31,856 |
| Agency bonds | 14,999 | 20 | — | 15,019 |
| Total short-term investments | $ 405,836 | $ 296 | $ (1,338) | $ 404,794 |
| Long-term investments: | | | | |
| Corporate securities | $ 256,074 | $ 215 | $ (1,703) | $ 254,586 |
| Agency bonds | 18,496 | 32 | — | 18,528 |
| Total long-term investments | $ 274,570 | $ 247 | $ (1,703) | $ 273,114 |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Adjusted Cost | Unrealized Gain | Unrealized Loss | Fair Value |
| Cash and cash equivalents: | | | | |
| Cash | $ 241,355 | $ — | $ — | $ 241,355 |
| Money market funds | 146,165 | — | — | 146,165 |
| Total cash and cash equivalents | $ 387,520 | $ — | $ — | $ 387,520 |
| Short-term investments: | | | | |
| Commercial paper | $ 7,489 | $ — | $ — | $ 7,489 |
| Corporate securities | 318,946 | 425 | (78) | 319,293 |
| U.S. treasury securities | 44,251 | 39 | (4) | 44,286 |
| Agency bonds | 10,000 | 6 | — | 10,006 |
| Total short-term investments | $ 380,686 | $ 470 | $ (82) | $ 381,074 |
| Long-term investments: | | | | |
| Corporate securities | $ 295,103 | $ 533 | $ (158) | $ 295,478 |
| Agency bonds | 14,999 | 6 | — | 15,005 |
| Total long-term investments | $ 310,102 | $ 539 | $ (158) | $ 310,483 |

The following table shows our cash equivalents and investments' adjusted cost and fair value by contractual maturity as of March 31, 2020 (in thousands):

| | Adjusted Cost | Fair Value |
|---|---|---|
| Due in 1 year or less | $ 405,836 | $ 404,794 |
| Due in 1-2 years | 274,570 | 273,114 |
| Investments not due at a single maturity date | 160,346 | 160,346 |
| Total | $ 840,752 | $ 838,254 |

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

As of March 31, 2020, we considered the declines in market value of our investment portfolio to be primarily the result of interest rate fluctuations driven by macroeconomic conditions including the COVID-19 pandemic and did not consider any of our unrealized losses to be the result of credit-related factors. We typically invest in highly-rated securities with a minimum credit rating of A-, a weighted average maturity of 8 months, and our investment policy limits the amount of credit exposure to any one issuer or industry sector. 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 whether an investment's unrealized losses are related to credit factors, we review factors such as the extent to which fair value is below its cost basis, any changes to the credit rating of the security, adverse conditions specifically related to the security, changes in market interest rates and our intent to sell, or whether it is more likely than not we will be required to sell, before recovery of cost basis. During the three months ended March 31, 2020, we did not recognize any losses on our investments due to credit related factors. During the three months ended March 31, 2019, we did not recognize any impairment charges.

***Restricted Cash***

As of March 31, 2020 and December 31, 2019, we had approximately $1.9 million of restricted cash that primarily consists of security deposits for our corporate offices. These amounts are classified in either other current assets or other assets on our condensed consolidated balance sheets based upon the term of the remaining restrictions.

***Strategic Investments***

In March 2020, we completed an investment of $2.0 million in TAPD, Inc., also known as Frank, a U.S.-based service that helps students access financial aid. In October 2018, we completed an investment of $10.0 million in WayUp, Inc., a U.S.-based job site and mobile application for college students and recent graduates. Additionally, we previously invested $3.0 million in a foreign entity to explore expanding our reach internationally. We did not record any impairment charges on our

strategic investments during the three months ended March 31, 2020 and 2019, as there were no significant identified events or changes in circumstances that would be considered an indicator for impairment. We considered general market conditions as a result of the COVID-19 pandemic in our impairment analysis. There were no observable price changes in orderly transactions for the identical or similar investments of the same issuers during the three months ended March 31, 2020 and 2019.

**Note 5. Fair Value Measurement**

We have established a fair value hierarchy used to determine the fair value of our financial instruments as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

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

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

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

Financial instruments measured and recorded at fair value on a recurring basis as of March 31, 2020 and December 31, 2019 are classified based on the valuation technique level in the tables below (in thousands):

| | March 31, 2020 | | |
|---|---|---|---|
| | Total | Level 1 | Level 2 |
| Assets: | | | |
| Cash equivalents: | | | |
| Money market funds | $ 160,346 | $ 160,346 | $ — |
| Short-term investments: | | | |
| Corporate securities | 357,919 | — | 357,919 |
| U.S. treasury securities | 31,856 | 31,856 | — |
| Agency bonds | 15,019 | — | 15,019 |
| Long-term investments: | | | |
| Corporate securities | 254,586 | — | 254,586 |
| Agency bonds | 18,528 | — | 18,528 |
| Total assets measured and recorded at fair value | $ 838,254 | $ 192,202 | $ 646,052 |

| | December 31, 2019 | | |
|---|---|---|---|
| | Total | Level 1 | Level 2 |
| Assets: | | | |
| Cash equivalents: | | | |
| Money market funds | $ 146,165 | $ 146,165 | $ — |
| Short-term investments: | | | |
| Commercial paper | 7,489 | — | 7,489 |
| Corporate securities | 319,293 | — | 319,293 |
| U.S. treasury securities | 44,286 | 44,286 | — |
| Agency bonds | 10,006 | — | 10,006 |
| Long-term investments: | | | |
| Corporate securities | 295,478 | — | 295,478 |
| Agency bonds | 15,005 | — | 15,005 |
| Total assets measured and recorded at fair value | $ 837,722 | $ 190,451 | $ 647,271 |

We value our investments based on quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. Other than our money market funds and U.S. treasury securities, we classify our fixed income available-for-sale investments as having Level 2 inputs. The valuation techniques used to measure the fair value of our financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models such as discounted cash flow techniques. We do not hold any investments valued with a Level 3 input.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

***Financial Instruments Not Recorded at Fair Value on a Recurring Basis***

We report our financial instruments at fair value with the exception of the notes. The estimated fair value of the notes was determined based on the trading price of the notes as of the last day of trading for the period. We consider the fair value of the notes to be a Level 2 measurement due to the limited trading activity. For further information on the notes see Note 7, “Convertible Senior Notes”.

The carrying amounts and estimated fair values of the notes as of March 31, 2020 and December 31, 2019 are as follows (in thousands):

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| 2025 notes | $ 612,059 | $ 744,000 | $ 602,611 | $ 831,000 |
| 2023 notes | 301,190 | 492,581 | 297,692 | 523,538 |
| Convertible senior notes, net | $ 913,249 | $ 1,236,581 | $ 900,303 | $ 1,354,538 |

The carrying amount of the 2025 notes and 2023 notes as of March 31, 2020 was net of unamortized debt discount of $175.9 million and $39.2 million, respectively, and unamortized issuance costs of $12.1 million and $4.7 million, respectively. The carrying amount of the 2025 notes and 2023 notes as of December 31, 2019 was net of unamortized debt discount of $184.7 million and $42.3 million, respectively, and unamortized issuance costs of $12.7 million and $5.0 million, respectively.

**Note 6. Goodwill and Intangible Assets**

Goodwill consists of the following (in thousands):

| | Three Months Ended March 31, 2020 | Year Ended December 31, 2019 |
|---|---|---|
| Beginning balance | $ 214,513 | $ 149,524 |
| Additions due to acquisition | — | 65,181 |
| Foreign currency translation adjustment | (190) | (192) |
| Ending balance | $ 214,323 | $ 214,513 |

Intangible assets as of March 31, 2020 and December 31, 2019 consist of the following (in thousands, except weighted-average amortization period):

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | Weighted-Average Amortization Period (in months) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Developed technologies and content library | 66 | $ 43,268 | $ (20,029) | $ 23,239 |
| Customer lists | 47 | 9,970 | (8,540) | 1,430 |
| Trade and domain names | 46 | 10,873 | (6,648) | 4,225 |
| Non-compete agreements | 31 | 2,018 | (1,914) | 104 |
| Indefinite-lived trade name | — | 3,600 | — | 3,600 |
| Foreign currency translation adjustment | — | (523) | — | (523) |
| Total intangible assets | 58 | $ 69,206 | $ (37,131) | $ 32,075 |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Weighted-Average Amortization Period (in months) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Developed technologies and content library | 66 | $ 43,268 | $ (18,395) | $ 24,873 |
| Customer lists | 47 | 9,970 | (8,210) | 1,760 |
| Trade and domain names | 46 | 10,873 | (6,169) | 4,704 |
| Non-compete agreements | 31 | 2,018 | (1,890) | 128 |
| Indefinite-lived trade name | — | 3,600 | — | 3,600 |
| Foreign currency translation adjustment | — | (398) | — | (398) |
| Total intangible assets | 58 | $ 69,331 | $ (34,664) | $ 34,667 |

During the three months ended March 31, 2020 and 2019, amortization expense related to our acquired intangible assets totaled approximately $2.5 million and $1.8 million, respectively.

As of March 31, 2020, the estimated future amortization expense related to our finite-lived intangible assets is as follows (in thousands):

| | |
|---|---|
| Remaining nine months of 2020 | $ 6,480 |
| 2021 | 7,554 |
| 2022 | 6,686 |
| 2023 | 4,557 |
| 2024 | 2,411 |
| Thereafter | 787 |
| Total | $ 28,475 |

**Note 7. Convertible Senior Notes**

In March 2019, we issued $700 million in aggregate principal amount of 0.125% convertible senior notes due in 2025 (2025 notes) and in April 2019, the initial purchasers fully exercised their option to purchase $100 million of additional notes for aggregate total principal amount of $800 million. In April 2018, we issued $345 million in aggregate principal amount of 0.25% convertible senior notes due in 2023 (2023 notes). The aggregate principal amount of the 2023 notes includes $45 million from the initial purchasers fully exercising their option to purchase additional notes. Collectively, the 2025 notes and 2023 notes are referred to as the “notes.” The notes were issued in private placements to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. Concurrently with the offering of the 2025 notes and 2023 notes, we

used $97.2 million and $39.2 million, respectively, of the net proceeds to enter into privately negotiated capped call transactions.

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

| | 2025 Notes | 2023 Notes |
|---|---|---|
| Principal amount | $ 800,000 | $ 345,000 |
| Less initial purchasers' discount | (18,998) | (8,625) |
| Less other issuance costs | (822) | (757) |
| Net proceeds | $ 780,180 | $ 335,618 |

The notes are our senior, unsecured obligations and are governed by indenture agreements by and between us and Wells Fargo Bank, National Association, as Trustee (the indentures). The 2025 notes bear interest of 0.125% per year which is payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2019. The 2025 notes will mature on March 15, 2025 (the 2025 notes maturity date), unless repurchased, redeemed or converted in accordance with their terms prior to such date. The 2023 notes bear interest of 0.25% per year which is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2018. The 2023 notes will mature on May 15, 2023 (the 2023 notes maturity date), unless repurchased, redeemed or converted in accordance with their terms prior to such date.

Each $1,000 principal amount of the 2025 notes will initially be convertible into 19.3956 shares of our common stock. This is equivalent to an initial conversion price of approximately $51.56 per share, which is subject to adjustment in certain circumstances. Each $1,000 principal amount of the 2023 notes will initially be convertible into 37.1051 shares of our common stock. This is equivalent to an initial conversion price of approximately $26.95 per share, which is subject to adjustment in certain circumstances.

Prior to the close of business on the business day immediately preceding December 15, 2024 for the 2025 notes and February 15, 2023 for the 2023 notes, the notes are convertible at the option of holders only upon satisfaction of the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on June 30, 2019 for the 2025 notes and June 30, 2018 for the 2023 notes, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the respective conversion price for the notes on each applicable trading day;
- during the five-business day period after any 10 consecutive trading day period (the measurement period) in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day;
- if we call any or all of the notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- upon the occurrence of certain specified corporate events described in the indentures.

On or after December 15, 2024 for the 2025 notes and February 15, 2023 for the 2023 notes until the close of business on the second scheduled trading day immediately preceding the respective maturity dates, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, the notes may be settled in shares of our common stock, cash or a combination of cash and shares of our common stock, at our election.

During the three months ended March 31, 2020, the conditions allowing holders of the 2025 notes to convert had not been met and were therefore not convertible. The first circumstance allowing holders of the 2023 notes to convert has been met during the three months ended March 31, 2020, December 31, 2019, September 30, 2019, June 30, 2019, and March 31, 2019. Therefore, the 2023 notes are convertible starting April 1, 2019 through June 30, 2020. During the three months ended March 31, 2020, we received an immaterial request for conversion of the 2023 notes which we expect to settle in cash during the three months ended June 30, 2020.

