CHEGG, INC
Form 10-Q
July 30, 2018
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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 June 30, 2018
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 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 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 x	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 x
- As of July 27, 2018, the Registrant had 113,960,276 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,” “would,” “could,” “estimate,” “continue,” “anticipate,” “intend,” “project,” “endeavor,” “expect,” “plans to,” “if,” “futu
expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. 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.

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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)
(unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$384,926	$ 126,457
Short-term investments	80,938	81,742
Accounts receivable, net of allowance for doubtful accounts of $333 and $259 at June 30, 2018 and December 31, 2017, respectively	8,096	10,855
Prepaid expenses	8,707	2,043
Other current assets	7,742	7,845
Total current assets	490,409	228,942
Long-term investments	15,957	20,305
Property and equipment, net	51,516	47,493
Goodwill	135,842	125,272
Intangible assets, net	22,591	21,153
Other assets	4,256	3,765
Total assets	$720,571	$ 446,930
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$5,337	$ 7,049
Deferred revenue	13,710	13,440
Accrued liabilities	29,460	31,074
Total current liabilities	48,507	51,563
Long-term liabilities		
Convertible senior notes, net	276,578	—
Other long-term liabilities	6,767	4,305
Total long-term liabilities	283,345	4,305
Total liabilities	331,852	55,868
Commitments and contingencies (Note 10)		
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; 113,551,003 and 109,667,640 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	114	110
Additional paid-in capital	787,480	782,845
Accumulated other comprehensive loss	(661)	(282)
Accumulated deficit	(398,214)	(391,611)
Total stockholders' equity	388,719	391,062
Total liabilities and stockholders' equity	$720,571	$ 446,930

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	$74,222	$56,317	$151,171	$118,919
Cost of revenues	17,784	17,042	38,008	38,438
Gross profit	56,438	39,275	113,163	80,481
Operating expenses:				
Research and development	26,218	19,899	51,751	39,201
Sales and marketing	11,437	10,098	26,773	26,062
General and administrative	19,479	14,501	37,735	29,843
Restructuring charges	15	59	235	959
Gain on liquidation of textbooks	—	—	—	(4,766)
Total operating expenses	57,149	44,557	116,494	91,299
Loss from operations	(711)	(5,282)	(3,331)	(10,818)
Interest expense and other income (expense), net:				
Interest expense, net	(3,664)	(18)	(3,684)	(37)
Other income (expense), net	894	(9)	1,458	(208)
Total interest expense and other income (expense), net	(2,770)	(27)	(2,226)	(245)
Loss before provision for income taxes	(3,481)	(5,309)	(5,557)	(11,063)
Provision for income taxes	428	716	969	1,363
Net loss	$(3,909)	$(6,025)	$(6,526)	$(12,426)
Net loss per share, basic and diluted	$(0.03)	$(0.06)	$(0.06)	$(0.13)
Weighted average shares used to compute net loss per share, basic and diluted	112,738	95,047	111,826	93,943

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(3,909)	$(6,025)	$(6,526)	$(12,426)
Other comprehensive (loss) income:				
Change in net unrealized loss on available for sale investments	114	—	23	—
Change in foreign currency translation adjustments, net of tax	(913)	153	(402)	252
Other comprehensive (loss) income	(799)	153	(379)	252
Total comprehensive loss	$(4,708)	$(5,872)	$(6,905)	$(12,174)

