CHEGG, INC
Form 10-Q
October 30, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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)

- Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
- Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
- Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)
Emerging growth company x

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. x

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

As of October 27, 2017, the Registrant had 108,441,709 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,” “Chegg for Good,” “Student Hub,” “internships.com,” “Research Ready,” “EasyBib” “#1 In Textbook Rentals,” are some of our trademarks used in this Quarterly Report on Form 10-Q. Solely for convenience, our trademarks, trade names, and service marks referred to in this Quarterly Report on Form 10-Q appear without the ®, ™ and SM symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names. Other trademarks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “project,” “endeavor,” “expect,” “plans to,” “if,” “future,” and similar ex intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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

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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)

	September 30, 2017 (unaudited)	December 31, 2016 *
Assets		
Current assets		
Cash and cash equivalents	$ 122,227	$ 77,329
Short-term investments	80,914	—
Accounts receivable, net of allowance for doubtful accounts of $267 and $436 at September 30, 2017 and December 31, 2016, respectively	9,843	10,451
Prepaid expenses	3,865	2,579
Other current assets	23,955	21,014
Total current assets	240,804	111,373
Long-term investments	17,013	—
Textbook library, net	—	2,575
Property and equipment, net	45,078	35,305
Goodwill	116,239	116,239
Intangible assets, net	16,599	20,748
Other assets	4,419	4,412
Total assets	$ 440,152	$ 290,652
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 2,109	$ 5,175
Deferred revenue	21,906	14,836
Accrued liabilities	41,940	44,319
Total current liabilities	65,955	64,330
Long-term liabilities		
Total other long-term liabilities	5,243	4,383
Total liabilities	71,198	68,713
Commitments and contingencies (Note 7)		
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; 108,163,229 and 91,708,839 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	108	92
Additional paid-in capital	764,097	593,351
Accumulated other comprehensive income (loss)	19	(176)
Accumulated deficit	(395,270)	(371,328)
Total stockholders' equity	368,954	221,939
Total liabilities and stockholders' equity	$ 440,152	$ 290,652

* Derived from audited consolidated financial statements as of and for the year ended December 31, 2016.
See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net revenues:				
Rental	$—	$5,511	$—	$32,081
Services	62,640	50,265	181,559	127,812
Sales	—	15,567	—	31,140
Total net revenues	62,640	71,343	181,559	191,033
Cost of revenues:				
Rental	—	7,646	—	26,505
Services	22,356	13,203	60,794	39,684
Sales	—	17,850	—	32,840
Total cost of revenues	22,356	38,699	60,794	99,029
Gross profit	40,284	32,644	120,765	92,004
Operating expenses:				
Technology and development	19,876	16,241	59,077	49,232
Sales and marketing	14,184	15,256	40,246	41,449
General and administrative	17,320	13,905	47,163	41,140
Restructuring charges (credits)	64	(100)	1,023	(298)
Loss (gain) on liquidation of textbooks	—	2,673	(4,766)	(523)
Total operating expenses	51,444	47,975	142,743	131,000
Loss from operations	(11,160)	(15,331)	(21,978)	(38,996)
Interest expense and other income (expense), net:				
Interest expense, net	(19)	(30)	(56)	(151)
Other income (expense), net	261	(148)	53	(146)
Total interest expense and other income (expense), net	242	(178)	(3)	(297)
Loss before provision for income taxes	(10,918)	(15,509)	(21,981)	(39,293)
Provision for income taxes	598	554	1,961	1,463
Net loss	$(11,516)	$(16,063)	$(23,942)	$(40,756)
Net loss per share, basic and diluted	$(0.11)	$(0.17)	$(0.25)	$(0.45)
Weighted average shares used to compute net loss per share, basic and diluted	103,041	91,059	97,008	90,201

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net loss	$(11,516)	$(16,063)	$(23,942)	$(40,756)
Other comprehensive (loss) income:				
Change in unrealized (loss) gain on available for sale investments	(48)	—	(48)	25
Change in foreign currency translation adjustments, net of tax	(9)	35	243	(1)
Other comprehensive (loss) income	(57)	35	195	24
Total comprehensive loss	$(11,573)	$(16,028)	$(23,747)	$(40,732)