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

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | 2025 Notes | 2023 Notes | 2025 Notes | 2023 Notes |
| Principal | $ 800,000 | $ 345,000 | $ 800,000 | $ 345,000 |
| Unamortized debt discount | (175,857) | (39,155) | (184,698) | (42,280) |
| Unamortized issuance costs | (12,084) | (4,655) | (12,691) | (5,028) |
| Net carrying amount (liability) | $ 612,059 | $ 301,190 | $ 602,611 | $ 297,692 |

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

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | 2025 Notes | 2023 Notes | 2025 Notes | 2023 Notes |
| Debt discount for conversion option | $ 212,000 | $ 64,193 | $ 212,000 | $ 64,193 |
| Issuance costs | (5,253) | (1,749) | (5,253) | (1,749) |
| Net carrying amount (equity) | $ 206,747 | $ 62,444 | $ 206,747 | $ 62,444 |

As of March 31, 2020, the remaining lives of the 2025 notes and 2023 notes are approximately 5.0 and 3.1 years, respectively. Based on the closing price of our common stock of $35.78 on March 31, 2020, the if-converted value of the 2025 notes was approximately $555.2 million which is less than the principal amount of $800 million by approximately $244.8 million and the if-converted value of the 2023 notes was approximately $458.0 million which exceeds the principal amount of $345 million by approximately $113.0 million.

The effective interest rates of the liability components for the 2025 notes and 2023 notes are 5.40% and 4.34%, respectively, and each is based on the interest rate of similar debt instruments, at the time of our offering, that do not have associated convertible features. The following table sets forth the total interest expense recognized related to the notes (in thousands):

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | 2025 Notes | 2023 Notes | 2025 Notes | 2023 Notes |
| Contractual interest expense | $ 249 | $ 215 | $ 14 | $ 213 |
| Amortization of debt discount | 8,841 | 3,125 | 510 | 3,091 |
| Amortization of issuance costs | 608 | 372 | 35 | 369 |
| Total interest expense | $ 9,698 | $ 3,712 | $ 559 | $ 3,673 |

***Capped Call Transactions***

Concurrently with the offering of the 2025 notes and 2023 notes, we used $97.2 million and $39.2 million, respectively, of the net proceeds to enter into privately negotiated capped call transactions which are expected to generally reduce or offset potential dilution to holders of our common stock upon conversion of the notes and/or offset the potential cash payments we would be required to make in excess of the principal amount of any converted notes. The capped call transactions automatically exercise upon conversion of the notes and cover 15,516,480 and 12,801,260 shares of our common stock for the 2025 notes and 2023 notes, respectively, and are intended to effectively increase the overall conversion price from $51.56 to $79.32 per share for the 2025 notes and $26.95 to $40.68 per share for the 2023 notes. The effective increase in conversion price as a result of the capped call transactions serves to reduce potential dilution to holders of our common stock and/or offset the cash payments we are required to make in excess of the principal amount of any converted notes. As these transactions meet certain accounting criteria, they are recorded in stockholders' equity as a reduction of additional paid-in capital on our condensed consolidated balance sheets and are not accounted for as derivatives. The fair value of the capped call instrument is not remeasured each reporting period. The cost of the capped call is not expected to be deductible for tax purposes.

**Note 8. Commitments and Contingencies**

From time to time, third parties may assert patent infringement claims against us in the form of letters, litigation, or other forms of communication. In addition, we may from time to time be subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights, and other intellectual property

rights; employment claims; and general contract or other claims. We may also, from time to time, be subject to various legal or government claims, disputes, or investigations. Such matters may include, but not be limited to, claims, disputes, or investigations related to warranty, refund, breach of contract, employment, intellectual property, government regulation, or compliance or other matters.

On March 3, 2020, Ingram Hosting Holdings LLC (IHH) filed a complaint in the U.S. District Court for the Middle District of Tennessee alleging that Chegg breached its various contracts with IHH and other Ingram group entities, seeking damages in the amount of $17 million. An answer was filed on March 31, 2020. Chegg and Ingram have worked together for over six months attempting to reconcile each Company's respective claims as part of the wind-down of our business relationship, such as claims related to lost books, customer refunds, and costs associated with failure to meet guaranteed delivery dates. The Court has scheduled an initial case management conference for May 12, 2020 to set the discovery and trial calendar and the parties continue to discuss resolution of these claims.

On November 5, 2018, NetSoc, LLC (NetSoc) filed a complaint against us in the U.S. District Court for the Southern District of New York for patent infringement alleging that the Chegg Tutors service infringes U.S. Patent No. 9.978,107 and seeking unspecified compensatory damages. A responsive pleading was filed on February 19, 2019. On January 13, 2020, the Court issued an order dismissing the case as to Chegg. On January 30, 2020, NetSoc appealed the dismissal. On April 21, 2020, the Court granted Chegg's motion to hold the appeal in abeyance pending outcome of an appeal in the litigation above.

We have not recorded any amounts related to the above matters, as we do not believe that a loss is probable in either matter. 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 condensed 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.

**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.

We believe the fair value of these indemnification agreements is minimal. We have not recorded any liabilities for these agreements as of March 31, 2020.

**Note 10. Stockholders' Equity**

***Share-based Compensation Expense***

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Cost of revenues | $ 169 | $ 125 |
| Research and development | 6,991 | 4,917 |
| Sales and marketing | 2,186 | 1,808 |
| General and administrative | 8,988 | 8,188 |
| Total share-based compensation expense | $ 18,334 | $ 15,038 |

***RSU and PSU Activity***

Activity for RSUs and PSUs is as follows:

| | RSUs and PSUs Outstanding | |
|---|---|---|
| | Shares Outstanding | Weighted Average Grant Date Fair Value |
| Balance at December 31, 2019 | 6,909,530 | $ 24.04 |
| Granted | 1,760,947 | 38.74 |
| Released | (2,793,397) | 16.89 |
| Canceled | (214,121) | 28.64 |
| Balance at March 31, 2020 | 5,662,959 | $ 31.96 |

As of March 31, 2020, our total unrecognized share-based compensation expense related to RSUs and PSUs was approximately $126.5 million, which will be recognized over the remaining weighted-average vesting period of approximately 2.3 years.

**Note 11. Income Taxes**

We recorded an income tax provision of approximately $0.5 million and $0.6 million during the three months ended March 31, 2020 and 2019, respectively, primarily due to state and foreign income tax expense.

**Note 12. Related-Party Transactions**

Our Chief Executive Officer is a member of the Board of Directors of Adobe Systems Incorporated (Adobe). During the three months ended March 31, 2020 and 2019, we purchased $0.4 million and $1.0 million, respectively, of services from Adobe. We had $0.1 million of revenues during the three months ended March 31, 2020 and no revenues during the three months ended March 31, 2019 from Adobe. We had an immaterial amount and $0.2 million of payables as of March 31, 2020 and December 31, 2019, respectively, to Adobe. We had no outstanding receivables as of March 31, 2020 and December 31, 2019 from Adobe.

The immediate family of one of our board members is a member of the Board of Directors of PayPal Holdings, Inc. (PayPal). During the three months ended March 31, 2020 and 2019, we incurred payment processing fees of $0.5 million and $0.4 million, respectively, to PayPal.

One of our board members is also a member of the Board of Directors of Synack, Inc. (Synack). During the three months ended March 31, 2020 and 2019, we purchased $0.1 million and $0.3 million, respectively, of services from Synack.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes included in Part I, Item 1, "Financial Statements (unaudited)" of this Quarterly Report on Form 10-Q. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. See the section titled "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 a Smarter Way to Student. As the leading direct-to-student learning platform, we strive to improve educational outcomes by putting the student first in all our decisions. We support students on their journey from high school to college and into their career with tools designed to help them pass their test, pass their class, and save money on required materials. Our services are available online, anytime and anywhere, so we can reach students when they need us most.

Students subscribe to our subscription services, which we collectively refer to as Chegg Services. Our primary Chegg Services include Chegg Study, Chegg Writing, Chegg Tutors, Chegg Math Solver, and Thinkful. Our Chegg Study subscription service provides "Expert Answers" and step-by-step "Textbook Solutions," helping students with their course work. When students need help creating citations for their papers, they can use one of our Chegg Writing properties, including EasyBib, Citation Machine, BibMe, and CiteThisForMe. When students need additional help on a subject, they can reach a live tutor online, anytime, anywhere through Chegg Tutors. Our Chegg Math Solver subscription service helps students understand math by providing a step-by-step math solver and calculator. Our Thinkful skills-based learning platform offers professional courses focused on the most in-demand technology skills.

Required Materials includes our print textbook and eTextbook offerings, which help students save money compared to the cost of buying new. We offer an extensive print textbook library primarily for rent and also for sale both on our own and through our print textbook partners. To deliver these services to students, we partner with a variety of third parties including Cengage Learning, MacMillan, McGraw Hill, Pearson, and Sage Publications.

During the three months ended March 31, 2020 and 2019, we generated net revenues of $131.6 million and $97.4 million, respectively, and in the same periods had net losses of $5.7 million and $4.3 million, respectively. While the current COVID-19 pandemic did not have a material impact on our results of operations during the three months ended March 31, 2020, we have seen an increase in subscriber growth and engagement with our learning platform that we believe will contribute to a positive impact of our result of operations during the second quarter of 2020. We plan to continue to invest in our long-term growth, particularly further investment in the technology that powers our learning platform and the development of additional products and services that serve students.

Our strategy for achieving profitability is centered upon our ability to utilize Chegg Services to increase student engagement with our learning platform. We plan to continue to invest in the expansion of our Chegg Services to provide a more compelling and personalized solution and deepen engagement with students. In addition, we believe that the investments we have made to achieve our current scale will allow us to drive increased operating margins over time that, together with increased contributions of Chegg Services, will enable us to accomplish profitability and become cash-flow positive in the long-term. Our ability to achieve these long-term objectives is subject to numerous risks and uncertainties, including our ability to attract, retain, and increasingly engage the student population, intense competition in our markets, the ability to achieve sufficient contributions to revenue from Chegg Services, and other factors. Additionally, the current COVID-19 pandemic subjects our business to numerous risks and uncertainties, most of which are beyond our control and cannot be predicted, including when colleges will resume in-person classes, whether they will successfully transition to online education, or how well they will overcome the impacts. These risks and uncertainties are described in greater detail in Part II, Item 1A, "Risk Factors."

We have presented revenues for our two product lines, Chegg Services and Required Materials, based on how students view us and the utilization of our products by them. More detail on our two product lines is discussed in the next two sections titled "Chegg Services" and "Required Materials."

***Chegg Services***

Our Chegg Services product line for students primarily includes Chegg Study, Chegg Writing, Chegg Tutors, Chegg Math Solver, and Thinkful. Students typically pay to access Chegg Services such as Chegg Study on a monthly basis. We also work with leading brands to provide students with discounts, promotions, and other products that, based on student feedback, delight them.

In the aggregate, Chegg Services revenues were 76% and 77% of net revenues during the three months ended March 31, 2020, and 2019, respectively.

***Required Materials***

Our Required Materials product line includes revenues from print textbooks and eTextbooks. Revenues from print textbooks that we own are recognized as the total transaction amount ratably over the lease term, generally a two- to five-month lease period. Revenues from print textbooks owned by a partner are recognized as a revenue share on the total transactional amount of a rental or sale transaction immediately when a print textbook ships to a student. Additionally, Required Materials includes revenues from eTextbooks, which are recognized ratably over the contractual period, generally a two- to five-month period.

In the aggregate, Required Materials revenues were 24% and 23% of net revenues during the three months ended March 31, 2020 and 2019, respectively.

***Seasonality of Our Business***

Revenues from Chegg Services, print textbooks that we own, and eTextbooks are primarily recognized ratably over the term a student subscribes to our Chegg Services, rents a print textbook or has access to an eTextbook. This has generally resulted in our highest revenues and profitability in the fourth quarter as it reflects more days of the academic year. Our variable expenses related to marketing activities remain highest in the first and third quarters such that our profitability may not provide meaningful insight on a sequential basis.

As a result of these factors, the most concentrated periods for our revenues and expenses do not necessarily coincide, and comparisons of our historical quarterly results of operations on a sequential basis may not provide meaningful insight into our overall financial performance.

