

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

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

For the fiscal year ended December 31, 2020

or

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

For the transition period from to

Commission File Number: 001-36376



**2U, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**26-2335939**  
(I.R.S. Employer Identification No.)

**7900 Harkins Road**  
(Address of Principal Executive Offices)

**Lanham, MD**

**20706**  
(Zip Code)

**(301) 892-4350**

Registrant's telephone number, including area code:

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.001 par value per share	TWOU	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the 62,895,725 shares of the registrant's common stock held by non-affiliates as of June 30, 2020 (computed based on the closing price on such date as reported on The Nasdaq Global Select Market) was \$2,387,521,721.

As of February 23, 2021, there were 73,994,239 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's definitive proxy statement, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, for its 2021 Annual Meeting of Stockholders, or an amendment on Form 10-K/A are incorporated by reference in Part III of this Form 10-K.



**2U, Inc.**  
**FORM 10-K**  
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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to substantial risks and uncertainties. In some cases, you can identify forward-looking statements by the words “may,” “might,” “will,” “could,” “would,” “should,” “expect,” “intend,” “plan,” “objective,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “potential,” “continue” and “ongoing,” or the negative of these terms, or other comparable terminology intended to identify statements about the future. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Annual Report on Form 10-K, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- trends in the higher education market and the market for online education, and expectations for growth in those markets;
- the acceptance, adoption and growth of online learning by colleges and universities, faculty, students, employers, accreditors and state and federal licensing bodies;
- the impact of competition on our industry and innovations by competitors;
- our ability to comply with evolving regulations and legal obligations related to data privacy, data protection and information security;
- our expectations about the potential benefits of our cloud-based software-as-a-service technology and technology-enabled services to university clients and students;
- our dependence on third parties to provide certain technological services or components used in our platform;
- our expectations about the predictability, visibility and recurring nature of our business model;
- our ability to meet the anticipated launch dates of our degree programs, short courses and boot camps;
- our ability to acquire new university clients and expand our degree programs, short courses and boot camps with existing university clients;
- our ability to successfully integrate the operations of our acquisitions, including Trilogy, to achieve the expected benefits of our acquisitions and manage, expand and grow the combined company;
- our ability to refinance our indebtedness on attractive terms, if at all, to better align with our focus on profitability;
- our ability to service our substantial indebtedness and comply with the covenants and conversion obligations contained in the Indenture (as defined below) governing our convertible senior notes and the Credit Agreement (as defined below) governing our revolving credit facility;
- our ability to generate sufficient future operating cash flows from recent acquisitions to ensure related goodwill is not impaired;
- our ability to execute our growth strategy in the international, undergraduate and non-degree alternative markets;
- our ability to continue to recruit prospective students for our offerings;
- our ability to maintain or increase student retention rates in our degree programs;
- our ability to attract, hire and retain qualified employees;
- our expectations about the scalability of our cloud-based platform;
- potential changes in regulations applicable to us or our university clients;
- our expectations regarding the amount of time our cash balances and other available financial resources will be sufficient to fund our operations;

- the impact and cost of stockholder activism;
- the impact of any natural disasters or public health emergencies, such as the coronavirus disease 2019 (“COVID-19”) pandemic;
- our expectations regarding the effect of the capped call transactions and regarding actions of the option counterparties and/or their respective affiliates; and
- other factors beyond our control.

You should refer to the risks described in Part I, Item 1A “Risk Factors” in this Annual Report on Form 10-K for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Annual Report on Form 10-K will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

In this Annual Report on Form 10-K, the terms “2U,” “our company,” “we,” “us,” and “our” refer to 2U, Inc. and its subsidiaries, unless the context indicates otherwise.

## PART I

### Item 1. Business

#### Overview

We are a leading digital transformation partner for nonprofit colleges and universities. We build, deliver, and support more than 500 digital and in-person educational offerings, including graduate degrees, undergraduate degrees, professional certificates, boot camps, and short courses. Together with our university clients, we have positively transformed the lives of more than 300,000 students.