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net loss	$(23,942)	$(40,756)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Textbook library depreciation expense	—	8,903
Other depreciation and amortization expense	14,301	10,001
Share-based compensation expense	27,468	32,701
Gain on liquidation of textbooks	(4,766)	(523)
Loss from write-offs of textbooks	314	896
Loss from write-off of property and equipment	1,368	—
Interest accretion on deferred consideration	(626)	—
Other non-cash items	62	106
Change in assets and liabilities, net of acquisition of business:		
Accounts receivable	786	312
Prepaid expenses and other current assets	(4,293)	(4,712)
Other assets	(7)	284
Accounts payable	(2,291)	2,713
Deferred revenue	7,070	14,896
Accrued liabilities	12,880	5,997
Other liabilities	1,123	(92)
Net cash provided by operating activities	29,447	30,726
Cash flows from investing activities		
Purchases of textbooks	—	(795)
Proceeds from liquidations of textbooks	6,943	23,873
Purchases of marketable securities	(112,417)	(7,633)
Proceeds from sale of marketable securities	14,499	22,830
Maturities of marketable securities	—	6,844
Purchases of property and equipment	(19,930)	(17,834)
Acquisition of business, net of cash acquired	—	(25,864)
Purchase of strategic equity investment	—	(1,020)
Net cash (used in) provided by investing activities	(110,905)	401
Cash flows from financing activities		
Common stock issued under stock plans, net	13,565	1,114
Payment of taxes related to the net share settlement of RSUs	(17,902)	(9,057)
Payment of deferred cash consideration related to acquisitions	(16,939)	—
Proceeds from follow-on offering, net of offering costs	147,632	—
Net cash provided by (used in) financing activities	126,356	(7,943)
Net increase in cash and cash equivalents	44,898	23,184
Cash and cash equivalents, beginning of period	77,329	67,029
Cash and cash equivalents, end of period	$122,227	$90,213

Supplemental cash flow data:
Cash paid during the period for:

Interest	$66	$47
Income taxes	$1,241	$831
Non-cash investing and financing activities:		
Accrued purchases of long-lived assets	$3,712	$1,517

See Notes to Condensed Consolidated Financial Statements.

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CHEGG, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Background and Basis of Presentation

Company and Background

Chegg, Inc. (Chegg, the Company, we, us, or our), headquartered in Santa Clara, California, was incorporated as a Delaware corporation in July 2005. Chegg is the leading student-first connected learning platform. Our goal is to help students transition from high school to college to career, with a view to improving student outcomes. We help students study more effectively for college admission exams, find the right college to accomplish their goals, get better grades and test scores while in school, and find internships that allow them to gain valuable skills to help them enter the workforce after college. Our student-first connected learning platform offers products and services that help students transition from high school to college to career.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2017, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive (loss) income for the three and nine months ended September 30, 2017 and 2016, the condensed consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016 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 September 30, 2017 and our results of operations for the three and nine months ended September 30, 2017 and 2016, and cash flows for the nine months ended September 30, 2017 and 2016. Our results of operations for the three and nine months ended September 30, 2017 and cash flows for the nine months ended September 30, 2017 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, 2016 as 2016.

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, 2016 (2016 Annual Report on Form 10-K) filed with the U.S. Securities and Exchange Commission (SEC).

Except for our textbook library, there have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our 2016 Annual Report on Form 10-K.

We no longer consider our textbook library to be a significant accounting policy as we no longer have a balance as of March 31, 2017.

Reclassification of Prior Period Presentation

In order to conform with current period presentation, $0.5 million and $1.0 million of sales revenues during the three and nine months ended September 30, 2016, respectively, have been reclassified to services revenues and $0.3 million and $1.0 million of sales cost of revenues during the three and nine months ended September 30, 2016, respectively, have been reclassified to services cost of revenues on our condensed consolidated statements of operations. Additionally, we have reclassified $1.2 million from other current assets to accounts receivable on our condensed consolidated balance sheet as of December 31, 2016. These changes in presentation do not affect previously reported results.

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Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent liabilities at the date of the financial statements; and the reported amounts of 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, useful lives assigned to long-lived assets for depreciation and amortization, impairment of goodwill and long-lived assets, and the valuation of acquired intangible assets. We base our estimates on historical experience, knowledge of current business conditions, and various other factors we believe to be reasonable under the circumstances. These estimates are based on management's knowledge about current events and expectations about actions we may undertake in the future. Actual results could differ from these estimates, and such differences could be material to our financial position and results of operations.

Recent Accounting Pronouncements

Except for the following accounting pronouncements, there have been no material changes to recent accounting pronouncements as compared to recent accounting pronouncements described in our 2016 Annual Report on Form 10-K.

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-09 Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. The guidance is effective for annual periods after December 15, 2017, with early adoption permitted, and the guidance requires a prospective application to awards modified on or after the adoption date. We have elected to early adopt this standard as of July 1, 2017 and will account for any modifications after this date under the new guidance.

In January 2017, the FASB issued ASU No. 2017-04 Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates step 2 from the annual goodwill impairment test no longer requiring the comparison of the implied fair value of a reporting unit's goodwill with the carrying amount of goodwill. Early adoption is permitted and the guidance requires a prospective application. The guidance is effective for annual periods after December 15, 2019, and we are currently in the process of evaluating the impact of this guidance.