**Results of Operations**

The following table summarizes our historical condensed consolidated statements of operations (in thousands, except percentage of total net revenues):

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| Net revenues | $ 131,590 | 100 % | $ 97,409 | 100 % |
| Cost of revenues[1] | 42,390 | 32 | 23,335 | 24 |
| Gross profit | 89,200 | 68 | 74,074 | 76 |
| Operating expenses: | | | | |
| Research and development[1] | 39,541 | 30 | 32,692 | 34 |
| Sales and marketing[1] | 20,238 | 15 | 18,717 | 19 |
| General and administrative[1] | 26,145 | 20 | 23,670 | 24 |
| Restructuring charges | — | — | 22 | — |
| Total operating expenses | 85,924 | 65 | 75,101 | 77 |
| Income (loss) from operations | 3,276 | 3 | (1,027) | (1) |
| Total interest expense, net and other income, net | (8,467) | (7) | (2,665) | (3) |
| Loss before provision for income taxes | (5,191) | (4) | (3,692) | (4) |
| Provision for income taxes | 522 | — | 626 | (1) |
| Net loss | $ (5,713) | (4)% | $ (4,318) | (5)% |
| | | | | |
| [1] Includes share-based compensation expense as follows: | | | | |
| Cost of revenues | $ 169 | | $ 125 | |
| Research and development | 6,991 | | 4,917 | |
| Sales and marketing | 2,186 | | 1,808 | |
| General and administrative | 8,988 | | 8,188 | |
| Total share-based compensation expense | $ 18,334 | | $ 15,038 | |

***Three Months Ended March 31, 2020 and 2019***

*Net Revenues*

The following table sets forth our total net revenues for the periods shown for our Chegg Services and Required Materials product lines (in thousands, except percentages):

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2020 | 2019 | $ | % |
| Chegg Services | $ 100,359 | $ 75,292 | $ 25,067 | 33% |
| Required Materials | 31,231 | 22,117 | 9,114 | 41 |
| Total net revenues | $ 131,590 | $ 97,409 | $ 34,181 | 35 |

Chegg Services revenues increased $25.1 million, or 33%, during the three months ended March 31, 2020, compared to the same period in 2019 primarily due to growth in Chegg Study and Chegg Writing as well as revenues from our acquisition of Thinkful. Chegg Services revenues were 76% and 77% of net revenues during the three months ended March 31, 2020 and 2019, respectively. Required Materials revenues increased $9.1 million, or 41%, during the three months ended March 31, 2020, compared to the same periods in 2019 primarily due to revenues from print textbooks that we own which are recognized at the total transaction amount opposed to a revenue share. Required Materials revenues were 24% and 23% of net revenues during the three months ended March 31, 2020 and 2019, respectively.

*Cost of Revenues*

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

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2020 | 2019 | $ | % |
| Cost of revenues[(1)] | $ 42,390 | $ 23,335 | $ 19,055 | 82% |
| [(1)] Includes share-based compensation expense of: | $ 169 | $ 125 | $ 44 | 35% |

Cost of revenues increased $19.1 million, or 82%, during the three months ended March 31, 2020, compared to the same period in 2019 primarily due to higher order fulfillment fees of $13.9 million, higher depreciation of print textbooks of $3.5 million, higher amortization of content of $1.8 million, higher payment processing fees of $0.7 million, partially offset by the net gain on textbook library of $1.2 million. Gross margins decreased to 68% during the three months ended March 31, 2020, from 76% to the same period in 2019.

*Operating Expenses*

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

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2020 | 2019 | $ | % |
| Research and development[(1)] | $ 39,541 | $ 32,692 | $ 6,849 | 21% |
| Sales and marketing[(1)] | 20,238 | 18,717 | 1,521 | 8 |
| General and administrative[(1)] | 26,145 | 23,670 | 2,475 | 10 |
| Restructuring charges | — | 22 | (22) | n/m |
| Total operating expenses | $ 85,924 | $ 75,101 | $ 10,823 | 14 |
| [(1)] Includes share-based compensation expense of: | | | | |
| Research and development | $ 6,991 | $ 4,917 | $ 2,074 | 42% |
| Sales and marketing | 2,186 | 1,808 | 378 | 21 |
| General and administrative | 8,988 | 8,188 | 800 | 10 |
| Share-based compensation expense | $ 18,165 | $ 14,913 | $ 3,252 | 22 |

n/m - not meaningful

*Research and Development*

Research and development expenses increased $6.8 million, or 21%, during the three months ended March 31, 2020 compared to the same period in 2019. The increase was primarily attributable to an increase in employee-related expenses of $3.5 million largely driven by employees from our acquisition of Thinkful, higher share-based compensation expenses of $2.1 million, and higher technology expenses to support our research and development of $1.2 million, compared to the same period in 2019. Research and development expenses as a percentage of net revenues were 30% during the three months ended March 31, 2020 compared to 34% during the same period in 2019.

*Sales and Marketing*

Sales and marketing expenses increased by $1.5 million, or 8%, during the three months ended March 31, 2020, compared to the same period in 2019. The increase was primarily attributable to higher streaming radio and display advertisement marketing expense of $1.1 million and higher share-based compensation expenses of $0.4 million, compared to the same period in 2019. Sales and marketing expenses as a percentage of net revenues were 15% during the three months ended March 31, 2020 compared to 19% during the same period in 2019.

*General and Administrative*

General and administrative expenses increased $2.5 million, or 10%, during the three months ended March 31, 2020 compared to the same period in 2019. The increase was primarily due to higher employee-related expenses of $1.5 million largely driven by employees from our acquisition of Thinkful and higher share-based compensation expenses of $0.8 million, compared to the same period in 2019. General and administrative expenses as a percentage of net revenues were 20% during the three months ended March 31, 2020 compared to 24% during the same period in 2019.

*Interest Expense and Other Income, Net*

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

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2020 | 2019 | $ | % |
| Interest expense, net | $ (13,427) | $ (4,232) | $ (9,195) | n/m |
| Other income, net | 4,960 | 1,567 | 3,393 | n/m |
| Total interest expense, net and other income, net | $ (8,467) | $ (2,665) | $ (5,802) | n/m |

n/m - not meaningful

Interest expense, net increased during the three months ended March 31, 2020 compared to the same periods in 2019 as a result of the amortization of debt discount and issuance costs and contractual interest expense related to the 2025 notes.

Other income, net, increased during the three months ended March 31, 2020 compared to the same periods in 2019 primarily related to additional interest earned on our investments purchased with proceeds from the notes.

*Provision for Income Taxes*

The following table sets forth our provision for income taxes for the periods shown (in thousands, except percentages):

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| | 2020 | 2019 | $ | % |
| Provision for income taxes | $ 522 | $ 626 | $ (104) | (17)% |

We recorded an income tax provision of approximately $0.5 million and $0.6 million during the three months ended March 31, 2020 and 2019, respectively. The decrease during the three months ended March 31, 2020 was primarily due to a withholding tax deferred tax liability revaluation benefit as a result of tax law enacted in India during the quarter, partially offset by an increase in foreign profits.

**Liquidity and Capital Resources**

As of March 31, 2020, our principal sources of liquidity were cash, cash equivalents, and investments totaling $1.0 billion, which were held for working capital purposes. The substantial majority of our net revenues are from e-commerce transactions with students, which are settled immediately through payment processors, as opposed to our accounts payable, which are settled based on contractual payment terms with our suppliers. In March 2019/April 2019 and April 2018, we closed offerings of our 2025 notes and 2023 notes generating net proceeds of approximately $780.2 million and $335.6 million, respectively, in each case after deducting the initial purchasers' discount and estimated offering expenses payable by us. The 2025 notes and 2023 notes mature on March 15, 2025 and May 15, 2023, respectively, unless converted, redeemed or repurchased in accordance with their terms prior to such date.

As of March 31, 2020, we have incurred cumulative losses of $422.1 million from our operations and we expect to incur additional losses in the future. Our operations have been financed primarily by our initial public offering of our common stock (IPO), our 2017 follow-on public offering, our 2023 notes and 2025 notes offerings, and cash generated from operations.

We believe that our existing sources of liquidity will be sufficient to fund our operations and debt service obligations for at least the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, our investments in research and development activities, our acquisition of new products and services and our sales and marketing activities. To the extent that existing cash and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Additional funds may not be available on terms favorable to us or at all. If adequate funds are not available on acceptable terms, or at all, we may be unable to adequately fund our business plans and it could have a negative effect on our business, operating cash flows and financial condition.

Most of our cash is held in the United States. As of March 31, 2020, our foreign subsidiaries held an insignificant amount of cash in foreign jurisdictions. We currently do not intend or foresee a need to repatriate some of these foreign funds, however, as a result of the Tax Cuts and Jobs Act we anticipate the U.S. federal impact to be minimal if these foreign funds are repatriated. In addition, based on our current and future needs, we believe our current funding and capital resources for our international operations are adequate.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Consolidated Statements of Cash Flows Data:** | | |
| Net cash provided by operating activities | $ 62,967 | $ 17,941 |
| Net cash (used in) provided by investing activities | (47,262) | 13,173 |
| Net cash (used in) provided by financing activities | (44,169) | 508,482 |

***Cash Flows from Operating Activities***

Net cash provided by operating activities during the three months ended March 31, 2020 was $63.0 million. Our net loss of $5.7 million was reduced by the change in our deferred revenue of $17.0 million and accrued liabilities of $16.0 million. Additionally, we had significant non-cash operating expenses including print textbook depreciation expense of $3.5 million, other depreciation and amortization expense of $9.2 million, share-based compensation expense of $18.3 million, and the amortization of debt discount and issuance costs related to the notes of $12.9 million.

Net cash provided by operating activities during the three months ended March 31, 2019 was $17.9 million. Our net loss of $4.3 million was offset by significant non-cash operating expenses including other depreciation and amortization expense of $6.8 million, share-based compensation expense of $15.0 million, and the amortization of debt discount and issuance costs related to the notes of $4.0 million.

***Cash Flows from Investing Activities***

Net cash used in investing activities during the three months ended March 31, 2020 was $47.3 million and was related to the purchases of investments of $112.4 million, the purchases of textbooks of $36.8 million, the purchases of property and equipment of $20.0 million, and the purchase of strategic equity investment of $2.0 million, partially offset by the maturity of investments of $121.8 million and proceeds from the disposition of textbooks of $2.2 million.

Net cash provided by investing activities during the three months ended March 31, 2019 was $13.2 million and was primarily related to the maturity of investments of $48.8 million, partially offset by the purchases of property and equipment of $14.1 million and the purchases of investments of $21.6 million.

***Cash Flows from Financing Activities***

Net cash used in financing activities during the three months ended March 31, 2020 was $44.2 million and was related to the payment of $46.8 million in taxes related to the net share settlement of equity awards proceeds, partially offset by proceeds from the issuance of common stock under stock plans of $2.7 million**.**

Net cash provided by financing activities during the three months ended March 31, 2019 was $508.5 million and was related to the proceeds from issuance of convertible senior notes, net of issuance costs, of $682.6 million and proceeds from the issuance of common stock under stock plans of $7.0 million, partially offset by purchase of the convertible senior notes capped call instruments of $85.1 million, the payment of $76.0 million in taxes related to the net share settlement of equity awards, and the repurchase of common stock of $20.0 million done in connection with the issuance of the convertible senior notes.

**Contractual Obligations and Other Commitments**

There were no material changes in our commitments under contractual obligations, as disclosed in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in our Annual Report on Form 10-K for the year ended December 31, 2019.

**Off-Balance Sheet Arrangements**

Through March 31, 2020, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**Critical Accounting Policies, Significant Judgments and Estimates**

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate our estimates and assumptions. The current COVID-19 pandemic has caused uncertainty and disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require updates to our estimates or judgments or require us to revise the carrying value of our assets or liabilities. These estimates may change as new events occur and additional information is obtained. Our actual results may differ from these estimates under different assumptions or conditions.

Except for our critical accounting policy on textbook library, there have been no material changes in our critical accounting policies and estimates during the three months ended March 31, 2020 as compared to the critical accounting policies and estimates disclosed in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in our Annual Report on Form 10-K for the year ended December 31, 2019.

***Textbook Library***

We record allowances for lost, damaged, or excess print textbooks on a book-by-book basis. Factors considered in the determination of allowance for print textbooks include historical experience, management’s knowledge of current business conditions, and expectations of future demand. The consideration of these factors requires management to make significant judgments in the determination of our allowance for print textbooks in any given period which could have a material impact on our result of operations.

We depreciate our print textbooks, less an estimated salvage value, over an estimated useful life of four years using an accelerated method of depreciation, as we estimate this method most accurately reflects the actual pattern of decline in their economic value. The salvage value considers the historical trend and projected proceeds for print textbooks. The useful life is

determined based on the estimated time period in which the print textbooks are held and rented. We review the estimated salvage value and useful life of our print textbook library on an ongoing basis.

We review the accelerated method of depreciation to ensure consistency with the value of the print textbooks to our customers during their useful life. Based on historical experience, we believe that a print textbook has more value to our customers and us early in its life and therefore an accelerated depreciation method best reflects the actual pattern of decline in economic value and aligns with the print textbooks' deteriorating condition over time. In addition, we consider the utilization of the print textbooks and the revenues we can earn, recognizing that a used print textbook rents for a lower amount than a new print textbook. Should the actual rental activity or deterioration of print textbooks differ from our estimates, our net gain or loss on print textbooks previously rented could differ in any given period, which could have a material impact to our results of operations.

In addition, we evaluate the appropriateness of the estimated salvage value and useful life estimates based on historical transactions with both vendors and customers and reviewing a blend of actuals and estimates of the lifecycle of each print textbook. Our estimates utilize data from historical experience, including actual proceeds from print textbooks as a percentage of original sourcing costs, channel mix and the projected value of a print textbook in relation to the original source cost over time. As we continue to accumulate additional data related to our print textbook library, we may make refinements in the estimated salvage value, method of depreciation, or useful life. Any potential refinements could impact our print textbook depreciation expense or net gain or loss on print textbooks previously rented and could have a material impact to our results of operations.