Our comprehensive platform of tightly integrated technology and services provides the digital infrastructure that universities rely on to attract, enroll, educate and support students at scale throughout their lives. We believe ongoing learning is critical to career success today. Our broad array of offerings allow our university clients to meet student needs throughout their lives — whether they are earning a full degree, reskilling to learn something new or embarking on a new career path. We refer to the spectrum of educational offerings that a learner may benefit from during their lives and careers as the “Career Curriculum Continuum.” Our platform empowers our university clients to play a central role at each stage of a student’s learning journey.

We are leading the way in helping nonprofit colleges and universities succeed in their digital transformation journeys and we have become a trusted partner and brand steward to more than 75 leading institutions around the world. We continue to develop new and innovative tools to enhance the effectiveness of instructional methods and improve the student learning experience. Our platform allows our university clients to extend their brands and fulfill their missions by delivering high quality education offerings to students anywhere in the world, while maintaining their academic rigor and admissions standards.

#### Business Segments

We have two reportable segments: the Degree Program Segment and the Alternative Credential Segment.

In our Degree Program Segment, we provide the technology and services to nonprofit colleges and universities to enable the online delivery of degree programs. Students enrolled in these programs are generally seeking an undergraduate or graduate degree of the same quality they would receive on campus. In the first quarter of 2021, we changed the name of this segment from Graduate Program Segment to Degree Program Segment because this segment now includes undergraduate degree programs.

In our Alternative Credential Segment, we provide premium online short courses and technical, skills-based boot camps through relationships with nonprofit colleges and universities. Students enrolled in these offerings are generally seeking to reskill or upskill through shorter duration, lower-priced offerings that are relevant to the needs of industry and society.

#### Our Platform

Our platform, or 2UOS, consists of a seamlessly integrated ecosystem of technology, people and data. Through 2UOS, we provide front-end and back-end cloud-based SaaS technology and technology-enabled services, which are tightly integrated and optimized with data analysis and machine learning techniques. Our 2UOS platform includes the technology and services described below, with certain offerings leveraging the entire suite of technology and services, and certain offerings leveraging only select technology and services.

#### *Data-Driven Approach to Selecting Offerings*

Our experience launching and operating educational offerings enables us to systematically select and invest in offerings that we believe have the highest probability of success. We draw on a wide variety of data, including the operating history of our existing offerings, the existing market size of an offering, professional opportunities and job growth expectations for a particular subject or market, potential student demographics, and university characteristics. This approach not only enables us to deploy capital with greater confidence, but it also provides our university clients with greater assurance of, and visibility into, the success of the offering.

#### *Pre-Launch Technology and Services*

2UOS provides the following technology and services before launching an offering:

- *Technology Infrastructure.* We use a variety of proprietary technologies to unify our suite of applications and automate the setup of technology infrastructure for new degree programs. We also have proprietary technology that

translates school-specific code into a common language to streamline launching new degree programs with multiple schools.

- *University Systems Integrations.* We build integrations and data connections between our systems and our university client systems to facilitate the bi-directional exchange of data to support our offerings on an ongoing basis. By tightly integrating our systems with our university clients' systems prior to launching an offering, we can automate a variety of processes, including admissions and enrollment and live class scheduling.
- *Marketing.* We use data analytics and proprietary algorithms to develop digital marketing campaigns to engage prospective students efficiently. Our marketing services include the following:
  - *Attract Prospective Students* - Our marketing team uses best-in-class digital marketing strategies to attract prospective students, including Search Engine Optimization, Search Engine Marketing and Social Media Optimization.
  - *Brand Identity* - Our brand marketing team works with each university client to develop offering-specific content that presents effective and university-approved messaging to prospective students.
  - *Data Analysis* - Using data analytics and machine learning techniques, we focus our marketing efforts on finding qualified prospective students for appropriate offerings. We also believe that our continuously expanding selection of educational offerings increases our marketing efficiency across our portfolio.
- *Compliance.* Many of our degree programs are subject to authorization requirements in states in which students reside. We typically work with our university clients to enable them to identify and comply with a complex array of state authorization requirements to ensure that students can enroll in our degree programs no matter where they live.