In January 2017, the FASB issued ASU No. 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business to assist entities with evaluating whether a transaction should be accounted for as acquisitions of assets or businesses. Early adoption is permitted and the guidance requires a prospective application. The guidance is effective for annual periods after December 15, 2017, and we are currently in the process of evaluating the impact of this guidance.

In March 2016, the FASB issued ASU No. 2016-09 Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting to provide for simplification involving several aspects of the accounting for share-based payment transactions. The new standard requires excess tax benefits and tax deficiencies to be recorded in our consolidated statements of operations as a component of provision for income taxes when stock awards vest or are settled and an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur. In addition, it eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the consolidated statements of cash flows and clarifies that all cash payments made to tax authorities on an employee's behalf for withheld shares should be presented as a financing activity on the consolidated statements of cash flows. The standard also allows us to withhold more of an employee's vesting shares for tax withholding purposes without triggering liability accounting.

We adopted this standard in the first quarter of 2017 and the adoption had no impact to our consolidated financial statements. The requirement to record excess tax benefits and deficiencies in our consolidated statements of operations as a component of provision of income taxes when stock awards vest or are settled does not impact our provision of income taxes as we currently have a full valuation allowance recorded against our deferred tax assets related to share-based compensation. Additionally, we have elected to continue to recognize share-based compensation expense net of estimated forfeitures. We have not recorded an adjustment to retained earnings to reflect the modified retrospective adoption of this standard update as neither of these updates change the accounting of the prior period financial results.

We have elected to adopt the elimination of the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the condensed consolidated statements of cash flows prospectively and therefore

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prior periods have not been adjusted. Further, there was no change related to the requirement that all payments made to tax authorities on an employees' behalf for withheld shares be presented as a financing activity on the consolidated statements of cash flows as we have always recorded such amounts as a financing activity.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement, and presentation of expenses will depend on classification as a finance or operating lease. The amendments in this update also require certain quantitative and qualitative disclosures about leasing arrangements. Early adoption is permitted, and the guidance requires a modified retrospective adoption. The guidance is effective for annual periods after December 15, 2018 and we plan to adopt the guidance starting in the first quarter of 2019. We are currently in the process of evaluating the impact of this guidance.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers, as amended (Topic 606) (ASU 2014-09), which will change the way we recognize revenue and significantly expand the disclosure requirements for revenue arrangements. In July 2015, the FASB approved a one-year deferral of the effective date of ASU 2014-09 for public companies and further amendments and technical corrections were made to ASU 2014-09 during 2016. ASU 2014-09 allows for companies to choose to apply the standard retrospectively to each prior reporting period presented (full retrospective application) or retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (modified retrospective application). We plan to adopt ASU 2014-09 under the modified retrospective application. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We plan to adopt ASU 2014-09 starting on January 1, 2018.

We are currently in the process of evaluating the impact ASU 2014-09 may have on our consolidated financial statements, accounting policies, and related disclosures. We believe that we will continue to operate as an agent in our strategic partnership with Ingram and agreements with other textbook publishers under the new guidance and therefore continue to recognize a commission on print textbook rental transactions. We have initially determined three potential areas of impact which are subject to further evaluation. First, the timing of revenue recognition relating to our Enrollment Marketing and Brand Partnership product offerings is anticipated to be recognized earlier in the contract life under ASU 2014-09 than under the current guidance. Second, we will estimate and account for the variable consideration earned relating to our performance related obligation with Ingram over the period in which it is earned under ASU 2014-09 as opposed to at the completion of the period under the current guidance. Finally, revenues previously recognized from shipping and handling activities will be recognized as a reduction of cost of revenues under ASU 2014-09 as these activities do not represent a separately identifiable performance obligation. These are the significant areas that we have identified will be different under ASU 2014-09 and we will continue to evaluate ASU 2014-09 as we near our adoption date.

Note 2. Net Loss Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net loss	$(11,516)	$(16,063)	$(23,942)	$(40,756)
Denominator:				
Weighted average shares used to compute net loss per share, basic and diluted	103,041	91,059	97,008	90,201
Net loss per share, basic and diluted	$(0.11)	$(0.17)	$(0.25)	$(0.45)

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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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Options to purchase common stock	2	10,420	3,167	10,917
RSUs and PSUs	49	624	137	1,797
Warrants to purchase common stock	—	200	200	200
Total common stock equivalents	51	11,244	3,504	12,914

Note 3. Cash and Cash Equivalents, and Investments

The following table shows our cash and cash equivalents, restricted cash and investments' adjusted cost, unrealized gain (loss) and fair value as of September 30, 2017 (in thousands):