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017 *
Cash flows from operating activities		
Net loss	$(6,526)	$(12,426)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	10,665	9,093
Share-based compensation expense	23,685	17,377
Gain on liquidation of textbooks	—	(4,766)
Loss from write-offs of textbooks	—	314
Interest accretion on deferred consideration	—	(626)
Amortization of debt discount and issuance costs	3,421	—
Deferred income taxes	(315)	—
Other non-cash items	115	(55)
Change in assets and liabilities:		
Accounts receivable	2,609	1,989
Prepaid expenses and other current assets	(6,773)	9,072
Other assets	(500)	473
Accounts payable	(1,712)	(3,591)
Deferred revenue	270	(2,379)
Accrued liabilities	(2,678)	1,181
Other liabilities	1,254	858
Net cash provided by operating activities	23,515	16,514
Cash flows from investing activities		
Proceeds from liquidations of textbooks	—	6,943
Purchases of marketable securities	(66,634)	—
Maturities of marketable securities	71,980	—
Purchases of property and equipment	(10,087)	(12,507)
Acquisition of business, net of cash acquired	(14,438)	—
Net cash used in investing activities	(19,179)	(5,564)
Cash flows from financing activities		
Common stock issued under stock plans, net	18,050	9,765
Payment of taxes related to the net share settlement of equity awards	(40,314)	(14,850)
Payment of deferred cash consideration related to acquisitions	—	(16,750)
Proceeds from issuance of convertible senior notes, net of issuance costs	335,601	—
Purchase of convertible senior notes capped call	(39,227)	—
Repurchase of common stock	(20,000)	—
Net cash provided by (used in) financing activities	254,110	(21,835)
Net increase (decrease) in cash, cash equivalents and restricted cash	258,446	(10,885)
Cash, cash equivalents and restricted cash, beginning of period	126,963	77,433
Cash, cash equivalents and restricted cash, end of period	$385,409	$66,548
Supplemental cash flow data:		
Cash paid during the period for:		
Interest	$37	$48
Income taxes	$944	$821

Non-cash investing and financing activities:		
Accrued purchases of long-lived assets	$5,337	$1,144
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$384,926	$66,086
Restricted cash included in other assets	483	462
Total cash, cash equivalents and restricted cash	$385,409	$66,548

* Adjusted to reflect the adoption of ASU 2016-18. See Note 1 for more information.
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 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 June 30, 2018, the condensed consolidated statements of operations and the condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2018 and 2017, the condensed consolidated statements of cash flows for the six months ended June 30, 2018 and 2017 and the related footnote disclosures are unaudited. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, including normal recurring adjustments, necessary to present fairly our financial position as of June 30, 2018, our results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. Our results of operations and cash flows for the six months ended June 30, 2018 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, 2017 as 2017.

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, 2017 (the Annual Report on Form 10-K) filed with the U.S. Securities and Exchange Commission (SEC).

We have changed the caption on our condensed consolidated statements of operations from “technology and development” to “research and development.” This change does not impact any current or previously reported amounts.

Except for our policies on revenue recognition, deferred revenue and convertible senior notes, 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.

Revenue Recognition and Deferred Revenue

We recognize revenues from our Chegg Services and Required Materials offerings when control of the 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.

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 including our Chegg Study service, our Chegg Writing service, our Chegg Tutors service, Test Prep, through our partnership with Kaplan Test Prep (Kaplan), Internship services, Brand Partnership services that we offer to brands and Enrollment Marketing services to colleges, through our strategic partnership with the National Research Center for College and University Admissions (NRCCUA). Chegg Services are offered to students through weekly, monthly or annual subscriptions, and we primarily recognize revenues ratably over the respective

subscription period. Enrollment Marketing services and Brand Partnership services are offered either on a subscription or on an a la carte basis. Revenues are recognized ratably or as earned over the subscription service period, generally one year. Revenues from Enrollment Marketing services or Brand Partnership services delivered on an a la carte basis, without a subscription, are recognized when delivery of the respective lead or service has occurred. Historically, under previous revenue recognition guidance, revenue recognition was delayed for certain contracts with extended payment terms. For these services, we bill the customer at the inception, over the term of the customer arrangement or as the services are performed. Upon satisfactory assessment of creditworthiness, we generally grant credit to our Enrollment Marketing and Brand Partnership customers with normal credit terms, typically 30 days.

Some of our customer arrangements for Brand Partnership and Enrollment Marketing services 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 distinct 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.

We also generate revenues from our Required Materials product line including revenue share earned on print textbooks for rental or sale transactions, owned by Ingram and other partners, which are recognized immediately when a book ships to the student. Revenues from the rental or sale of eTextbooks is recognized ratably over the contractual period, generally two to five months, or at time of the sale, respectively. Our strategic partnership with Ingram includes 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. Under the new revenue recognition guidance, 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 as opposed to the contractual amount earned under the previous revenue recognition guidance.