### ***Recruiting and Enrollment Technology and Services***

2UOS provides the following technology and services to streamline the admissions and enrollment process for students and university clients:

- *Recruiting.* We use proprietary and third-party technologies to support prospective students through the admissions and enrollment process. We provide prospective students with transparent information regarding admissions and enrollment requirements, the application process, curriculum, financial information, and time to completion. For our degree programs, while our university clients are solely responsible for making admissions decisions, we streamline the admissions process by organizing and routing completed student application packages to the university's admissions office.
- *Technology Tools.* The following systems and applications automate and simplify admissions-related processes for our university clients:
  - *Customer Relationship Management.* We deploy a customer relationship management system for each degree program we enable. This system serves as the data hub for student recruiting activities, application progress, university admissions review, registration and student support. We and our university clients use this information to ensure proper coordination and support as a student progresses through the program.
  - *Admissions Application Processing Portal.* Our proprietary admissions application system automates the admissions application process for degree programs. This system is customized to meet each degree program's unique application requirements.

### ***Learning and Student Success Technology and Services***

2UOS provides the following technology and services to develop engaging curriculum for our offerings and to support the student learning experience:

- *Learning Technology.* We deliver our offerings through a combination of proprietary and third-party learning platforms. For our degree programs, our online learning platform provides a live and engaging classroom environment that is accessible through proprietary web, mobile and TV applications, as well as offline for convenient consumption of asynchronous coursework. Our STEM-based education tools and collaborative annotation technology significantly enhance the learning experience for degree program students and instruction capabilities for faculty.

- *Live Classes.* Our offerings feature live, online classes, in addition to interactive asynchronous learning experiences. We provide technology tools to reduce friction in the virtual learning environment for students and professors. Live classes provide the opportunity for students to build community with peers and receive personalized and real-time instructor support, which is a cornerstone of our approach to delivering degree programs. To maximize the benefit of these synchronous live sessions, we employ a flipped classroom model, which focuses on dynamic interactive learning rather than solely direct teacher instruction.
- *Curriculum.* For many of our offerings, our learning design and development experts collaborate with faculty to produce high-quality, engaging, online coursework and content. Our learner-centered approach to curriculum design incorporates our university clients' pedagogical preferences and is founded in principles of learning science. We use a learning management system that facilitates authoring and hosting asynchronous learning activities. In our Alternative Credential Segment, we use an application to make real-time updates to our curriculum to keep certain offerings current in quickly evolving fields such as coding, data analytics and cybersecurity.
- *Placements.* Using our global network of clinics, hospitals, schools and other sites, our field placement team secures local placements for students enrolled in degree programs such as nursing, social work, teaching and other programs that require field placements to satisfy curriculum and accreditation requirements. We have integrated placements into our learning technology to enable students, faculty and field placement supervisors to monitor completion of student field work directly from our platform.
- *Hybrid Experiences.* Many of our university clients' degree programs require students to attend in-person immersions. These experiences provide students with collaborative learning experiences where they develop invaluable personal and professional relationships. We provide the resources and technology to support our clients in facilitating these experiences.
- *Accessibility.* Our platform provides many features to accommodate the accessibility needs of students with disabilities, including clear navigation, flexible and robust content display, and compatibility with screen-reading and assistive keyboard technologies. Working with our university clients, we support certain accommodations requested by students with disabilities, including providing real-time sign language and captioning for live classes and audio descriptions of video content we produce.
- *Faculty and Student Success.* We augment each student's academic experience by providing ongoing, personalized non-academic support. For degree programs, we provide a dedicated team to support and train university administration and faculty on how to use our platform to facilitate high-quality live instruction. In addition, we help our university clients succeed by assisting with faculty recruiting efforts, including attracting, cultivating and vetting a pool of faculty candidates for our university clients. In our boot camp offerings, we use a proprietary analytics platform to capture the sentiment of students in our classes. We use this data to improve our curricula, calibrate differences across classrooms and offer targeted support to students.
- *Career Services.* We empower students in certain offerings in our Alternative Credential Segment to achieve their career goals by providing feedback on their professional materials, delivering daily online workshops that help them become competitive in the job market, and hosting a variety of engagement opportunities with industry professionals to build their networks. We have strong employer partnerships with top companies around the world and refer our diverse and talented network of students to their open positions.