	September 30, 2017		
	Cost	Net Unrealized Gain/(Loss)	Fair Value
Cash and cash equivalents:			
Cash	$90,256	$ —	$90,256
Money market funds	11,036	—	11,036
Commercial paper	20,933	2	20,935
Total cash and cash equivalents	$122,225	$ 2	$122,227
Short-term investments:			
Commercial paper	$41,975	$ (4)	$41,971
Corporate securities	18,998	(11)	18,987
U.S. treasury securities	19,963	(7)	19,956
Total short-term investments	$80,936	$ (22)	$80,914
Long-term corporate securities	$17,041	$ (28)	$17,013

The adjusted cost and fair value of available-for-sale investments as of September 30, 2017 by contractual maturity were as follows (in thousands):

	Cost	Fair Value
Due in 1 year or less	$101,869	$101,849
Due in 1-2 years	17,041	17,013
Investments not due at a single maturity date	11,036	11,036
Total	$129,946	$129,898

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

As of September 30, 2017, we considered the declines in market value of our investment portfolio to be temporary in nature and did not consider any of our investments to be other-than-temporarily impaired. We typically invest in highly-rated securities with a minimum credit rating of A- and a weighted average maturity of seven months, and our investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of preserving capital and maintaining liquidity. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and our intent to sell, or whether it is more likely than not it

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will be required to sell, the investment before recovery of the investment's cost basis. During the nine months ended September 30, 2017, we did not recognize any impairment charges.

As of December 31, 2016, we did not carry a balance of cash equivalents, short-term or long-term investments.

Restricted Cash

As of September 30, 2017 and December 31, 2016, we had approximately $0.4 million and $0.1 million, respectively, of restricted cash that consists of security deposits for our offices. These amounts are classified in other assets in our condensed consolidated balance sheets as these amounts are restricted for periods that exceed one year from the balance sheet dates.

Strategic Investment

We previously invested $3.0 million in a foreign entity to explore expanding our reach internationally. Our investment is included in other assets on our condensed consolidated balance sheets. We did not record other-than-temporary impairment charges on this investment during the three and nine months ended September 30, 2017 and 2016 as there were no significant identified events or changes in circumstances that would be considered an indicator for impairment.

Note 4. Fair Value Measurement

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

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

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

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 September 30, 2017 are classified based on the valuation technique level in the tables below (in thousands):

	September 30, 2017		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash equivalents:			
Money market funds	$11,036	$ 11,036	$ —
Commercial paper	20,935	—	20,935
Short-term investments:			
Commercial paper	41,971	—	41,971
Corporate securities	18,987	—	18,987
U.S. treasury securities	19,956	—	19,956

Long-term corporate securities	17,013	—	17,013
Total assets measured and recorded at fair value	$129,898	$ 11,036	$ 118,862

We value our marketable securities based on quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. We classify all of our fixed income available-for-sale securities as having Level 2 inputs. The valuation techniques used to measure the fair value of our financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models such as discounted cash flow techniques.

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

Note 5. Intangible Assets

Intangible assets as of September 30, 2017 and December 31, 2016 consist of the following (in thousands, except the weighted-average amortization period):

	September 30, 2017			
	Weighted-Average Amortization Period (in months)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technologies	60	$15,077	$(9,616)	$5,461
Customer lists	47	9,970	(5,138)	4,832
Trade names	47	5,513	(3,077)	2,436
Non-compete agreements	30	1,728	(1,458)	270
Master service agreements	21	1,030	(1,030)	—
Indefinite-lived trade name	—	3,600	—	3,600
Total intangible assets		$36,918	$(20,319)	$16,599

	December 31, 2016			
	Weighted-Average Amortization Period (in months)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technologies	60	$15,077	$(8,245)	$6,832
Customer lists	47	9,970	(3,673)	6,297
Trade names	47	5,513	(1,998)	3,515
Non-compete agreements	30	1,728	(1,249)	479
Master service agreements	21	1,030	(1,005)	25
Indefinite-lived trade name	—	3,600	—	3,600
Total intangible assets		$36,918	$(16,170)	$20,748

During the three and nine months ended September 30, 2017, amortization expense related to our acquired intangible assets totaled approximately $1.4 million and $4.1 million, respectively. During the three and nine months ended September 30, 2016, amortization expense related to our acquired intangible assets totaled approximately $1.4 million and $3.2 million, respectively.

As of September 30, 2017, the estimated future amortization expense related to our finite-lived intangible assets is as follows (in thousands):