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. For our strategic partnership with Ingram and our agreements with other textbook publishers, we have concluded that we do not control the use of the print textbooks, and therefore record net revenue only for the revenue share we earn upon the shipment of a print textbook to a student. For the sale of eTextbooks we have concluded that we control the service, therefore we recognize revenue and cost of revenue on a gross basis.

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.

Contract assets are contained within other current 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 rentals and subscriptions performance obligations that have not been satisfied, and Brand Partnership and Enrollment Marketing performance obligations that have yet to be satisfied. Deferred revenue 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.

Convertible Senior Notes, net

In April 2018, we issued $345 million in aggregate principal amount of 0.25% convertible senior notes due in 2023 (the notes). In accounting for their issuance, we separated the notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of similar liabilities that do not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the carrying amount of the liability component from the par value of the notes. The difference represents the debt discount,

recorded as a reduction of the convertible senior notes on our condensed consolidated balance sheet, and is amortized to interest expense over the term of the notes using the effective interest rate method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the notes, we allocated the total amount of issuance costs incurred to liability and equity components based on their relative values. Issuance costs attributable to the liability component are being amortized on a straight-line basis, which approximates the effective interest rate method, to interest expense over the term of the notes. The issuance costs attributable to the equity component are recorded as a reduction of the equity component within additional paid-in capital.

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 including variable consideration, recoverability of accounts receivable, fair value of debt and equity components related to our convertible senior notes, restructuring charges, share-based compensation expense including estimated forfeitures, accounting for income taxes, useful lives assigned to long-lived assets for depreciation and amortization, valuation 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

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 beginning after December 15, 2018 and we plan to adopt the guidance on January 1, 2019. We plan to elect the package of transition practical expedients which include not reassessing whether any expired or existing contracts are or contain leases, not reassessing the lease classification of expired or existing leases, and not reassessing initial direct costs for existing leases. At this time, we do not know the quantitative impact of adopting ASU 2016-02; however, we initially believe that this will only have an impact on our consolidated balance sheet and little to no impact to our statement of operations. We will continue to evaluate as we near our adoption date.

Recently Adopted Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 expands the scope of Topic 718, Compensation—Stock Compensation to include share-based payment transactions for acquiring goods and services from non-employees. These awards are measured at the grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right

to benefit from the instruments have been satisfied. The guidance is effective for annual periods after December 15, 2018, with early adoption permitted, and the guidance requires a modified retrospective application to awards that have not been settled as of the adoption date. We have elected to early adopt this guidance during the second quarter of 2018 and our adoption did not result in an adjustment to the opening balance of accumulated deficit.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. We adopted the guidance on January 1, 2018 recording an immaterial reclassification from accumulated other comprehensive income (loss) to the opening balance of accumulated deficit.

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. We early adopted the guidance with a prospective application on January 1, 2018 and will apply the guidance starting with our 2018 annual goodwill impairment assessment.

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. We adopted the guidance with a prospective application on January 1, 2018. We will analyze the clarified definition of a business to determine whether transactions from our application date should be accounted for as an asset acquisition or business combination under the new guidance.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires an entity to explain the change during a period in restricted cash equivalents on the condensed consolidated statements of cash flows and include such amounts when reconciling beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows. We adopted the guidance with a retrospective application on January 1, 2018 and have adjusted our beginning-of-period and end-of-period amounts on our condensed consolidated statement of cash flows to include restricted cash with the change in restricted cash included within the other assets line on our condensed consolidated statement of cash flows.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires entities to measure equity investments at fair value and recognize any changes in fair value within the statement of operations. We have a strategic investment of $3.0 million recorded in other assets on our condensed consolidated balance sheets that falls under this guidance update. The guidance provides for electing a measurement alternative for equity investments that do not have readily determinable fair values. We have elected the measurement alternative for our strategic investment as there is not a readily determinable fair value, which we will apply to our strategic investment starting with our adoption date of January 1, 2018. This investment will be measured at cost, less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, with any changes in the value of the investment recorded within the statement of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as amended (Topic 606) (ASC 606), which changes the way we recognize revenue and significantly expands the disclosure requirements for revenue arrangements.