### **Key Benefits of our Platform**

We believe our platform provides the following key benefits:

- *Extend Institutional Mission and Reach.* Our platform enables our university clients to extend their brands and fulfill their missions by delivering high quality education offerings to students anywhere in the world, while maintaining their academic rigor and admissions standards.
- *Low Financial Risk for Universities.* We make the initial investment required to launch new offerings across our portfolio. In our Degree Program Segment, in particular, we make significant investments in technology, integration, content production, marketing, student and faculty support, and other services. Our revenue-share model, combined with long contractual terms in this segment, enables us to make these investments without significant financial risk to our university clients.

- *Turnkey Solution.* Our platform provides a broad set of capabilities that would otherwise require universities to purchase multiple, disparate point solutions, and significantly increase headcount in marketing, data analytics, technology and other areas.
- *Qualified Student Enrollment.* Our robust marketing capabilities enable us to find qualified students for our university clients' degree programs who meet the university's admissions criteria.
- *Outcomes.* Our platform allows students to pursue a wide range of high-quality education offerings provided by leading universities. Through these offerings, students obtain valuable skills and credentials that can create upward career mobility, facilitate a transition to a new field or lead to personal enrichment.
- *Support.* High-quality student support is a central pillar of our platform. Prior to enrollment, our support teams work with prospective students as they consider and apply to a particular offering. Once enrolled, we augment each student's academic experience by assigning a dedicated advisor to provide ongoing individualized non-academic support. In addition, we provide a career success advisor that can assist students with determining how the credential they are pursuing will help to further their career. Throughout the student journey, our advisors focus on retention and completion or graduation by using data analysis to predict when students may need additional support, such as personalized coaching plans.

## **Our Growth Strategy**

We intend to continue our industry leadership as a provider of a digital education platform that enables nonprofit colleges and universities to deliver education online. Our approach to growth is disciplined and focused on long-term success. The principal elements of our strategy are to increase student enrollments by:

- *Scaling Existing Offerings.* We intend to continue increasing the number of enrollments in our offerings that have not yet launched or that have not yet reached maturity. We plan to scale these offerings by expanding the reach and diversity of our marketing channels, adapting our offerings to respond to market demand and making incremental improvements to our learning technology.
- *Expanding Relationships with Existing University Clients.* We believe there are significant opportunities among our current university clients to expand the number of offerings we power on their behalf. This may include launching additional undergraduate, graduate, professional certificate, short course, and boot camp offerings with any of our existing partners.
- *Adding New University Clients.* We intend to add new top tier universities to our university client base and to develop offerings spanning the Career Curriculum Continuum for these clients, including undergraduate, graduate, professional certificate, short course, and boot camp offerings.
- *Expanding Offerings Across the Career Curriculum Continuum.* We intend to continue evolving our offering portfolio to meet the demands of lifelong learners by expanding our offerings across the Career Curriculum Continuum in accordance with our university client roadmaps. This expansion could include new offering types or bundles, such as for credit offerings in our Alternative Credential Segment, stacked or micro credentials, and shorter form "sprints." In every new offering we strive to facilitate experiences that are high quality, blended and connected, accessible and affordable, and relevant.
- *Adapting Offerings for Additional Distribution Channels.* We believe there are significant opportunities to enable additional distribution channels, such as enterprise and international, without building new content. For example, we may make adaptations to content, language, and branding of our current offerings.

## **Clients**

As of December 31, 2020, we had more than 75 university clients with more than 500 offerings. Our university clients are nonprofit colleges and universities, and include many public universities. In 2020, our offerings with five university clients accounted for approximately 30% of our consolidated revenue. We expect that our offerings with these university clients will continue to account for a large portion of our revenue until our other offerings become more mature.

## **Competition**

The overall market for technology solutions that enable higher education providers to deliver education online is highly fragmented, rapidly evolving and subject to changing technology, shifting needs of students, universities and educators

and frequent introductions of new delivery methods. Several competitors provide platforms that compete with some of the capabilities of our platform.

In addition, massive open online course providers have evolved from providing their traditional courses to providing degrees, short course certificates and similar non-degree alternatives. We also face competition from companies providing corporate training programs, boot camps and online courses taught outside the university environment (e.g., by experts in various fields). Many of these companies provide components of the technology and services we provide, and these companies may choose to pursue some of the institutions we target. Moreover, nonprofit colleges and universities may elect to continue using or develop their own online learning solutions in-house.