Remaining three months of 2017	$1,201
2018	4,446
2019	3,510
2020	2,153
2021	815

Thereafter	874
Total	$12,999

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Note 6. Debt Obligations

In September 2016, we entered into a revolving line of credit with an aggregate principal amount of $30.0 million (the Line of Credit) with an accordion feature that, subject to the lender's discretion, allows us to borrow up to a total of $50.0 million. This new line of credit replaced the previous line of credit that expired in August 2016. The Line of Credit matures September 2019 and requires us to repay the outstanding balance upon maturity. We will pay a fee equal to 0.25% per year on the average daily unused amount of the Line of Credit and a base interest rate equal to the LIBOR. In addition, we will pay a fee for each issued letter of credit which will be determined based on our current leverage ratio at the time the letter of credit is issued. If our leverage ratio is less than 1.00%, we will pay a fee equal to 1.50% per year and if our leverage ratio is greater than or equal to 1.00%, we will pay a fee equal to 2.50% per year. Our leverage ratio is a ratio of all obligations owed to the bank divided by our consolidated EBITDA. EBITDA for the purposes of calculating our leverage ratio is defined as net profit (loss) before tax, plus interest expense, plus non-cash stock compensation (net of capitalized interest expense), plus depreciation expense, plus amortization expense and other non-cash expenses (assuming there are no future cash costs), plus expenses incurred in connection with permitted acquisitions (including without limitation accrued acquisition-related contingent expenses) in an amount not to exceed $6.0 million per calendar year, plus non-recurring expenses in an amount not to exceed $2.0 million per calendar year. We must maintain financial covenants under the Line of Credit as follows: (1) maintain a balance of unrestricted cash at the lender of not less than $30.0 million at all times, other than the three months ending March 31, 2017 and June 30, 2017, and not less than $25.0 million during the three months ending March 31, 2017 and June 30, 2017; and (2) achieve EBITDA, on a trailing 12 month basis, of not less than (i) $25.0 million for the period of time from September 30, 2016 through June 30, 2017, (ii) $30.0 million for the period of time from September 30, 2017 through June 30, 2018, and (iii) $35.0 million for the period of time from September 30, 2018 through the maturity of the Line of Credit. As of September 30, 2017, we were in compliance with the financial covenants of the Line of Credit. Further, we had no amounts outstanding and were able to borrow up to $30.0 million under the Line of Credit.

Note 7. Commitments and Contingencies

We lease our offices under operating leases, which expire at various dates through 2022. Our primary operating lease commitments at September 30, 2017 are related to our headquarters in Santa Clara, California, our office in San Francisco, California, and our office in India. We recognize rent expense on a straight-line basis over the lease period. Where leases contain escalation clauses, rent abatements, or concessions, such as rent holidays and landlord or tenant incentives or allowances, we apply them in the determination of straight-line rent expense over the lease term. Rental expense, net of sublease income, was approximately $0.6 million and $2.0 million during the three and nine months ended September 30, 2017, respectively, and $0.5 million and $1.4 million during the three and nine months ended September 30, 2016, respectively.

From time to time, third parties may assert patent infringement claims against us in the form of letters, litigation, or other forms of communication. In addition, 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.

We are not aware of any other pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on our consolidated financial position, results of operations, or cash flows. However, our determination of whether a claim will proceed to litigation cannot be made with certainty, nor can the results of litigation be predicted with certainty. Nevertheless, defending any of these actions, regardless of the outcome, may be costly, time consuming, distract management personnel, and have a negative effect on our business. An adverse outcome in any of these actions, including a judgment or settlement, may cause a material adverse effect on our future business, operating results, and/or financial condition.

Note 8. Guarantees and Indemnifications

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

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We believe the fair value of these indemnification agreements is minimal. We have not recorded any liabilities for these agreements as of September 30, 2017.

Note 9. Stockholders' Equity

Follow-on Offering

On August 8, 2017, we closed an underwritten public offering pursuant to a registration statement on Form S-3 of 11,500,000 shares of our common stock sold by us, including 1,500,000 shares sold upon full exercise of the underwriters' option to purchase additional shares of common stock, at a price to the public of $13.50 per share, generating aggregate net proceeds of $147.6 million, after deducting underwriting discounts and commissions of $7.0 million and offering costs of $0.6 million.

Share-based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenues	$73	$46	$228	$115
Technology and development	3,706	3,449	10,334	11,207
Sales and marketing	1,261	1,605	3,588	5,456
General and administrative	5,051	5,110	13,318	15,923
Total share-based compensation expense	$10,091	$10,210	$27,468	$32,701

There was no capitalized share-based compensation expense as of September 30, 2017 or 2016.

Stock Option Activity

There were no stock option awards granted to employees, consultants, officers or directors during the nine months ended September 30, 2017. During the nine months ended September 30, 2016, we granted 232,700 stock option awards at a weighted-average grant date fair value of $2.58 solely to members of our board of directors.

As of September 30, 2017, our total unrecognized share-based compensation expense related to stock option awards was approximately $0.2 million, which will be recognized over the remaining weighted-average vesting period of approximately 0.8 years.