We adopted ASU 2014-09 under the modified retrospective application, recording the cumulative effect of adoption as an adjustment to the opening balance of accumulated deficit on our adoption date of January 1, 2018. We have not adjusted previously reported amounts. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition, and trade and other receivables. See note 2 for more information.

Note 2. Revenues

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, we adopted the new revenue recognition guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2018 are presented under the new revenue recognition guidance, while prior period amounts were not adjusted and continue to be reported in accordance with the previous revenue recognition guidance.

We recorded an immaterial net increase to the opening balance of accumulated deficit as of January 1, 2018 due to the cumulative impact of adopting the new revenue recognition guidance. The two primary impacts of the new revenue recognition guidance are for our Enrollment Marketing services where revenue is recognized earlier in the contract life under the new revenue recognition guidance than under the previous guidance and for our strategic partnership with Ingram where we are required to estimate variable consideration under the new revenue recognition guidance, which we were not previously required to estimate. The requirement to estimate variable consideration has shifted $0.8 million and $1.1 million of revenues during the three and six months ended June 30, 2018, respectively, to future periods as compared to the previous revenue recognition guidance.

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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 Ingram and other 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 June 30,		Change	
	2018	2017[1]	$	%
Chegg Services	$61,849	$44,700	$17,149	38%
Required Materials	12,373	11,617	756	7 %
Total net revenues	$74,222	$56,317	$17,905	32%

	Six Months Ended June 30,		Change	
	2018	2017[1]	$	%
Chegg Services	$118,126	$85,735	$32,391	38 %
Required Materials	33,045	33,184	(139)	— %
Total net revenues	$151,171	$118,919	$32,252	27 %

[1] As noted above, prior period amounts have not been adjusted under the modified retrospective method.

During the three months ended June 30, 2018, we recognized $14.5 million of revenues that were included in our deferred revenue balance as of March 31, 2018. During the six months ended June 30, 2018, we recognized $11.2 million of revenues that were included in our deferred revenue balance as of December 31, 2017. During the three and six months ended June 30, 2018, there were no revenues recognized from performance obligations satisfied in previous periods. The aggregate amount of unsatisfied performance obligations is approximately $17.7 million as of June 30, 2018, of which a majority is expected to be recognized into revenues over the next year and the remainder within three years. As a practical expedient, we do not disclose the value of unsatisfied performance obligations for contracts with an expected duration of one year or less.

Contract Balances

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

	June 30, 2018	December 31, 2017	Change $	%
Accounts receivable, net	$8,096	$ 10,855	$(2,759)	(25)%
Deferred revenue	$13,710	$ 13,440	$270	2 %

During the six months ended June 30, 2018, our accounts receivable, net balance decreased by $2.8 million, or 25%, primarily due to an improvement in cash collections. During the six months ended June 30, 2018, our deferred revenue balance increased by $0.3 million, or 2%, primarily due to increased bookings for our Chegg Study service

and eTextbook rentals.

Our contract assets balance was immaterial as of June 30, 2018 and December 31, 2017.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	$(3,909)	$(6,025)	$(6,526)	$(12,426)
Denominator:				
Weighted average shares used to compute net loss per share, basic and diluted	112,738	95,047	111,826	93,943
Net loss per share, basic and diluted	$(0.03)	$(0.06)	$(0.06)	$(0.13)

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Options to purchase common stock	4,369	3,119	4,321	3,395
RSUs and PSUs	7,079	107	8,128	66
Employee stock purchase plan	—	8	—	8
Warrants to purchase common stock	—	200	—	200
Total common stock equivalents	11,448	3,434	12,449	3,669

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Note 4. Cash and Cash Equivalents, and Investments

The following table shows our cash and cash equivalents, and investments' cost, net unrealized loss and fair value as of June 30, 2018 and December 31, 2017 (in thousands):

June 30, 2018			December 31, 2017
Cost	Net Unrealized Gain/(Loss)	Fair Value	Cost