

III. Atty Bought Chegg Stock On College Pal's Tip, Jury Told

By **Celeste Bott**

Law360 (January 9, 2023, 8:59 PM EST) -- A Chicago attorney invested in Chegg Inc. minutes after hanging up with a college friend who worked for the company and who'd just learned positive earnings information that wouldn't be public for several days, prosecutors told an Illinois federal jury on Monday.

A jury trial kicked off in Chicago this week for David Sargent, an environmental lawyer who, along with former senior Chegg employee and longtime friend Christopher Klundt, is facing one count of conspiring to commit securities fraud and six counts of committing securities fraud. On Monday afternoon, following jury selection, the federal government and an attorney for Klundt gave their opening remarks, with an initial statement from Sargent queued up for when the parties and jurors return Tuesday morning.

The government alleges that Klundt attended an earnings preview with senior management officials on May 1, 2020, to discuss the first-quarter numbers to be released May 4, which would show that Chegg's profits had soared to \$131.6 million, a 35% year-over-year increase. That same day, prosecutors claim Sargent bought hundreds of shares and almost 50 call options of Chegg stock that he later sold for a profit of more than \$110,000.

In between that internal Chegg phone call and Sargent's purchases, the two friends spoke on the phone, and it's clear Klundt gave his old friend inside information based on what happened before and after their phone conversation, said Assistant U.S. Attorney Matthew Getter.

Klundt and Sargent's relationship dates back to 2005 when they met while attending the University of Wisconsin at Madison. There, they co-founded StudyBlue.com, an online studying platform for high school and college students that facilitated collaboration and the sharing of study materials, according to prosecutors.

Sargent eventually left the company and began practicing law, while Klundt remained, though the two stayed close over the years, going on vacation together and having game nights with their wives, according to Getter.

When Chegg acquired StudyBlue in July 2018, it became one of the services Chegg offered, along with online textbook rentals, tutoring and other education services. Klundt took a job managing StudyBlue under the Chegg umbrella, according to the government.

In that role, he was bound by law to keep confidential information about his employer's earnings under wraps until Chegg itself decided to go public with it, Getter said Monday.

"The information belongs to the company. And its employees can't misuse it to make money or help friends make money," Getter said.

Trading records will show that Sargent spent more than \$40,000 on Chegg stock and options minutes after his May 1 phone call with Klundt, emptying his retirement account and spending more cash than he had in his brokerage account to do so, Getter said.

"Sargent went all-in," Getter said, promising jurors that evidence will show he "didn't just make a good guess."

After the public earnings call with Chegg three days later, Klundt texted Sargent an emoji face with dollar signs where the eyes should have been, he said. And though Sargent's name was on a list given to Klundt by federal investigators probing suspicious trading activity in the company's stock, Klundt lied and said he didn't know anyone on the list, Getter said.

But Klundt's attorney, Michael Maione of Cotsirilos Tighe Streicker Poulos & Campbell LLP, told the jury in his own opening that the government is asking it to ignore important context and background, and simply infer insider trading from circumstantial evidence. There is no recording of the four-minute phone call the government's case hinges on or witnesses to the alleged sharing of confidential information, he said.

"All they're going to give you are their assumptions. But their assumptions are not evidence," Maione said.

In fact, on the night of May 1, hours after Klundt and Sargent spoke briefly on the phone following the internal Chegg earnings call, Klundt texted his friend confirming that he and his wife were available to play a virtual video game, Jackbox, "in an hour or later," according to Maione. Making that plan could have been the subject of their earlier conversation, he pointed out.

He also urged the jury to remember that when Chegg acquired StudyBlue, it was not a merger of equals. Klundt's role at Chegg is to run the StudyBlue business unit within the "big whale" that Chegg is, Maione said.

"That means that Chris [Klundt] does not have material, nonpublic, inside information day-to-day in his job," he said.

Whenever Klundt and Sargent talked about Chegg stock, it was always about Klundt's stock in the company, which he acquired over time working there, and Sargent always celebrated the fact that his friend had excellent stock and that it kept going up and up, Maione said. It's also natural that Sargent may have a continued interest in Chegg's earnings, not just out of friendship with Klundt, but also because he co-founded StudyBlue, he pointed out.

After Klundt texted him the dollar sign emoji, Sargent's subsequent text in response wasn't to thank him for the tip, it was to say congratulations on a great quarter, Maione said.

An attorney for Sargent will make an opening statement when trial resumes before U.S. District Judge Manish Shah on Tuesday.

At the time of the alleged tip, Sargent was an attorney in private practice and was the vice president of a privately held software company based in Chicago. At the time of his indictment, he was assistant general counsel for a privately held Chicago business, and was on the faculty of Loyola University Chicago's School of Environmental Sustainability, according to the government.

Both defendants **pled not guilty** to the charges shortly after they were **indicted** in January 2022.

The government is represented by Matthew M. Getter and Vikas Kumar Didwania of the U.S. Attorney's Office for the Northern District of Illinois.

Sargent is represented by Christopher T. Grohman of Benesch Friedlander Coplan & Aronoff and Carly A. Chocron of Taft Stettinius & Hollister LLP.

Klundt is represented by Terence H. Campbell and Michael Maione of Cotsirilos Tighe Streicker Poulos & Campbell LLP.

The case is USA v. David Sargent et al., case number 1:22-cr-00015, in the U.S. District Court for the Northern District of Illinois.

--Editing by Dave Trumbore.