RSU and PSU Activity

Activity for RSUs and PSUs is as follows:

	RSUs and PSUs Outstanding	
	Number of RSUs and PSUs Outstanding	Weighted-Average Grant Date Fair Value
Balance at December 31, 2016	14,142,109	$ 5.20
Granted	6,425,919	8.75

Released	(4,968,509)	5.67
Canceled	(1,153,704)	6.01
Balance at September 30, 2017	14,445,815	$ 6.57

As of September 30, 2017, our total unrecognized share-based compensation expense related to RSUs and PSUs was approximately $55.7 million, which will be recognized over the remaining weighted-average vesting period of approximately 1.9 years.

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Note 10. Income Taxes

We recorded an income tax provision of approximately $0.6 million and $2.0 million during the three and nine months ended September 30, 2017, respectively, and an income tax provision of approximately $0.6 million and $1.5 million for the three and nine months ended September 30, 2016, respectively, primarily due to state and foreign income tax expense and federal tax expense related to tax amortization of acquired indefinite lived intangible assets.

Note 11. Restructuring Charges (Credits)

2017 Restructuring Plan

In January 2017, we entered into a strategic partnership with the National Research Center for College & University Admissions (NRCCUA) where NRCCUA will assume responsibility for managing, renewing, and maintaining our existing university contracts and become the exclusive reseller of our digital enrollment marketing services for colleges and universities. As a result of this strategic partnership, approximately 50 employees in China and the United States supporting the sales and account support functions of our Enrollment Marketing offering were terminated, resulting in one-time workforce reduction costs of $0.9 million and lease termination and other costs of $0.1 million recorded during the nine months ended September 30, 2017. We expect costs incurred to date related to this workforce reduction to be fully paid within six months.

2015 Restructuring Plan

Restructuring credits recorded in 2016 of $0.4 million primarily related to a partial reversal of previously accrued lease termination costs due to our subtenant leasing additional space in our Kentucky warehouse. Costs incurred to date related to the lease termination and other costs are expected to be fully paid by 2021.

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

	2017 Restructuring Plan		2015 Restructuring Plan		
	Workforce Reduction Costs	Lease Termination and Other Costs	Workforce Reduction Costs	Lease Termination and Other Costs	Total
Balance at January 1, 2016	$ —	$ —	$55	$ 2,463	$2,518
Restructuring credits	—	—	—	(423)	(423)
Cash payments	—	—	(55)	(1,734)	(1,789)
Balance at December 31, 2016	—	—	—	306	306
Restructuring charges (credits)	927	138	—	(42)	1,023
Cash payments	(897)	(118)	—	(14)	(1,029)
Write-offs	—	(20)	—	—	(20)
Balance at September 30, 2017	$ 30	$ —	$—	$ 250	$280

As of September 30, 2017, the $0.3 million liability was comprised of a short-term accrual of $0.1 million included within accrued liabilities and a long-term accrual of $0.2 million included within other liabilities on our condensed consolidated balance sheets.

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 and nine months ended September 30, 2017, we had purchases of $0.8 million and $2.6 million, respectively, and during the three and nine months ended September 30, 2016, we had purchases of $0.7 million and $2.5 million, respectively, from Adobe. We had no revenues in the three and nine months ended September 30, 2017 and September 30, 2016, respectively, from Adobe. We had an immaterial amount and $0.3 million in payables as of September 30, 2017 and December 31, 2016, respectively, to Adobe. We had no outstanding accounts receivables as of September 30, 2017 and December 31, 2016, from Adobe.

One of our board members is also a member of the Board of Directors of Cengage Learning, Inc. (Cengage). During the three and nine months ended September 30, 2017, we had purchases of $4.7 million and $9.5 million, respectively, and during the three and nine months ended September 30, 2016, we had purchases of $2.8 million and $7.2 million, respectively, from Cengage. We had $1.2 million and $1.8 million of revenues in the three and nine months ended September 30, 2017, respectively, and $0.6 million in revenues in both the three and nine months ended September 30, 2016 from Cengage. We had an immaterial amount in payables as of September 30, 2017 and December 31, 2016 to Cengage. We had $0.3 million and $0.1 million in outstanding accounts receivables as of September 30, 2017 and December 31, 2016, respectively, from Cengage.

One of our board members is also a member of the Board of Directors of Groupon, Inc. (Groupon). During the three and nine months ended September 30, 2017, we had purchases of $0.2 million and $0.5 million, respectively, and during the three and nine months ended September 30, 2016, we had purchases of $0.2 million and $0.5 million, respectively, from Groupon. We had no revenues in the three and nine months ended September 30, 2017 and September 30, 2016, respectively, from Groupon. We had no payables as of September 30, 2017 and an immaterial amount in payables as of December 31, 2016 to Groupon. We had no outstanding accounts receivables as of September 30, 2017 and December 31, 2016 from Groupon.

The immediate family of one of our board members is also a member of the Board of Directors of PayPal Holdings, Inc. (PayPal). During the three and nine months ended September 30, 2017, we incurred payment processing fees of $0.3 million and $0.8 million, respectively, to PayPal.