**Recent Accounting Pronouncements**

For relevant recent accounting pronouncements, see Note 1. Background and Basis of Presentation of our accompanying Notes to Condensed Consolidated Financial Statements included in Part I, Item 1, "Financial Statements (unaudited)" of this Quarterly Report on Form 10-Q.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the three months ended March 31, 2020, compared to the disclosures in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" contained in our Annual Report on Form 10-K for the year ended December 31, 2019.

## 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

During the three months ended March 31, 2020, 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 that

materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue to monitor the impact of the COVID-19 pandemic and, despite many of our employees working remotely, have not experienced any changes 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, we may from time to time be subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights; employment claims; and general contract or other claims. We may also, from time to time be subject to various legal or government claims, disputes, or investigations. Such matters may include, but not be limited to, claims, disputes or investigations related to warranty, refund, breach of contract, employment, intellectual property, government regulation or compliance or other matters.

On March 3, 2020, Ingram Hosting Holdings LLC (IHH) filed a complaint in the U.S. District Court for the Middle District of Tennessee alleging that Chegg breached its various contracts with IHH and other Ingram group entities, seeking damages in the amount of $17 million. An answer was filed on March 31, 2020. Chegg and Ingram have worked together for over six months attempting to reconcile each Company's respective claims as part of the wind-down of our business relationship, such as claims related to lost books, customer refunds, and costs associated with failure to meet guaranteed delivery dates. The Court has scheduled an initial case management conference for May 12, 2020 to set the discovery and trial calendar and the parties continue to discuss resolution of these claims.

On November 5, 2018, NetSoc, LLC (NetSoc) filed a complaint against us in the U.S. District Court for the Southern District of New York for patent infringement alleging that the Chegg Tutors service infringes U.S. Patent No. 9.978,107 and seeking unspecified compensatory damages. A responsive pleading was filed on February 19, 2019. On January 13, 2020, the Court issued an order dismissing the case as to Chegg. On January 30, 2020, NetSoc appealed the dismissal. On April 21, 2020, the Court granted Chegg's motion to hold the appeal in abeyance pending outcome of an appeal in the litigation above.

We have not recorded any amounts related to the above matters, as we do not believe that a loss is probable in either matter. 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 condensed 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 the section titled "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 results of operations, 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**

***The full effect of the COVID-19 pandemic is uncertain and cannot be predicted. The COVID-19 pandemic could worsen, or its effects may be prolonged, which could lead to a materially adverse effect on our business and results of operations.***

The COVID-19 pandemic has caused significant volatility in financial markets and has raised the prospect of an extended global recession. Further, the full effects of the pandemic cannot be predicted as a result of uncertainties including the extent and rate of the spread, the possibility and timing of any vaccine, treatment, or cure or stop to the spread, and the potential for additional peaks in infection rates later in 2020. Public health problems resulting from COVID-19 and precautionary measures instituted by governments and businesses to mitigate its spread, including travel restrictions, school and business closures, and quarantines, could contribute to a general slowdown in the global economy, adversely impact our customers and partners, and disrupt our operations. Changes in our operations in respect to COVID-19 or employee illnesses resulting from

the pandemic may result in inefficiencies or delays, including in sales and marketing and order fulfillment efforts and could result in additional costs related to business continuity initiatives that cannot be fully mitigated through succession planning, employees working remotely, or teleconferencing technologies.

Many of our employees worldwide are currently working remotely as a result of the COVID-19 pandemic. The health of our employees is of primary concern and given the uncertainties of the outcome of the COVID-19 pandemic, we cannot reasonably predict when our employees will be able to return to our offices and may need to take further precautionary measures to ensure the health of our employees. Additionally, our management team has been focusing additional time on planning for and mitigating the risks of the COVID-19 pandemic, which may reduce the amount of time available for other initiatives. The COVID-19 pandemic may lead to inefficiencies of our employees, operational and cybersecurity risks and other circumstances which could have an adverse impact to our results of operations.

The COVID-19 pandemic did not have a materially adverse effect on our business and result of operations during the three months ended March 31, 2020, but it remains uncertain how the pandemic will impact our business in the future. COVID-19 and related governmental reactions may have a negative impact on our business, liquidity, results of operations, and stock price due to the occurrence of some, or all, of the following events or circumstances:

- our inability to manage our business effectively due to key employees becoming ill, working from home inefficiently, and being unable to travel to our facilities;
- our inability to realize our expected return on textbooks in our print textbook library as educators transition to online curriculums;
- the requirement that our management team shift its focus to mitigating risks related to COVID-19 and away from our day-to-day operations and initiatives;
- disruptions to the operations of our logistics and distribution partners, which could impact our ability to timely deliver our print textbooks to students;
- our textbook partners' inability to fill our textbook orders due to disruptions to their operations or overwhelming demand from their own customers; and
- system interruptions that slow our website or make our website unavailable as our third-party software and service providers experience increased usage;

We are continuously monitoring our business and operations to take appropriate actions with the intention to mitigate risks arising from the COVID-19 pandemic but there can be no guarantee that the actions we take will be successful. Should the situation worsen and not improve, or our steps for risk mitigation fail, our business, financial condition, results of operations, and prospects may be materially and adversely affected.

***We are unable to determine when colleges will resume in-person classes, whether they will successfully transition to online education, or how well they will overcome the impacts of the COVID-19 pandemic. Ongoing uncertainty or worsening of the COVID-19 pandemic could cause colleges to suffer financial decline or warrant them taking more drastic actions with regard to campus shut downs which could lead to a materially adverse impact on our business and results of operations.***

A significant number of United States and international colleges have been required to cease in-person classes in an attempt to limit the spread of the COVID-19 pandemic and ensure the safety of their students. Uncertainties surrounding the COVID-19 pandemic are forcing colleges to rethink their near-term plans for instruction by transitioning to alternative methods of instruction, including online learning, that they may not be well-adapted for. Colleges will need to consider, among other things, when they reopen their campuses for in-person classes and how many students, including international students, are allowed to enroll in future classes. Should the COVID-19 pandemic continue to spread and worsen, colleges may not have the financial resources to withstand a prolonged shutdown and may be forced to close. If colleges limit enrollment or are forced to close, we may see lower customer engagement with our products and services, which could lead to a materially adverse impact on our business and result of operations.

***Our limited operating history and evolving digital offerings make it difficult to evaluate our current business and future prospects.***

Although we began our operations in July 2005, we did not launch our online print textbook rental business until 2007 or begin generating revenues at scale from print textbook rentals until 2010. We completed a transition to a new model for our Required Materials product line in November 2016 through our strategic partnership with Ingram to accelerate our transition away from the more capital-intensive aspects of the print textbook rental business. We continue to market, use our branding, and maintain the customer experience around print textbook rentals, while through the end of 2019, Ingram or other partners funded all rental textbook inventory and assumed title and risk of loss related to textbook rentals for the textbooks they owned.

Beginning in 2020, we have begun transitioning our textbook rental business and resumed owning textbooks, now working with FedEx as our vendor for warehousing and fulfillment services.

Since July 2010, we have focused on expanding our offerings, in many instances through the acquisition of other companies, to include supplemental materials, Chegg Study, Chegg Writing, Chegg Tutors, Chegg Math Solver, and Thinkful. For example, in October 2019, we acquired Thinkful to provide a skills-based learning platform that offers professional courses in software engineering, data science, data analytics, product design, product management, and digital marketing directly to students across the United States. In June 2018, we launched the Chegg Math Solver to help students with their algebra, pre-calculus, and calculus math problems. Our newer products and services, or any other products and services we may introduce or acquire, may not be integrated effectively into our business, achieve or sustain profitability, or achieve market acceptance at levels sufficient to justify our investment.

Our ability to fully integrate new products and services into our learning platform or achieve satisfactory financial results from them is unproven. Because we have a limited operating history, in particular operating a fully digital platform, and the market for our products and services, including newly acquired or developed products and services, is rapidly evolving, it is difficult for us to predict our results of operations, particularly with respect to our newer offerings, and the ultimate size of the market for our products and services. If the market for a learning platform does not develop as we expect, or if we fail to address the needs of this market, our business will be harmed.

We face risks, expenses, and difficulties related to our specific business model, as well as those typically encountered by companies in their early stage of development, including, but not limited to our ability to successfully:

- execute on our evolving business model, including our transition back to the ownership of print textbooks;
- transition fulfillment logistics from Ingram to FedEx;
- develop new products and services, both independently and with developers or other third parties;
- acquire complementary products and services to expand our offerings and enhance our learning platform;
- attract and retain students and increase their engagement with our learning platform;
- prevent students from stealing accounts, sharing accounts, and cheating with other students;
- manage the growth of our business, including increasing or unforeseen expenses;
- develop and scale a high-performance technology infrastructure to efficiently handle increased usage by students, especially during peak periods prior to each academic term;
- maintain and manage relationships with strategic partners, including distributors, publishers, wholesalers, colleges, and brands;
- ensure our platform remains secure and protects the information of students, tutors and other users;
- attract and retain brands to our marketing services;
- develop and pursue a profitable business model and pricing strategy;
- compete with companies that offer similar services or products;
- expand into adjacent markets;
- enter into a skills-based business;
- navigate the ongoing evolution and uncertain application of regulatory requirements, such as privacy laws, to our business, including our new products and services;
- integrate and realize synergies from businesses that we acquire; and
- expand, operate, and compete in international markets.

We have encountered and will continue to encounter these risks and if we do not manage them successfully, our business, financial condition, results of operations, and prospects may be materially and adversely affected.

***Our results of operations are expected to be difficult to predict based on a number of factors.***

We expect our results of operations to fluctuate in the future based on a variety of factors, many of which are outside our control and difficult to predict. As a result, period-to-period comparisons of our results of operations may not be a good indicator of our future or long-term performance. The following factors may affect us from period-to-period and may affect our long-term performance:

- our ability to attract and retain students and increase their engagement with our learning platform, particularly related to our Chegg Services subscribers;
- changes to Internet search engines and application marketplaces that drive traffic to our platform;
- the rate of adoption of our offerings;

- our ability to successfully utilize the information gathered from our learning platform to enhance our Student Graph and target sales of complementary products and services to our students;
- changes in demand, including due to the current COVID-19 pandemic, and pricing for print textbooks and eTextbooks;
- the ability of our logistics partners to manage fulfillment processes, including significant volume increases during peak periods and as a result of the potential growth in volume of transactions over time;
- our transition from Ingram to FedEx for print textbook fulfillment;
- our ability to integrate the Chegg and Thinkful businesses;
- changes by our competitors to their product and service offerings;
- price competition and our ability to react appropriately to such competition;
- our ability and Ingram's ability to manage Ingram's textbook library and our ability and FedEx's ability to manage our textbook library;
- our ability to execute on our strategic partnerships with our logistics partners;
- disruptions to our internal computer systems and our fulfillment information technology infrastructure, particularly during peak periods;
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations, and infrastructure;
- our ability to successfully manage the integration of operations, technology and personnel resulting from our acquisitions;
- the effects of the COVID-19 pandemic on education generally, which has caused schools, colleges and universities to adjust curriculums and implement remote learning;
- government regulations, in particular regarding privacy and advertising and taxation policies; and
- general macroeconomic conditions and economic conditions specific to education, including the current COVID-19 pandemic.

***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 March 31, 2020 and 2019 were $5.7 million and $4.3 million, respectively. As of March 31, 2020, we had an accumulated deficit of $422.1 million. We expect to make significant investments in the development and expansion of our business and our cost of revenues and operating expenses may increase. We may not succeed in increasing our revenues sufficiently to offset these higher expenses, and our efforts to grow the business may prove more expensive than we currently anticipate. We may incur significant losses in the future for a number of reasons, including slowing demand for our products and services; increasing competition, particularly for the price of textbooks; decreased spending on education; and other risks described in this Quarterly Report on Form 10-Q. We may encounter unforeseen expenses, challenges, complications, and delays and other unknown factors as we pursue our business plan and our business model continues to evolve. While Chegg Services revenues have grown in recent periods, this growth may not be sustainable and we may not be able to achieve profitability. To achieve profitability, we may need to change our operating infrastructure and scale our operations more efficiently. We also may need to reduce our costs or implement changes in our product offerings to improve the predictability of our revenues. 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.