We expect that the competitive landscape will continue to expand as the market for online education offerings at nonprofit institutions matures. We believe the principal competitive factors in our market include the following:

- robustness and evolution of technology solutions and content;
- brand awareness and reputation;
- ability of online degree programs, short courses and boot camps to deliver desired student outcomes;
- breadth and depth of service offering;
- ability to make significant investments in launching and operating degree programs;
- expertise in marketing, student acquisition and student retention;
- student and faculty experience;
- ease of deployment and use of technology solutions;
- level of customization, configurability, integration, security, scalability and reliability of technology solutions; and
- quality of university client base and track record of performance.

We believe we compete favorably on the basis of these factors. Our ability to remain competitive will depend, to a great extent, on our ability to consistently deliver high-quality offerings; meet university client needs for content development; attract, support and retain students; and deliver desired student, faculty and university outcomes.

### **Seasonality**

We experience seasonality in our marketing and sales expense in both our Degree Program Segment and our Alternative Credential Segment. We typically reduce our paid search and other marketing and sales efforts during late November and December because of less demand during the holiday season. We generally do not experience pronounced seasonality in our revenue, although revenue can fluctuate significantly from quarter to quarter due to variations driven by the varying academic schedules of our offerings and university clients.

### **Intellectual Property**

We protect our intellectual property by relying on a combination of copyrights, trademarks, trade secrets and contractual agreements. For example, we rely on trademark protection in the United States and various foreign jurisdictions to protect our rights to various marks, including 2U, NO BACK ROW, GETSMARTER, TRILOGY and other distinctive logos associated with our brand. We continue to evaluate developing and expanding our intellectual property rights in patents, trademarks and copyrights, as available through registration in the United States and internationally.

We ensure that we own intellectual property created for us by signing agreements with employees, independent contractors, consultants, companies, and any other third party that creates intellectual property for us that assign any intellectual property rights to us.

We have also established business procedures designed to maintain the confidentiality of our proprietary information, including the use of confidentiality agreements with employees, independent contractors, consultants and companies with which we conduct business.

We also purchase or license technology that we incorporate into our technology or services. While it may be necessary in the future to seek or renew licenses relating to various aspects of our technology and services, we believe, based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms.

For important additional information related to our intellectual property position, please review the information set forth in “Risk Factors—Risks Related to Intellectual Property.”

### **Education Laws and Regulations**

The higher education industry is heavily regulated. Institutions of higher education that award degrees and certificates to signify the successful completion of an academic program are subject to regulation from three primary entities: the U.S. Department of Education, or DOE, accrediting agencies and state licensing authorities. Each of these entities promulgates and enforces its own laws, regulations and standards, which we refer to collectively as education laws.

We contract with postsecondary institutions that are subject to education laws. In addition, we ourselves are required to comply with certain education laws as a result of our role as a service provider to institutions of higher education, either directly or indirectly through our contractual arrangements with university clients. Our failure, or that of our university clients, to comply with education laws could adversely impact our operations. As a result, we work closely with our university clients to maintain compliance with education laws.

#### ***Federal Laws and Regulations***

Under the Higher Education Act of 1965, as amended, or the HEA, institutions offering postsecondary education must comply with certain laws and related regulations promulgated by the DOE in order to participate in the Title IV federal student financial assistance programs. Most of our university clients participate in the Title IV programs.

The HEA and the regulations promulgated thereunder are frequently revised, repealed or expanded. Congress historically has reauthorized and amended the HEA in regular intervals, approximately every seven years. The reauthorization process is ongoing.

The reauthorization of the HEA could alter the regulatory landscape of the higher education industry, and thereby impact the manner in which we conduct business and serve our university clients. In addition, the DOE frequently conducts rulemakings that may impact our business and we expect each incoming administration to change the DOE rules in accordance with its policy priorities regardless of whether the HEA is reauthorized by Congress. The DOE also issues formal and informal guidance instructing institutions of higher education and other covered entities how to comply with various federal laws and regulations. DOE guidance is subject to change and such changes may impact our business model.