Note 13. Subsequent Events

Acquisition of Cogeon GmbH

On October 16, 2017, we acquired all of the outstanding interest of Cogeon GmbH (Cogeon), a privately held online learning company based in Berlin, Germany that provides adaptive math technology. Pursuant to the terms of the share purchase agreement, we paid €12.5 million (approximately $15.0 million) in cash to the sellers at the closing of the acquisition. There are potential payments of up to €7.5 million (approximately $9.0 million) over the next three years subject to certain contingencies. These contingent payments may be settled by us, in our sole discretion, either in cash or shares of our common stock. Additionally, there are potential issuances of up to €3.2 million (approximately $3.8 million) in RSUs over the next three years subject to certain contingencies. The potential contingent payments and RSU issuances equivalent value in USD may fluctuate based on the exchange rate at the time the payment or issuance is made.

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 “Note about Forward-Looking Statements” for additional information. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in Part II, Item 1A, “Risk Factors.”

Overview

Chegg is the leading student-first connected learning platform. Our goal is to help students transition from high school to a career. As such, we are committed to improving student outcomes. We help students study more effectively for college admissions exams, find the right college to accomplish their goals, get better grades and test scores while in school, and find internships that allow them to gain valuable skills to help them enter the workforce after college. Our student platform offers products and services that help students transition from high school to college to career. We strive to improve the overall return on investment in education by helping students maximize their outcomes through more efficient and cost effective solutions that bridge the gap between what formal institutions offer and students actually need.

Students subscribe to our digital products and services, which we collectively refer to as Chegg Services. These include Chegg Study, Chegg Tutors, Writing Tools (acquired in May 2016), Enrollment Marketing, Brand Partnership, Internships, and Test Prep. Our Chegg Study service provides step-by-step Textbook Solutions and Expert Answers, helping students with their course work. When students need additional help on a subject, they can reach a live tutor online, anytime, anywhere through Chegg Tutors. When students need help creating citations for their papers, they can use one of our Writing Tools properties, including EasyBib, Citation Machine, BibMe, CiteThisForMe, and NormasAPA. Through our strategic partnership with NRCCUA, we match domestic and international students with colleges, in the United States, to help them find the best fit school for them. We provide access to internships to help students gain skills and experiences that are critical to securing their first job. We provide students with an online adaptive test preparation service currently covering the ACT and SAT exams and,

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in August 2017, we entered into a partnership with Kaplan Test Prep (Kaplan) to provide their test prep courses, practice products, and books through our website. Additionally, Chegg and Kaplan will launch co-branded new test prep programs starting as low as $99. Through our strategic partnership with Ingram Content Group (Ingram), we offer Required Materials, which includes an extensive print textbook and eTextbook library for rent and sale, helping students save money compared to the cost of buying new.

To deliver services to students, we partner with a variety of third parties. We work with colleges to help shape their incoming classes. We source print textbooks, eTextbooks, and supplemental materials directly or indirectly from thousands of publishers in the United States, including Pearson, Cengage Learning, McGraw Hill, Wiley, and MacMillan. We have a large network of students and professionals who leverage our platform to tutor in their spare time and employers who leverage our platform to post their internships and jobs. In addition, because we have a large student user base, local and national brands partner with us to reach the college and high school demographics.

During the three and nine months ended September 30, 2017, we generated net revenues of $62.6 million and $181.6 million, respectively, and in the same periods had net losses of $11.5 million and $23.9 million, respectively. During the three and nine months ended September 30, 2016, we generated net revenues of $71.3 million and $191.0 million, respectively, and in the same periods had net losses of $16.1 million and $40.8 million, respectively. We plan to continue to invest in our long-term growth, particularly further investment in the technology that powers our connected learning platform, and the development of additional products and services that serve students.

Our strategy for achieving and maintaining profitability is centered upon our ability to utilize Chegg Services to increase student engagement with our connected 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. On October 16, 2017, we acquired Cogeon GmbH, a privately held online learning company based in Berlin, Germany that provides adaptive math technology, primarily through its application, Math-42. We anticipate this acquisition to increase value to existing subscribers and deepen our reach into the high school market which will allow us to drive further growth in our existing Chegg Services. In addition, we believe that the investments we have made to achieve our current scale will allow us to drive increased operating margins over time that, together with increased contributions of Chegg Services products, 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 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 for students primarily includes our Chegg Study service, our Chegg Tutors service, and our Writing Tools service. We offer enrollment marketing services to colleges, through our strategic partnership with NRCCUA, allowing them to reach interested college-bound high school students that use our College Admissions and Scholarship Services. We also work with leading brands, such as Proctor & Gamble, Starbucks, The Truth, Microsoft, Best Buy, DirectTV, Bare Escentuals, and Shutterfly, to provide students with discounts, promotions, and other products that, based on student feedback, delight them. For example, for Proctor & Gamble, we inserted free laundry care samples and for Starbucks, we inserted free drinks in our textbook rental shipments to students. All of our brand advertising services and the discounts, promotions, and other products provided to students are paid for by the brands. We additionally provide Internship services and, through our partnership with Kaplan, our Test Prep services covering a variety of exams.