***If our efforts to attract new students to use our products and services and increase student engagement with our learning platform are not successful, our business and results of operations will be adversely affected. Our future revenues depend on our ability to attract new students, 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 cost-effectively or at all.***

The growth of our business depends on our ability to attract new students to use our products and services and to increase the level of engagement by existing students with our learning platform. The substantial majority of our revenues depends on small transactions made by a widely dispersed student population with an inherently high rate of turnover primarily as a result of graduation. Many of the students we desire to attract are accustomed to obtaining textbooks through bookstores or used booksellers. The rate at which we expand our student user base and increase student engagement with our learning platform may decline or fluctuate because of several factors, including:

- our ability to engage high school students with our Chegg Writing, Chegg Tutors, Chegg Math Solver, Chegg Prep, and College Admissions and Scholarship Services;
- our ability to produce compelling supplemental materials and services for students to improve their outcomes throughout their educational journey;

- our ability to produce engaging mobile applications and websites for students to engage with our learning platform;
- our ability and our fulfillment partner's 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 print textbooks;
- the pricing of our physical textbooks and eTextbooks for rental or sale in relation to other alternatives, including the prices offered by publishers or by other competing textbook rental providers;
- the quality and prices of our offerings compared to those of our competitors;
- the rate of adoption of eTextbooks and our ability to capture a significant share of that market;
- changes in student spending levels;
- changes in the number of students attending college;
- the effectiveness of our sales and marketing efforts, including our success in generating word-of-mouth referrals; and
- our ability to introduce new products and services that are favorably received by students.

If we do not attract more students to our learning platform and the products and services that we offer or if students do not increase their level of engagement with our platform, our revenues may grow more slowly than expected or decline. The student demographic is characterized by rapidly changing tastes, preferences, behavior, and brand loyalty. Developing an enduring business model to serve this population is particularly challenging. Our ability to attract new students depends not only on investment in our brand and our marketing efforts, but also on the perceived value of our products and services versus competing alternatives among our extremely price conscious student user base. If our efforts to satisfy our existing student user base are not successful or become less effective, or if the cost of such efforts were to significantly increase, we may not be able to attract new students as successfully or efficiently and, as a result, our business, results of operations, and financial condition will be adversely affected.

Additionally, even if we succeed in establishing brand awareness and loyalty, we may be unable to maintain and grow our student user base if we are unable to offer competitive prices for our products and services or unable to adequately prevent unauthorized account sharing of our subscription program services. If we fail to expand our user base, our business, results of operations, and financial condition would be adversely affected.

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

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

Our facilities and information systems, as well as those of our third-party service providers, also are subject to break-ins, sabotage, intentional acts of vandalism, cybersecurity risks including cyber-attacks such as computer viruses and denial of service attacks, the failure of physical, administrative, and technical security measures, terrorist acts, natural disasters, human error, the financial insolvency of our third-party vendors, and other unanticipated problems or events. These information systems have periodically experienced and will continue to experience both directed attacks as well as loss of, misuse of, or theft of data. Moreover, due to the current COVID-19 pandemic, there is an increased risk that we may experience cybersecurity related incidents as a result of our employees, service providers, and third parties working remotely on less secure systems during government mandated shelter-in-place orders. While we have implemented physical, technical, and administrative safeguards designed to help protect our systems, in the event of a system interruption or a security exposure or breach, they may not be as effective as intended and we may not have adequate insurance coverage to compensate for related losses. To date, unauthorized users have not had a material effect on our company; however, there can be no assurance that attacks will not be successful in the future or that any loss will not be material. In addition, our information systems must be constantly updated, patched, and upgraded to optimize performance and protect against known vulnerabilities, material disruptions, or slowdown.

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

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

***If Internet search engines' methodologies are modified or our search result page rankings decline for other reasons, student engagement with our website could decline, which may harm our business and results of operations.***

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

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

We historically experience a disproportionate amount of activity on our website at the beginning of each academic term as students search our textbook catalog and place orders for course materials as well as during Sundays of our Chegg Study rush. If too many students access our website within a short period of time, we may experience system interruptions that make our website unavailable, slowed, or prevent our distribution partner 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 brands. In addition, during peak periods, we and our distribution partners utilize independent contractors and temporary personnel to supplement our workforces primarily in our student advocacy organizations, our subject matter experts, and in our distribution partners' warehouses. Competition for qualified personnel has historically been intense, any understaffing could lead to an increase in the amount of time required to ship textbooks and process returns or respond to student questions and inquiries. Moreover, the third-party carriers relied on to deliver textbooks to students, and publishers, wholesalers, and distributors that ship directly to our students, may be unable to meet our shipping and delivery requirements during peak periods, especially during inclement weather or other disruptions to the shipping services. Any delay or failure to deliver our products and services or respond to student questions could cause our customers to be dissatisfied with our services and have an adverse effect on our results of operations.

***If our efforts to build strong brands are not successful, we may not be able to grow our student user base, which could adversely affect our results of operations.***

We believe our brands are a key asset of our business. Developing, protecting and enhancing the "Chegg" brands are critical to our ability to expand our student user base and increase student engagement with our learning platform. Strong brands also help to counteract the significant student turnover we experience from year to year as students graduate, and differentiate us from our competitors.

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

- maintain our reputation as a trusted technology platform and source of content, services, and textbooks for students;
- maintain the quality of and improve our existing products, services, and technologies;
- introduce products and services that are favorably received;
- adapt to changing technologies, including developing and enhancing compelling mobile offerings for our learning platform;
- adapt to students' rapidly changing tastes, preferences, behavior, and brand loyalties;
- protect students', tutors', and educators' data, such as passwords and personally identifiable information;

- protect our trademarks and other intellectual property rights;
- maintain and control the quality of our brand;
- 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 Thinkful, WriteLab, StudyBlue, Cogeon, the developer of the math application Math 42, Imagine Easy Solutions, and internships.com, into the Chegg brand and Chegg.com.

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

- changes in student sentiment about the quality or usefulness of our learning platform and our products and services;
- problems that prevent our logistics partners from delivering textbooks reliably or timely;
- technical or other problems that prevent us from providing our products and services reliably or otherwise negatively affect the student experience on our learning platform;
- concern from colleges about the ways students use our content offerings, such as our Expert Answers service;
- brand conflict between acquired brands and the Chegg brand;
- student concerns related to privacy and the way in which we use student data as part of our products and services;
- the reputation or products and services of competitive companies; and
- students' misuse of our products and services in ways that violate our terms of services, applicable laws, or the code of conduct at their colleges.

***We intend to offer new products and services to students and expand into international markets to grow our business. If our efforts are not successful or we are not able to manage the growth of our business both in terms of scale and complexity, our business, results of operations, and financial condition would be adversely affected.***

Our ability to attract and retain students and increase their engagement with our learning platform depends on our ability to connect them with the product, person, or service they need to save time, save money, and get smarter. Part of our strategy is to offer students new products and services in an increasingly relevant and personalized way. We may develop such products and services independently, by acquisition or in conjunction with developers and other third parties. For example, in 2016, we acquired our Writing Tools service in the acquisition of Imagine Easy Solutions; in October 2017, we acquired Math 42, in the acquisition of Cogeon GmbH (Cogeon); in June 2018, we acquired flash tools in the acquisition of StudyBlue, Inc.; and in October 2019, we acquired the skills-based learning platform of Thinkful, Inc. The markets for these new products and services may be unproven, and these products may include technologies and business models with which we have little or no prior development or operating experience or may significantly change our existing products and services. In addition, we may be unable to obtain long-term licenses from third-party content providers and/or government regulatory approvals and licenses necessary to allow a product or service, including a new or planned product or service, to function. If our new or enhanced products and services fail to engage our students or attract new students, or if we are unable to obtain content from third parties that students want, we may fail to grow our student base or generate sufficient revenues, operating margin, or other value to justify our investments, and our business would be adversely affected.

In the future, we may invest in new products and services and other initiatives to generate revenues and grow our student user base and to take advantage of favorable market opportunities, but there is no guarantee these approaches will be successful. As we grow, the operations and 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. Acquisitions of new companies, products, and services create integration risk, while developing and enhancing products and services involves significant time, labor, and expense as well as other challenges, including managing the length of the development cycle, entry into new markets, regulatory compliance, evolution in sales and marketing methods, and maintenance and protection of proprietary rights. Any future expansion will likely place significant demand 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 successful with our new products and services or are not able to manage the growth of our business, we may not be able to maintain or increase our revenues as anticipated or recover any associated acquisition or development costs, and our business, results of operations, and financial condition could be adversely affected.

As part of our business strategy, we may make our products and services available in more countries outside of our primary market, the United States. We expect to devote significant resources to international expansion, and our ability to

expand our business and to attract talented employees and users in international markets will require management attention and resources. Our international expansion may subject us to risks that we have not faced before or increase risks that we currently face. 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. Our ability to gain market acceptance in any particular market is uncertain and the distraction of our senior management team could have an adverse effect on our business, results of operations, and financial condition.

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

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

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

In addition:

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

Acquired companies, businesses, and assets can be complex and time consuming to integrate. For example, we expanded into writing tools with the acquisitions of Imagine Easy Solutions in 2016 and WriteLab in 2018 and a new offering in skills-based learning with the acquisition of Thinkful in 2019. We may not successfully transition these users to the Chegg platform and therefore may not realize the potential benefits of these acquisitions.

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

***We operate in a rapidly changing market and if we do not successfully adapt to known or unforeseen market developments, our business and financial condition could be materially and adversely affected.***

We have added and plan to continue to add new offerings to our learning platform, including, for example, skills-based learning, writing and math tools, to diversify our sources of revenues, which require us to make substantial investments in the products and services we develop or acquire. New offerings may not achieve market success at levels that recover our investments or contribute to profitability. Because these offerings are not as capital intensive as our print textbook rental service, the barriers to entry for existing and future competitors may be lower and allow for even more rapid changes to the market. Furthermore, the market for these other products and services is relatively new and may not develop as we expect. If the market for our offerings does not develop as we expect, or if we fail to address the needs of this market, our business may be harmed. We may not be successful in executing on our evolving business model, and if we cannot provide an increasing number of products and services that students and brands find compelling, we will not be able to continue our recent growth, increase our revenues, or achieve and sustain profitability. For all of these reasons, the evolution of our business model is ongoing and the future revenues and profitability potential of our offerings is uncertain.

***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. 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 adversely affected.

When deciding whether to offer a textbook for rent and the price we charge for that rental, we must weigh a variety of factors and assumptions, including the expense to acquire a particular textbook, the number of rentals we will be able to achieve with each textbook and at what rental price, and whether we believe it will be profitable to acquire and rent such textbooks. If the textbooks we acquire are lost, determined to be unauthorized copies, 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 be adversely affected.

***Wind-down and reconciliation activities associated with ending our relationship with Ingram may not proceed as planned, may require a long time to complete, or may require us to incur greater costs than anticipated.***

Our strategic partnership with Ingram expires this year, after which logistics and shipping services will be provided by FedEx. As part of this transition, Ingram business activities related to our print textbook offering will decrease over time while FedEx's business activities will ramp up. If we experience unexpected challenges during this coordinated transition of our print textbook offering from Ingram to FedEx, if the transition takes a longer time to complete than expected, or if we fail to accurately forecast the transition costs, our business and results of operations will be impacted. Further, during this transition, customers may experience longer shipping periods than they have come to expect or the order accuracy may decline, causing increased calls to our customer service team, the need to expedite corrected orders, and the potential loss of customers. Finally, while our dialogue with Ingram to reconcile each company's respective claims related to lost books, customer refunds, and costs associated with failure to meet guaranteed delivery dates continues, we do not know if those efforts to resolve the claims will be successful. If they are not successful, the parties' litigation will proceed, which will require us to incur additional costs.

***Delays in shipping, increased costs, and other difficulties that could arise with our distribution partners may have an adverse effect on our business and results of operations.***

Our strategic partnership with Ingram expires this year and we have begun to transition our fulfillment services from Ingram to FedEx. Until the termination of our partnership, we will continue to rely on Ingram to fulfill print textbook rental and sales orders. If our partnership with Ingram is interrupted prior to its expiration, if Ingram experiences disruptions in its business or is not able to perform as anticipated, or if we do not effectively transition our fulfillment services to FedEx, we may experience operational difficulties, an inability to fulfill print textbook orders, increased costs and a loss of business, that may have an adverse effect on our business, results of operations and financial condition. Furthermore, if we are unable to achieve the financial return targets set forth in our agreement with Ingram, we could be required to make additional payments to Ingram which could adversely affect our results of operations. In addition to our strategic partnership with Ingram, we have entered into agreements with other partners to provide their textbooks for rental or sale through our website for which Ingram provides logistics and fulfillment for all print textbook rental or sale orders. If we are unable to enter into or renew our agreements with our partners or if any of our partners perform significantly below our expectations, we may experience a material adverse effect on our business, results of operations and financial condition. Moreover, should any of our partners experience disruptions to operations or overwhelming demand from their customers, due to the COVID-19 pandemic, we may experience operational difficulties, an inability to fulfill print textbook orders, increased costs and a loss of business, that may have an adverse effect on our business, results of operations and financial condition.