Although we are not considered an institution of higher education and we do not directly participate in Title IV programs, we are required to comply with certain regulations promulgated by the DOE as a result of our role as a service provider to institutions that do participate in Title IV programs. These include, for example, regulations governing student privacy under Family Educational Rights and Privacy Act, or FERPA. While online short courses and boot camps are typically not eligible for Title IV aid, when offered by or on behalf of Title IV eligible institutions, many education laws, such as FERPA, remain applicable to us or our university clients even in the Alternative Credential Segment.

Current DOE rules material to our business include the incentive compensation rule, the misrepresentation rule, the “written arrangements” rules and state authorization requirements, which are discussed in further detail below.

#### ***Incentive Compensation Rule***

The HEA provides that any institution that participates in the Title IV federal student financial assistance programs must agree with the DOE that the institution will not provide any commission, bonus or other incentive payment to any person or entity engaged in any student recruiting or admission activities as those terms are defined in DOE regulations.

Under DOE’s incentive compensation regulations, each higher education institution agrees that it will not “provide any commission, bonus, or other incentive payment based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid, to any person or entity who is engaged in any student recruitment or admission activity, or in making decisions regarding the award of Title IV, HEA program funds.” Pursuant to this rule, we are prohibited from offering our covered employees, who are those involved with or responsible for recruiting or admissions activities, any bonus or incentive-based compensation based on the successful recruitment, admission or enrollment of students into a postsecondary institution.

At the time the incentive compensation rule was last revised in July 2011, the revised rule initially raised a question as to whether entities could be prohibited from entering into tuition revenue-sharing arrangements with university clients. On March 17, 2011, the DOE issued official agency guidance, known as a “Dear Colleague Letter,” or the DCL, providing guidance on this point. The DCL states that “[t]he Department generally views payment based on the amount of tuition generated as an indirect payment of incentive compensation based on success in recruitment and therefore a prohibited basis upon which to measure the value of the services provided” and that “[t]his is true regardless of the manner in which the entity compensates its employees.” But the DCL also provides an important exception to the ban on tuition revenue-sharing

arrangements between institutions and third parties. According to the DCL, the DOE does not consider payment based on the amount of tuition generated by an institution to violate the incentive compensation ban if the payment compensates an “unaffiliated third party” that provides a set of “bundled services” that includes recruitment services, such as those we provide. Example 2-B in the DCL is described as a “possible business model” developed “with the statutory mandate in mind.” Example 2-B describes the following as a possible business model:

“A third party that is not affiliated with the institution it serves and is not affiliated with any other institution that provides educational services, provides bundled services to the institution including marketing, enrollment application assistance, recruitment services, course support for online delivery of courses, the provision of technology, placement services for internships, and student career counseling. The institution may pay the entity an amount based on tuition generated for the institution by the entity’s activities for all the bundled services that are offered and provided collectively, as long as the entity does not make prohibited compensation payments to its employees, and the institution does not pay the entity separately for student recruitment services provided by the entity.”

The DCL guidance indicates that an arrangement that complies with Example 2-B will be deemed to be in compliance with the incentive compensation provisions of the HEA and the DOE’s regulations. Our business model and contractual arrangements with our university clients closely follow Example 2-B in the DCL. In addition, we assure that none of our “covered employees” are paid any bonus or other incentive compensation in violation of the rule.

Because the bundled services rule was promulgated in the form of agency guidance issued by the DOE in the form of a DCL and is not codified by statute or regulation, the rule could technically be altered or removed without customary administrative procedural requirements, such as adequate prior notice, that accompany formal agency rulemaking. Similarly, a court could invalidate the rule in an action involving our company or our university clients, or in an action that does not involve us at all. Finally, while most states defer to DOE regulations, different versions of the federal incentive compensation rule exist under state law, and such statutes or rules, or their interpretation, may change at any time. The revision, removal or invalidation of the bundled services rule by Congress, the DOE or a court could require us to change our business model, and separate revisions at the state level could require us to amend certain of our contracts.

### ***Misrepresentation Rule***

The HEA prohibits an institution that participates in the Title IV programs from engaging in any “substantial misrepresentation” regarding three broad subject areas: (i) the nature of the school’s education programs, (ii) the school’s financial charges and (iii) the employability of the school’s graduates.