Students typically pay to access Chegg Services such as Chegg Study on a monthly or annual basis, while colleges subscribe to our enrollment marketing services, through our strategic partnership with NRCCUA, and brands pay us depending on the nature of the campaign. In the aggregate, Chegg Services revenues were 63% and 69% of net revenues during the three and nine months ended September 30, 2017, respectively, and 42% and 45% of net revenues during the three and nine months ended September 30, 2016, respectively.

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Required Materials

Our Required Materials product line includes commissions from partners, such as Ingram and textbook publishers, on the rental and sale of print textbooks, as well as revenues from eTextbooks. Our web-based, multiplatform eTextbook Reader, eTextbooks and supplemental course materials are available from approximately 120 publishers as of September 30, 2017. We offer our eTextbooks on a standalone basis or as a rental-equivalent solution and for free to students awaiting the arrival of their print textbook rental.

We also use our website to rent and sell, on behalf of Ingram and textbook publishers, as well as source for used print textbooks for our partner Ingram. We attract students to our website by offering more for their used print textbooks than they could generally get by selling them back to their campus bookstore.

In the aggregate, Required Materials revenues were 37% and 31% of net revenues during the three and nine months ended September 30, 2017, respectively, and 58% and 55% of net revenues during the three and nine months ended September 30, 2016, respectively.

Strategic Partnership with Ingram

Our strategic partnership with Ingram has helped to accelerate the growth of our Chegg Services products by allowing us to utilize capital otherwise spent on the purchase of print textbooks, and at the same time allowing us to maintain a leading position and high brand recognition through our iconic orange boxes. We entered into a definitive inventory purchase and consignment agreement with Ingram that allows us to focus on eTextbooks and Chegg Services. Under the agreement, since May 2015, Ingram has been responsible for all new investments in the print textbook library, fulfillment logistics, and has title and risk of loss related to print textbook rentals. As a result of our strategic partnership with Ingram, our revenues include a commission on the total revenues that we earn from Ingram upon their fulfillment of a rental transaction using print textbooks for which Ingram has title and risk of loss. This partnership allows us to reduce and eliminate the operating expenses we historically incurred to acquire and maintain a print textbook library. We will continue to buy books on Ingram's behalf including books through our buyback program and invoice Ingram at cost.

Seasonality of Our Business

Historically, a substantial majority of our revenues were recognized ratably over the term a student rents our print textbooks and eTextbooks or has access to our Chegg Services. This has generally resulted in our highest revenues in the fourth quarter as it reflects more days of the academic year and our lowest revenues in the second quarter as colleges conclude their academic year for summer and there are fewer days of rentals. The recognition of revenues from our eTextbooks and Chegg Services will continue to follow these trends. As a result of our strategic partnership with Ingram, however, revenues from all print textbook transactions will now be higher in the first and third quarters as we recognize a commission on the transaction immediately rather than recognizing the revenues ratably over the term the student rents the print textbooks.

The variable expenses associated with our shipments of print textbooks and marketing activities historically were highest in the first and third quarters as shipping and other fulfillment costs and marketing expenses are expensed when incurred, generally at the beginning of academic terms. However, these variable expenses related to the shipments of print textbooks have decreased as we have completely transitioned the shipping and fulfillment activities related to print textbooks to Ingram.

As a result of these factors, the most concentrated periods for our revenues and expenses did not necessarily coincide, and comparisons of our historical quarterly operating results on a sequential basis may not provide meaningful insight into our overall financial performance. Our strategic partnership with Ingram has shifted peak revenues in the periods that a student rents a textbook as a result of the immediate revenue recognition as well as our revenue sharing agreement such that we believe our revenues will provide more meaningful insight on a sequential basis going forward. Further, while our expenses associated with the print textbook rental business have decreased, our variable expenses related to marketing activities continue to remain highest in the first and third quarter such that our profitability may not provide meaningful insight on a sequential basis.

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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 September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
Net revenues:								
Rental	$—	—%	$5,511	7%	$—	—%	$32,081	17%
Services	62,640	100	50,265	71	181,559	100	127,812	67
Sales	—	—	15,567	22	—	—	31,140	16
Total net revenues	62,640	100	71,343	100	181,559	100	191,033	100
Cost of revenues(1):								
Rental	—	—	7,646	11	—	—	26,505	14
Services	22,356	36	13,203	18	60,394	33	39,684	21
Sales	—	—	17,850	25	—	—	32,840	17
Total cost of revenues	22,356	36	38,699	54	60,394	33		