In the case of either Ingram or FedEx, we do not control the logistics and distribution process for our print textbooks. As a result, our business could be subject to carrier disruptions and increased costs due to factors that are beyond our control, including labor difficulties, inclement weather, increased fuel costs and other rising costs of transportation, natural disasters, health pandemics such as the current COVID-19 pandemic, and terrorist activity. If our distribution partners, or their partners such as delivery companies, were to limit their services or delivery areas, such as by the discontinuation of Saturday delivery service, or otherwise suffer from business disruptions, we may be required to rely on alternative carriers for delivery and return shipments of textbooks to and from students or we may be unable to deliver textbooks. If we are unable to sufficiently engage alternative carriers on a timely basis or on terms favorable to us, our ability to timely deliver textbooks could diminish. If textbooks are not delivered on time to students, they could become dissatisfied and discontinue their use of our service, which could adversely affect our results of operations.

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

We rely on third-party software and service providers, including AWS, to provide systems, storage, and services, including user log in authentication, for our website. Any technical problem with, cyber-attack on, or loss of access to such third parties' systems, servers, or technologies could result in the inability of our students to rent or purchase print textbooks, interfere with access to our digital content and other online products and services or result in the theft of end-user personal information. Further, these third-party software and service providers may experience operational difficulties due to the current COVID-19 pandemic, including increased usage of their software and services. If they are unable to adapt to the increase in demand or fail to ensure availability of their software and services, our ability to service users' requests may be impacted, which could have an adverse impact on our result of operations.

Our reliance on AWS makes us vulnerable to any errors, interruptions, or delays in their operations. Any disruption in the services provided by AWS could harm our reputation or brand or cause us to lose students or revenues or incur substantial recovery costs and distract management from operating our business.

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

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

Computer malware, viruses, hacking, physical or electronic break-ins, spamming, and similar events could lead to disruptions of our website services, our mobile applications, or systems we use and interruptions and delays in our services and operations, as well as loss, misuse, or theft of data. Any such events could harm our business, be expensive to remedy, and damage our reputation or brand. Computer malware, viruses, computer hacking, and phishing attacks against online networking platforms have become more prevalent and have affected us in the past and may occur on systems we use in the future. We believe that the incidence of hacking among students may increase our risk of being a target for such attacks. These threats are constantly evolving, making it increasingly difficult to successfully defend against them or implement adequate preventative measures.

For instance, in April 2018, an unauthorized party gained access to user data for chegg.com and certain of our family of brands such as EasyBib (the 2018 Data Incident). The information that may have been obtained could include a Chegg user's name, email address, shipping address, Chegg username, and hashed Chegg password. To date, no social security numbers or financial information such as users' credit card numbers or bank account information were obtained. Additionally, Thinkful, prior to our acquisition of it, discovered an unauthorized party may have gained access to certain Thinkful company credentials (the Thinkful Data Incident). If we, or companies that we acquire, experience compromises to our or our acquired companies' security that result in website performance or availability problems, the complete shutdown of our websites, or the actual or perceived loss or unauthorized disclosure or use of confidential information, such as credit card information, users may be harmed or lose trust and confidence in us and the companies that we acquire, and decrease the use of our services or stop using our services in their entirety, and we would suffer reputational and financial harm.

As part of our regular cybersecurity efforts, including enhancements to these efforts made following our discovery of these prior events, we have implemented physical, technical, and administrative safeguards designed to help protect our systems. However, these safeguards may not be as effective as intended, and may not prevent future cybersecurity breaches. Efforts to prevent hackers from entering our computer systems are expensive to implement, may limit the functionality of our services, and we may need to expend significant additional resources to further enhance our safeguards and protection against security breaches or to redress problems caused by breaches and such efforts may not be fully effective. Additionally, our network security business disruption insurance may not be sufficient to cover significant expenses and losses related to direct attacks on our website or systems we use. 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, or the actual or perceived loss or unauthorized disclosure or use of the data we collect and develop may lead our users to lose trust and confidence in us or otherwise harm our reputation, brand, and our ability to attract students to our website or may lead them to decrease the use of our services or applications or stop using our services in their entirety. Any significant disruption to our website or computer systems we use could result in a loss of students or advertisers and, particularly if disruptions occur during the peak periods at the beginning of each academic term, could adversely affect our business and results of operations.

If our security measures or those of companies we may acquire are breached or are perceived to have been breached, as a result of third party action, including cyberattacks or other intentional misconduct by computer hackers, employee error, malfeasance, or otherwise, or if third parties obtain unauthorized access to our data, including sensitive customer data, personal information, intellectual property and other confidential business information, we could be required to expend significant capital and other resources to address the problem as well incur significant costs and liabilities including due to litigation, indemnity obligations, damages, penalties, and costs for remediation.

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

We maintain personal data regarding students, tutors, and educators, who use our platform through our Thinkful service, including names and, in many cases, mailing addresses, and, in the case of tutors and educators, information necessary for payment and tax filings. We take measures to protect against unauthorized intrusion into our users' data. However, despite these measures, if we or our payment processing services experience any unauthorized intrusion into our users' data, current and potential 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 and reputation could be adversely affected. For instance, the 2018 Data Incident and the Thinkful Data Incident may cause, or may have caused, us reputational harm with our user' that may adversely affect our business. 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.

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

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

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

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

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

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 results of operations 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 and brands, or loss of revenues, any of which could adversely affect our business and results of operations.

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

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

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

In addition, we do not obtain signatures from students in connection with the use of credit cards by them. Under current credit card practices, to the extent we do not obtain cardholders' signatures, we are liable for fraudulent credit card transactions, even when the associated financial institution approves payment of the orders. From time to time, fraudulent credit cards may be used. We may experience some loss from these fraudulent transactions. While we do have safeguards in place, we cannot be certain that other fraudulent schemes will not be successful. A failure to adequately control fraudulent transactions would harm our business and results of operations.

***We face competition in aspects of our business, and we expect such competition to increase.***

Our products and services compete for students and we expect such competition to increase. Our Chegg Services face competition from different businesses depending on the offering. For Chegg Study, our competitors primarily include platforms that provide study materials and online instructional systems, such as Course Hero, Quizlet, Khan Academy, and Bartleby. For Chegg Writing, we primarily face competition from other citation generating and grammar and plagiarism services such as
Grammarly. For Chegg Tutors, we face competition from other online tutoring services such as Wyzant. For Chegg Math Solver, we face competition from other equation solver services such as Mathway and Symbolab. For Thinkful, we face competition from other online learning platforms and online "bootcamp" courses such as General Assembly, Galvanize, Flatiron School, and Lambda School. Additionally, the market for textbooks and supplemental materials is intensely competitive and subject to rapid change. We face competition from college bookstores, some of which are operated by Follett and Barnes & Noble Education, online marketplaces such as Amazon.com, providers of eTextbooks, as well as various private textbook rental websites. Many students purchase from multiple textbook providers, are highly price sensitive, and can easily shift spending from one provider or format to another. As a consequence, our Required Materials product line, which includes eTextbooks, competes primarily on price and further on selection and functionality and compatibility of the eTextbook Reader we utilize across a wide variety of desktop and mobile devices.

Our industry is evolving rapidly and is becoming increasingly competitive. Some of our competitors have longer operating histories, larger customer bases, greater brand recognition, and significantly greater financial, marketing, and other resources than we do. Some of our competitors have adopted, and may continue to adopt, aggressive pricing policies and devote substantially more resources to marketing, website, and systems development than we do. In addition, a variety of business models are being pursued for the provision of print textbooks, some of which may be more profitable or successful than our business model. In addition, our competitors also may form or extend strategic alliances with publishers that could adversely affect our and our partners' ability to obtain textbooks on favorable terms. We face similar risks from strategic alliances by other participants in the education ecosystem with respect to our newer offerings. We may, in the future, establish alliances or relationships with other competitors or potential competitors. To the extent such alliances are terminated or new alliances and relationships are established, our business could be harmed.

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

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

As a result of this seasonality, which corresponds to the academic calendar, our revenues may fluctuate significantly quarter to quarter depending upon the timing of where we are in our "rush" cycle and sequential quarter-over-quarter comparisons of our net revenues and operating results are not likely to be meaningful. In addition, should the current COVID-19 pandemic continue to worsen and colleges are unable to withstand a prolonged shutdown, we may experience a shift or reduction in enrollments that could impact the seasonality of our business and further make our results of operations difficult to predict.

Our operating results for any given quarter cannot be used as an accurate indicator of our results for the year. In particular, we anticipate that our ability to accurately forecast financial results for future periods will be most limited at the time we present our second quarter financial results, which will generally occur midsummer and precede the "fall rush." In addition, our other offerings, in particular services unrelated to textbooks, are relatively new and, as a result, we have limited experience with forecasting revenues from them.

Beginning this year, as a result of our ownership of print textbooks in conjunction with the transition to FedEx for print textbook logistics and warehousing, Required Materials will also include revenues from print textbooks that we will own, which will be recognized as the total transaction amount ratably over the term of a rental period, which is generally two to five months. Revenues from Chegg Services, print textbooks that we own, and eTextbooks are primarily recognized ratably over the term a student subscribes to our Chegg Services, rents a print textbook or has access to an eTextbook. This has generally resulted in our highest revenues and profitability in the fourth quarter as it reflects more days of the academic year.

We base our operating expense budgets on expected net revenue trends. Operating expenses, similar to revenues and cost of revenues, fluctuate significantly quarter to quarter due to the seasonality of our business and are generally higher during the first and third quarters as we incur marketing expense in connection with our peak periods at the beginning of each academic term. Because our revenues are concentrated in the fourth quarter and expenses are concentrated in the first and third quarters, we have experienced operating losses in the first and third quarters and operating income in the fourth quarter. As a result, sequential quarterly comparison of our financial results may not be meaningful. Further, a portion of our expenses, such as office space lease obligations and personnel costs, are largely fixed and are based on our expectations of our peak levels of operations. Nonetheless, we expect to continue to incur significant marketing expenses during peak periods and to have fixed expenses for office space and personnel and as such, we may be unable to adjust spending quickly enough to offset any unexpected revenues shortfall. Accordingly, any shortfall in net revenues may cause significant variation in operating results in any quarter.

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

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

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

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

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

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

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

We rely on licenses from publishers to distribute eTextbooks to our customers and to provide some of our other products and services. We do not have long-term contracts or arrangements with most publishers that guarantee the availability

of such digital content. If we are unable to secure and maintain rights to distribute, or otherwise use, the digital content upon terms that are acceptable to us, or if publishers terminate their agreements with us, we would not be able to acquire such digital content from other sources and our ability to attract new students and retain existing students could be adversely impacted. Some of our licenses give the publisher the right to withdraw our rights to distribute or use the digital content without cause and/or give the publisher the right to terminate the entire license agreement without cause. If a publisher exercises such a right, this could adversely affect our business and results of operations. Moreover, to the extent we are able to secure and maintain rights to distribute eTextbooks, our competitors may be able to obtain the same rights on more favorable terms.

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

***If we fail to convince brands of the benefits of advertising on our learning platform, or if platforms such as Google Chrome, Safari, or Firefox limit our access to advertising and marketing audiences, our business could be harmed.***

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

- integrate with third-party programmatic advertising platforms;
- reduce the exposure of actions taken by platforms to limit our access to advertising audiences;
- compete for advertising and marketing dollars from brands, online marketing, and media companies and advertisers;
- penetrate the market for student-focused advertising;
- develop a platform that can deliver advertising and marketing services across multiple channels, including print, email, Internet, mobile applications, and other connected devices;
- improve our analytics and measurement solutions to demonstrate the value of our advertising and marketing services;
- retain, grow, and engage our student user base;
- strengthen our brand and increase our presence in media reports and with publicity companies that utilize online platforms for advertising and marketing purposes;
- create new products that sustain or increase the value of our advertising and marketing services and other commercial content;
- manage changes in the way online advertising and marketing services are priced;
- weather the impact of macroeconomic conditions, including reduced spending as a result of the COVID-19 pandemic, and conditions in the advertising industry and higher education in general; and
- manage legal developments relating to data privacy, advertising or marketing services, legislation and regulation and litigation.

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

We believe that adhering to our core value of putting students first is essential to our success and in the best interests of our company and the long-term interests of our stockholders. In the past, we have forgone, and in the future we may forgo, short-term revenue opportunities that we do not believe are in the best interests of students, even if our decision negatively impacts our results of operations in the short term. For example, we offer free services to students that require investment by us, such as our Internships service, in order to promote a more comprehensive solution. We launched Chegg.org in 2019, which is the umbrella brand for our impact, advocacy, outreach, and research efforts regarding issues facing the modern student. 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. Our philosophy of putting students first may cause us to make decisions that could negatively impact our relationships with publishers, colleges, and brands, whose interests may not always be aligned with ours or those of our students, particularly during times of economic distress, such as the COVID-19 pandemic. 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 results of operations 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;
- 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; and
- the CCPA, which came into effect on January 1, 2020, requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices, allows consumers to opt out of certain data sharing with third parties, and provides a new cause of action for data breaches. The burdens imposed by the CCPA and other similar laws that may be enacted at the federal and state level may require us to modify our data processing practices and policies and how we advertise to our users and to incur substantial expenditure in order to comply.