Under the rule, “misrepresentation” is defined broadly as any false, erroneous or misleading statement, written, visual or oral. This may include even statements that “have the likelihood or tendency to deceive.” Therefore, a statement need not be intentionally deceitful to qualify as a misrepresentation. “Substantial misrepresentation” is defined loosely as a misrepresentation on which the person to whom it was made could reasonably be expected to rely, or has reasonably relied, to that person’s detriment.

The current regulation also covers statements made by any representative of an institution, including agents, employees and subcontractors, and statements made directly or indirectly to any third party, including state agencies, government officials or the public, and not just statements made to students or prospective students.

Violations of the misrepresentation rule are subject to various sanctions by the DOE and violations may be used as a basis for legal action by third parties or as a defense to the obligation to repay student loans. Similar rules apply under state laws or are incorporated in institutional accreditation standards, and the Federal Trade Commission, or FTC, applies similar rules that prohibit any unfair or deceptive marketing practices by vendors in the education sector. As a result, we and our employees and subcontractors, as agents of our university clients, must use a high degree of care to comply with such rules and are prohibited by contract from making any false, erroneous or misleading statements about our university clients. To avoid an issue under the misrepresentation rule and similar state and federal rules, we assure that all marketing materials are approved in advance by our university clients before they are used by our employees.

### ***Accreditation Rules and Standards***

Accrediting agencies primarily examine the academic quality of the instructional programs of an educational institution, and a grant of accreditation is typically viewed as confirmation that an institution or an institution’s programs meet generally accepted academic standards. Accrediting agencies also review the administrative and financial operations of the institutions they accredit to ensure that each institution has the resources to perform its educational mission. The DOE also relies on accrediting agencies to determine whether institutions qualify to participate in Title IV programs.

In addition to institutional accreditation, colleges and universities may require specialized programmatic accreditation for particular educational programs. Many states and professional associations require professional programs to be accredited, and require individuals to have graduated from accredited programs in order to sit for professional license exams. Programmatic accreditation, while not a sufficient basis for institutional Title IV Program certification by the DOE, assists graduates to practice or otherwise secure appropriate employment in their chosen field. Common fields of study subject to programmatic accreditation include teaching and nursing.

Although we are not an accredited institution and are not required to maintain accreditation, accrediting agencies are responsible for reviewing an accredited institution's third-party contracts with service providers like us and may require an institution to obtain approval from or to notify the accreditor in connection with such arrangements. One purpose of the notification and approval requirements is to verify that the accredited institution remains responsible for providing academic instruction leading to a credential and provides oversight of other activities undertaken by third parties like us that are within the scope of its accreditation. We work closely with our university clients to assure that the standards of their respective accreditors are met and are not adversely impacted by us.

Accrediting agencies are also responsible for assuring that any "written arrangements" to outsource academic instruction meet accreditation standards and related regulations of the DOE. Our operations are generally not subject to such "written arrangements" rules because academic instruction is provided by our university client institutions and not by us; however, the "written arrangements" rules may apply to online programs in the Alternative Credential Segment to the extent such courses are outsourced by university clients.

### ***State Laws and Regulations***

Each state has at least one licensing agency responsible for the oversight of educational institutions operating within its jurisdiction. Continued approval by such agencies is necessary for an institution to operate and grant degrees, diplomas or certificates in those states. Moreover, under the HEA, approval by such agencies is necessary to maintain eligibility to participate in Title IV programs. State attorneys general are also active in enforcing education laws, and the level of regulatory oversight varies substantially from state to state.

We and our university clients may be subject to regulation in each state in which we or they own facilities, provide distance education or recruit students. State laws establish standards for, among other things, student instruction, qualifications of faculty, location and nature of facilities, recruiting practices and financial policies. The need to comply with applicable state laws and regulations may limit or delay our ability to market or expand our offerings. In addition, the interpretation of state authorization regulations is subject to substantial discretion by the state agency responsible for enforcing the regulations.

DOE requires, among other things, that an institution offering distance learning or online programs secure the approval of those states which require such approval and provide evidence of such approval to the DOE upon request. This regulation increases the importance of state authorization because failure to obtain the necessary state authorization for online programs (which may also be obtained through participation in a state authorization reciprocity agreement) could result in an obligation to return federal funds received by an institution. The federal state authorization rules were updated in July 2020 to, among other things, require more detailed disclosure requirements about whether particular states have authorized programs that may lead to professional licensure, which created an additional compliance burden for many of our partner institutions.