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

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

Historically, investments in our business have substantially exceeded the cash we have generated from our operations. We have funded our operating losses and capital expenditures through proceeds from equity and debt financings, and cash flow from operations. Although we currently anticipate that our available funds and cash flow from operations will be sufficient to meet our cash needs for the foreseeable future, we may require additional financing, particularly if the investment required to fund our operations is greater than we anticipate or we choose to invest in new technologies or complementary businesses or change our business model. Our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance and condition of the capital markets at the time we seek financing. Additional financing may not be available to us on favorable terms when required or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience substantial dilution.

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

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

Our ability to deliver course content to students enrolled in Thinkful skills programs may be subject to state oversight including regulatory approvals and licensure for the course content, the faculty members teaching the content, and the recruiting, admissions, and marketing activities associated with the business. Thinkful's efforts to obtain necessary approvals and licenses began prior to our acquisition of Thinkful and has continued following the acquisition. We monitor changes to the state regulatory requirements applicable to our Thinkful business, and to all of Chegg's business activities; however, any failure to obtain the appropriate licenses or address evolving state requirements may result in governmental or regulatory proceedings or actions by private litigants which could potentially harm our business, results of operations, and financial condition.

Our business may also be subject to laws specific to students, such as the Family Educational Rights and Privacy Act, the Delaware Higher Education Privacy Act and a California statute which restricts the access by postsecondary educational institutions of prospective students' social media account information. Compliance levels include obtaining government licenses, 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 or our acquired companies prior to our acquisition thereof have been or will be fully compliant in every jurisdiction, due to lack of clarity concerning how existing laws and regulations governing educational institutions affect our business and lengthy governmental compliance process timelines. Moreover, as the education industry continues to evolve, increasing regulation by federal, state and foreign agencies becomes more likely. Recently, California adopted the Student Online Personal Information Protection Act which prohibits operators of online services used for K-12 school purposes from using or sharing student personal information and Colorado adopted House Bill 16-1423 designed to protect the use of student personal data in elementary and secondary school. These acts do not apply to general audience Internet websites but it is not clear how these acts will be interpreted and the breadth of services that will be restricted by them. Other states may adopt similar statutes. Certain states have also adopted statutes, such as California Education Code § 66400, which prohibits the preparation or sale of material which should reasonably be known will be submitted for academic credit. These statutes are directed at enterprises selling term papers, theses, dissertations and the like, which we do not offer, and were not designed for services like ours which are designed to help students understand the relevant subject matter. Although we will continue to work with academic institutions to enforce our honor code and otherwise discourage students from misusing our services, other states may adopt similar or broader versions of these types of statutes, or the interpretation of the existing or future statutes may impact whether they are cited against us or where we can offer our services.

The adoption of any laws or regulations that adversely affect the popularity or growth in the use of the Internet particularly for educational services, including laws limiting the content and learning programs that we can offer, and the audiences that we can offer that content to, may decrease demand for our service offerings and increase our cost of doing business. Future regulations, or changes in laws and regulations or their existing interpretations or applications, could also hinder our operational flexibility, raise compliance costs and result in additional historical or future liabilities for us, resulting in adverse impacts on our business and our results of operations.

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, results of operations, and financial condition.

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

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

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

We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection. However, U.S. federal, U.S. state and international laws and regulations regarding privacy and data protection, including the CCPA, are rapidly evolving and may be inconsistent and we could be deemed out of compliance as such laws and their interpretation change. In addition, foreign privacy, data protection, and other laws and regulations, particularly in Europe and including the DPD and the GDPR, are often more restrictive than those in the United States. Many of these laws and regulations, including the GDPR, are relatively new and it is not clear how these acts will be interpreted and the breadth of services and the methods of how we conduct or propose to conduct our business that will be restricted or otherwise effected by them. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to our business operations may limit the use and adoption of our services and reduce overall demand for them. Furthermore, foreign court judgments or regulatory actions could impact our ability to transfer, process and/or receive transnational data, including data relating to students or partners outside the United States, or alter our ability to use cookies to deliver advertising and other products to users. Such judgments or actions could affect the manner in which we provide our services or adversely affect our financial results if foreign students and partners are not able to lawfully transfer data to us. For example, in 2015 the European Court of Justice invalidated the U.S.-EU Safe Harbor framework that had been in place since 2000, which allowed companies to meet certain European legal requirements for the transfer of personal data from the European Economic Area to the United States. While other adequate legal mechanisms to lawfully transfer such data remain, the invalidation of the U.S.-EU Safe Harbor framework may result in different European data protection regulators applying differing standards for the transfer of personal data, which could result in increased regulation, cost of compliance and limitations on data transfer for us and our customers. In addition, some countries and states are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services. Any changes in such laws and regulations or a change or differing interpretation or application to our business of the existing laws and regulations, including the recently implemented GDPR, could also hinder our operational flexibility, raise compliance costs and, particularly if our compliance efforts are deemed to be insufficient, result in additional historical or future liabilities for us, resulting in adverse impacts on our business and our results of operations.

In addition, we may be subject to regulatory investigations or litigation in connection with a security breach or related issue, and we could also be liable to third parties for these types of breaches. For instance, following the Data Incident, a purported securities class action captioned *Shah v. Chegg, Inc. et. al.* (Case No. 3:18-cv-05956-CRB) was filed in the United States District Court for the Northern District of California against us and our CEO. The complaint was filed by a purported Chegg stockholder and alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, based on allegedly misleading statements regarding our security measures to protect users' data and related internal controls and procedures, as well as our second quarter 2018 financial results. Such litigation, regulatory investigations and our technical activities intended to prevent future security breaches are likely to require additional management resources and expenditures. If our security measures fail to protect personal information and data supplied by students and tutors adequately, we could be liable to our students and tutors for their losses, we could face regulatory action, and our students and tutors could end their relationships with us, any of which could harm our business and financial results.

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

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

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, display, processing, transmission and security of personal information by companies offering online services have recently come under increased public scrutiny. The U.S. government, including the White House, the FTC and the U.S. Department of Commerce, are reviewing the need for greater regulation of the collection and use of information concerning consumer behavior with respect to online services, including regulation aimed at restricting certain targeted advertising practices. The FTC in particular has approved consent decrees resolving complaints and their resulting investigations into the privacy and security practices of a number of online, social media companies. Similar actions may also impact us directly, particularly because high school students who use our Chegg Writing, Chegg Tutors, and Chegg Prep services, may be under the age of 18, which subjects our business to laws covering the protection of minors. For example, various U.S. and international laws restrict the distribution of materials considered harmful to children and impose

additional restrictions on the ability of online services to collect information from minors. The FTC has also revised the rules under the Children's Online Privacy Protection Act effective July 1, 2013. Although our services are not primarily directed to children under 13, our Chegg Writing service or our Chegg Prep service, in particular, could be used by students as early as in middle school, and the FTC could decide that our site now or in the future has taken inadequate precautions to prevent children under 13 from accessing our site and providing us information.

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

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

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

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

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

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

We rely and expect to continue to rely on a combination of trademark, copyright, patent, and trade secret protection laws, as well as confidentiality and license agreements with our employees, consultants, and third parties with whom we have relationships to protect our intellectual property and proprietary rights. As of March 31, 2020, we had 30 issued patents and 11 patent applications pending in the United States. We own four U.S. copyright registrations and have unregistered copyrights in our software documentation, marketing materials, and website content that we develop. We own 34 U.S. trademark registrations and 26 foreign registrations. As of March 31, 2020, we owned over 700 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. Additionally, if we fail to protect our domain names, it could adversely affect our reputation and brand and make it more difficult for students to find our website, our content, and our services.

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;
- we can acquire or maintain relevant domain names;
- any of the patents, trademarks, copyrights, trade secrets or other intellectual property or proprietary rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned; or
- we will not lose the ability to assert our intellectual property or proprietary rights against or to license our intellectual property or proprietary rights to others and collect royalties or other payments.

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

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

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

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. For instance, on November 5, 2018, a non-practicing entity (NPE) filed an action against us in the United States District Court for the Southern District of New York captioned *NetSoc, LLC v. Chegg, Inc.*, Civil Action No. 1:18-CV-10262-RAC (the NetSoc Action). The NetSoc Action was one of several patent infringement lawsuits filed by NetSoc asserting its recently-issued patent, U.S. Patent No. 9,978,107 (the '107 Patent), which allegedly covers certain aspects of social networking. NetSoc alleged that the Chegg Tutors service infringes the '107 Patent. NetSoc has filed similar lawsuits against other defendants in the Southern District of New York (including, e.g., Yahoo! Inc.), as well as the Northern District of Texas and the Eastern District of Texas (including, e.g., Match Group, LLC). On January 13, 2020, the Court issued an order dismissing the case as to Chegg. On January 30, 2020, NetSoc appealed the dismissal and we are currently awaiting their filing of a brief with the court. For further information on this action, see Part I, Item 3, "Legal Proceedings" below. There are numerous patents that broadly claim means and methods of conducting business on the Internet. We have not exhaustively searched patents related to our technology.

In addition, the publishing industry has been, and we expect in the future will continue to be, the target of counterfeiting and piracy. We have in the past and may continue to receive communications alleging that physical textbooks sold or rented by us are counterfeit. For example, in 2016 we formally began cooperating, and continue to cooperate, with a group of publishers in a series of audits which identified several thousand potentially fraudulent textbooks which we removed from our inventory. While our fulfillment partners have systems for inspecting the physical textbooks in our catalog of books, many of the books sold or rented to students are shipped directly from our suppliers, and, despite this inspection, unauthorized or counterfeit textbooks may inadvertently be included in the catalog of books we offer and may be, without our knowledge that they are unauthorized or counterfeit, subsequently sold or rented by us to students, and we may be subject to allegations of civil or criminal liability. We may implement additional measures in an effort to protect against these potential liabilities that could require us to spend substantial resources. Any costs incurred as a result of liability or asserted liability relating to sales of unauthorized or counterfeit textbooks could harm our business, reputation and financial condition.

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

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

***Our business depends on general economic conditions and their effect on spending behavior by students and advertising budgets.***

Our business is dependent on, among other factors, general economic conditions, which affect student spending and brand advertising. While the U.S. economy has recovered since the "Great Recession," state and federal funding levels at colleges across the United States remain below historic levels, which has led to increased tuition and decreased amounts of financial aid offered to students. Further, the current COVID-19 pandemic has caused significant volatility in financial markets and has raised the prospect of an extended global recession. To the extent that these trends continue or the economy stagnates or worsens, students may reduce the amount they spend on textbooks and other educational content, which could have a serious adverse impact on our business. In addition to decreased spending by students, the colleges and brands that use our marketing services have advertising budgets that are often constrained during periods of stagnant or deteriorating economic conditions. In a difficult economic environment, customer spending in each of our products and services is likely to decrease, which could adversely affect our results of operations and financial condition. A deterioration of the current economic environment may also have a material adverse effect on our ability to fund our growth and strategic business initiatives.

***Our international operations are subject to increased challenges and risks.***

We have employees in Germany, Israel, and India and we indirectly contract with individuals in the Ukraine. Additionally, we own a minority stake in a learning platform for high school and college students in Brazil. Although today our international operations represent less than 10% of our total consolidated operating expenses and we currently do not expect our international operations to materially increase in the near future, we expect to continue to expand our international operations and such operations may expand more quickly than we currently anticipate. However, we have limited operating history as a company outside the United States and our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, tax systems, legal systems, alternative dispute systems, regulatory systems, and commercial infrastructures. Operating internationally has required and will continue to require us to invest significant funds and other resources, subjects us to new risks, and may increase the risks that we currently face, including risks associated with:

- recruiting and retaining talented and capable employees in foreign countries and maintaining our company culture across all of our offices;
- compliance with applicable foreign laws and regulations;
- protecting and enforcing intellectual property rights abroad;
- compliance with anti-bribery laws including, without limitation, the Foreign Corrupt Practices Act;
- currency exchange rate fluctuations;
- additional taxation of international costs and intercompany payments to our international subsidiaries associated with the U.S. Tax Cuts and Jobs Act of 2017 (the 2017 Tax Act);
- additional value added taxes on digital products that are purchased from our website by international customers;
- political and economic instability;
- effects of the COVID-19 pandemic that may be more concentrated where we operate internationally; and
- higher costs of doing business internationally.

***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, in particular in non-U.S. countries. 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, or concerns that certain of our products and services, such as Chegg Study, may contradict or violate their policies.

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, the overall growth in our student user base would slow, student engagement would decrease and we would lose revenues. Any reduction in the number of students directed to our website would harm our business and results of operations.

***Our operations are susceptible to earthquakes, floods, rolling blackouts and other types of power loss, and public health crises, including the current COVID-19 pandemic. If these or other natural or man-made disasters were to occur, our business and results of operations 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, public health crises, including the current COVID-19 pandemic, inclement weather, shelving accidents, or similar events. Our executive offices are located in the San Francisco Bay Area, an earthquake-sensitive area. If floods, fire, inclement weather including extreme rain, wind, heat, or cold, or accidents due to human error were to occur and cause damage to our properties or textbook library, or our distribution partners' ability to fulfill orders for print textbook rentals and sales, 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 and results of operations could be affected adversely as a result. Moreover, damage to or total destruction of our executive offices resulting from earthquakes may not be covered in whole or in part by any insurance we may have.

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

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

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

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

We are subject to regular review and audit by both U.S. federal and state and foreign tax authorities and such jurisdictions may assess additional taxes against us. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax provisions and accruals and could have a negative effect on our financial position and results of operations. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing and allocating income from our intercompany transactions, which could increase our worldwide effective income tax rate. We collect sales taxes in all U.S. states with a sales tax and most local jurisdictions on our sales, rentals, and digital services sold through our commerce system including sales and rentals on behalf of our third-party publishers. In June 2018, the U.S. Supreme Court in South Dakota v. Wayfair, Inc. et al ruled that a state can require an online retailer with no in-state property or personnel to collect and remit sales and use tax on

sales made to the state's residents. It is possible that such taxes could be assessed by certain states retroactively for periods before the Wayfair decision on acquired products that are not sold through our commerce system. Any successful action by federal, state, foreign or other authorities to impose or collect additional income tax or compel us to collect and remit additional sales, use, value-added or similar taxes, either retroactively, prospectively or both, could harm our business, financial condition 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, 2019, we had federal and state net operating loss carryforwards due to prior period losses of approximately $591 million and $440 million, respectively, which if not utilized will begin to expire in 2028 and 2020 for federal and state purposes, respectively. An immaterial portion of the state net operating loss carryforwards expired in 2019. At December 31, 2019, we also had federal tax credit carryforwards of approximately $14.8 million, which if not utilized will begin to expire in 2030, and state tax credit carryforwards of approximately $11.9 million, which do not expire. These net operating loss and tax credit carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability. For example, we have net operating loss carryforwards of $25 million related to our previous operations in Kentucky that will expire unused unless we have similar operations in Kentucky.

The 2017 Tax Act changed both the federal deferred tax value of the net operating loss carryforwards and the rules of utilization of federal net operating loss carryforwards. The 2017 Tax Act lowered the corporate tax rate from 35% to 21% effective for our 2018 financial year. For net operating loss carryforwards generated in years prior to 2018, there is no annual limitation on the utilization and the carryforward period remains at 20 years; net operating loss carryforwards generated in years after 2017 will only be available to offset 80% of future taxable income in any single year but will not expire. However, the Coronavirus Aid, Relief, and Economic Security (CARES) Act temporarily repealed the 80% taxable income limitation for tax years beginning before January 1, 2021; net operating loss carried forward from 2018 or later to taxable years beginning after December 31, 2020 will be subject to the 80% limitation. Also, under the CARES Act, net operating loss arising in 2018, 2019 and 2020 can be carried back 5 years.

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

***U.S. federal income tax reform and new tax laws could adversely affect us.***

The 2017 Tax Act, among other things, included changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, executive compensation, other expenses, and future net operating losses, allows for the expensing of certain capital expenditures, and puts into effect a number of changes impacting operations outside of the United States.

Under the 2017 Tax Act, a corporation's interest expense generally is limited to the business interest income of the corporation and 30% of the corporation's "adjusted taxable income." Adjusted taxable income is defined generally as taxable income with certain add-backs, including in years before 2022, any deductions allowable for depreciation and amortization. Interest expense in excess of the above limitation is not deductible by the corporation but carries forward indefinitely. However, the CARES Act modifies the adjusted taxable income, lifting it from 30% to 50%, for tax years beginning in 2019 and 2020. Depending on our future results, it is possible that our deductions for interest expense arising from the notes and the related capped call transactions could be limited, in which case our after-tax cost of borrowing could increase.

***Our effective tax rate may fluctuate as a result of new tax U.S. and worldwide laws and our interpretations of those new tax laws, which are subject to significant judgments and estimates. The ongoing effects of the new tax laws and the refinement of provisional estimates could make our results difficult to predict.***

Our effective tax rate may fluctuate in the future as a result of new tax laws. The new tax laws will have a meaningful impact on our provision for income taxes once we release our valuation allowance. Due to the complexities involved in applying

the provisions of new tax legislation, we may make reasonable estimates of the effects in our financial statements. As we collect and prepare necessary data and interpret the new tax legislation, we may make adjustments that could affect our financial position and results of operations as well as our effective tax rate in the period in which the adjustments are made. The 2020 Finance Bill was passed by the Parliament of India as Financial Act with amendments. The 2020 Finance Bill replaced the Dividend Distribution Tax on our distributing India entity with the withholding tax imposed on the U.S. recipient shareholders. As a result of the 2020 Finance Bill, we released $0.3 million of our withholding tax deferred tax liability related to deemed distributions from our entity in India.

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

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. For example, in February 2016 the FASB issued ASU 2016-02, *Leases (Topic 842)*, for which we were required to recognize right of use (ROU) assets and lease liabilities on our consolidated balance sheets. We adopted Topic 842 using the modified retrospective transition method. Other companies in our industry may apply these accounting principles differently than we do, adversely affecting the comparability of our financial statements.

**Risks Related to Ownership of Our Common Stock**

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

The trading price of our common stock has been, and is likely to continue to be, volatile. Since shares of our common stock were sold in our IPO in November 2013 at a price of $12.50 per share, our closing stock price has ranged from $3.15 to $45.77 through March 31, 2020. 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:

- the current COVID-19 pandemic and any associated economic downturn;
- actual or anticipated fluctuations in our financial condition and results of operations, including as a result of the seasonality in our business;
- our announcement of actual results for a fiscal period that are higher or lower than projected results or our announcement of revenues or earnings guidance that is higher or lower than expected, including as a result of difficulty forecasting seasonal variations in our financial condition and results of operations;
- issuance of new or updated research or reports by securities analysts, including the publication of unfavorable reports or change in recommendation or downgrading of our common stock;
- announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic relationships and partnerships, joint ventures, or capital commitments;
- actual or anticipated changes in our growth rate relative to our competitors;
- changes in the economic performance or market valuations of companies perceived by investors to be comparable to us;
- future sales of our common stock by our officers, directors, and existing stockholders or the anticipation of such sales;
- issuances of additional shares of our common stock in connection with acquisitions;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares, including any common stock issued upon conversion of the notes;
- lawsuits threatened or filed against us;
- regulatory developments in our target markets affecting us, students, colleges, brands, publishers, or our competitors;
- political climate in the United States, with a focus on cutting or limiting budgets, higher education, and taxation;
- terrorist attacks or natural disasters or other such events impacting countries where we have operations;
- international stock market conditions; and
- general economic and market conditions, such as recessions, unemployment rates, the limited availability of consumer credit, interest rate changes, and currency fluctuations.

Furthermore, both domestic and international stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of companies in general and technology

companies in particular. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. We believe our stock price may be particularly susceptible to volatility as the stock prices of technology and Internet companies have often been subject to wide fluctuations. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We have been and may continue to 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 management, with the oversight of the board of directors, has broad discretion as to the use of the proceeds from previous and future sales of securities and we may not use the proceeds effectively.***

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

***If securities or industry analysts do not report 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 fails 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. Additionally, individuals or entities with short positions in our stock could seek to depress the share price by publishing inaccurate or incomplete statements, opinions, or research reports regarding our businesses and the laws and regulations applicable to them, as we have seen and may continue to experience in the future.

***We may be subject to short selling strategies that may drive down the market price of our common stock.***

Short selling occurs when an investor borrows a security and sells it on the open market, with the intention of buying identical securities at a later date to return to the lender. A short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares. Because it is in the short seller's best interests for the price of the stock to decline, some short sellers publish, or arrange for the publication of, opinions or characterizations regarding the relevant issuer, its business prospects, and similar matters calculated to or which may create negative market momentum. Although, traditionally, short sellers were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet has allowed short sellers to publicly attack a company's reputation and business on a broader scale. In the past, the publication of such commentary about us by a disclosed short seller has precipitated a decline in the market price of our common stock, and future similar efforts by other short sellers may have similar effects.

In addition, if we are subject to unfavorable allegations promoted by short sellers, even if untrue, we may have to expend a significant amount of resources to investigate such allegations and defend ourselves from possible shareholder suits prompted by such allegations, which could adversely impact our business, results of operations, and financial condition.

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

We have never declared or paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, our stockholders (including holders of notes who receive any shares of our common stock upon conversion of their notes) may only receive a return on their investment in our common stock if the market price of our common stock increases.

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

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

- our board of directors is classified into three classes of directors with staggered three-year terms and directors can only be removed from office for cause and by the approval of the holders of at least two-thirds of our outstanding common stock;
- subject to certain limitations, our board of directors has the sole right to set the number of directors and to fill a vacancy resulting from any cause or created by the expansion of our board of directors, which prevents stockholders from being able to fill vacancies on our board of directors;
- only our board of directors is authorized to call a special meeting of stockholders;
- 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.

In addition, our restated certificate of incorporation provides that the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our restated certificate of incorporation, or our bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. This exclusive forum provision will not apply to claims that are vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery of the State of Delaware, or for which the Court of Chancery of the State of Delaware does not have subject matter jurisdiction. For instance, the provision would not preclude the filing of claims brought to enforce any liability or duty created by the Exchange Act or Securities Act or the rules and regulations thereunder in federal court.

**Risks Related to Our Convertible Senior Notes**

***Servicing our 0.125% convertible senior notes due 2025 (the "2025 notes") and 0.25% convertible senior notes due 2023 (the "2023 notes") requires a significant amount of cash, and we may not have sufficient cash flow to pay our debt.***

In March 2019, we issued $700 million in aggregate principal amount of 2025 notes and in April 2019, the initial purchasers fully exercised their option to purchase $100 million of additional 2025 notes for aggregate total gross proceeds of $800 million. In April 2018, we issued $345 million in aggregate principal amount of 2023 notes. Collectively, the 2025 notes and 2023 notes are referred to as the "notes." Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness, including the notes, depends on our future performance, which is subject to many factors, including, economic, financial, competitive and other, beyond our control. We may not be able to generate cash flow from operations, in the foreseeable future, sufficient to service our debt and make necessary capital expenditures and may therefore be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance the notes, which may not be redeemed prior to March 2022 for the 2025 notes and May 2021 for the 2023 notes subject to certain conditions related to the price of our common stock, will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations, and limit our flexibility in planning for and reacting to changes in our business.

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

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

In addition, our ability to repurchase the notes or to pay cash upon conversions of notes may be limited by law, regulatory authority or agreements governing any future indebtedness. Our failure to repurchase the notes at a time when the repurchase is required by the indenture or to pay cash upon conversions of notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing any future indebtedness. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or to pay cash upon conversions of notes.

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

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

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

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

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

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

### (a) Unregistered Sales of Equity Securities

None.

**ITEM 6. EXHIBITS**

| Exhibit No. | Exhibit | Incorporated by Reference | | | | Filed Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No | Filing Date | Exhibit No. | |
| 10.01 | Consultancy Service Agreement by and between Chegg, Inc. and Jenny Brandemuehl, dated January 13, 2020 | 8-K | 001-36180 | 1/13/20 | 99.01 | |
| 31.01 | Certification of Dan Rosensweig, Chief Executive Officer and Co-Chairperson, 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 | Inline XBRL Instance Document | | | | | X |
| 101.SCH | Inline XBRL Taxonomy Extension Schema | | | | | X |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation | | | | | X |
| 101.LAB | Inline XBRL Taxonomy Extension Labels | | | | | X |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation | | | | | X |
| 101.DEF | Inline XBRL Taxonomy Extension Definition | | | | | X |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). | | | | | X |

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

**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.

May 4, 2020

By: /S/ ANDREW BROWN

Andrew Brown

Vice President, Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

**Exhibit 31.01**

**CERTIFICATION PURSUANT TO**
**RULE 13a-14(a)/15d-14(a)**
**AS ADOPTED PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dan Rosensweig, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chegg, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2020

/S/ DAN ROSENSWEIG

Dan Rosensweig

*President, Chief Executive Officer and Co-Chairperson*

(Principal Executive Officer)

**Exhibit 31.02**

**CERTIFICATION PURSUANT TO**
**RULE 13a-14(a)/15d-14(a)**
**AS ADOPTED PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Andrew Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chegg, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2020

/S/ ANDREW BROWN

Andrew Brown

*Chief Financial Officer*

(Principal Financial Officer)

**Exhibit 32.01**

**CERTIFICATION**
**PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the three months ended March 31, 2020 of Chegg, Inc. (the "Registrant") filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, each certify, in accordance with Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, that to the best of his knowledge:

(1) The Report, to which this certification is attached as Exhibit 32.01, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: May 4, 2020

/S/ DAN ROSENSWEIG

Dan Rosensweig

President, Chief Executive Officer and Co-Chairperson

/S/ ANDREW BROWN

Andrew Brown

Chief Financial Officer