All states except California now participate in the State Authorization Reciprocity Agreement, or SARA, governing the licensing of online offerings. All SARA-member institutions may provide online offerings in SARA states without obtaining separate state authorization (this includes externships, recruiting, local advertising, and faculty presence). SARA-member institutions must still obtain a separate authorization in order to open a physical location in another state and are also required to obtain any additional approvals that may be required for offerings leading to professional licensure in a state (e.g., nursing, teaching, or counseling). Most of our university clients are SARA members and the DOE accepts participation in a reciprocity agreement as evidence of state approval.

Finally, many programs leading to professional licensure, such as graduate degree programs in nursing or teaching, also require approval from, and are subject to ongoing oversight by separate state agencies such as state nursing boards. Membership in SARA does not encompass approvals by professional licensing boards, which must be obtained separately.

We monitor state law developments closely and work closely with our university clients to assist them with obtaining any required approvals.

### ***Other Laws***

Our activities are also subject to other federal and state laws. These regulations include, but are not limited to, consumer marketing and unfair trade practices laws and regulations, including those promulgated and enforced by the FTC,

state and federal consumer lending laws, student accessibility requirements, federal and state data protection and privacy requirements and foreign and U.S. anti-corruption regulations.

## **Human Capital Resources**

### ***General Information About Our Human Capital Resources***

As of December 31, 2020, we had approximately 3,772 full-time employees and 2,834 part-time employees worldwide. Approximately 5,519 of our employees are located in the U.S., approximately 753 of our employees are located in Cape Town, South Africa, and approximately 334 employees are located in other jurisdictions. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We consider our relations with our employees to be good.

### ***Our Culture***

2U was founded on a set of “guiding principles” that are core to our culture and guide big and small decisions every day. New employees are introduced to the guiding principles in orientation and are expected to bring these guiding principles to life as they work with their teams, interact with our university clients and students or otherwise represent 2U in the community.

- *Cherish each opportunity.* Life is short, so treasure every moment.
- *Give a damn.* Care about what you do each day.
- *Strive for excellence.* Don’t settle for second best.
- *Be bold and fearless.* Question the status quo and embrace change.
- *Be candid, honest and open.* Listen to others and offer respectful feedback.
- *Have fun.* Fun is important. Fun is simply better.
- *Make service your mission.* Give the highest level of support to our partners and to one another.
- *Don’t let the skeptic win.* “No” is easy. “Yes” is hard. Fight for “yes.”
- *Relationships matter.* Invest the time, build trust, and value differences.

### ***Human Capital Measures and Objectives***

2U is dedicated to eliminating the back row in higher education and our employees are critical to achieving this mission. We believe that when our employees feel appreciated and included they can be more creative, innovative, and better serve our university clients and students. Human capital measures and objectives that we focus on in managing our business include talent acquisition and retention, diversity and inclusion, employee development and training, community involvement and employee experience and wellness.

- *Talent Acquisition and Retention.* We seek to recruit, retain and incentivize highly talented employees and our compensation and benefits programs are aligned with these goals. We are committed to providing total rewards programs for our employees that are market-competitive and based on their contribution and performance. To foster a stronger sense of ownership and align the interests of employees with stockholders, we provide equity compensation in the form of performance and service-based restricted stock units to eligible employees under our broad-based stock compensation program. We also offer eligible employees the ability to participate in our Employee Stock Purchase Plan, which enables them to purchase shares of our stock at a discount. We also provide comprehensive benefits for employees and their families, which are tailored to the various geographies in which we operate.
- *Diversity and Inclusion.* We believe an equitable and inclusive environment with diverse teams produces more creative solutions and results in better outcomes for our university clients and students. We strive to attract, retain and promote diverse talent at all levels of the organization. Our Board is 33% women and 33% people of color and our executive team is 25% women and 25% people of color. We have established a diversity and inclusion committee, known as MOSAIC, that serves as a liaison with management on diversity and inclusion issues and we maintain executive-sponsored business resource networks (“BRNs”) that offer a forum for employees to network and engage in professional development activities. As of December 31, 2020 we had 5 BRNs focused on the following groups: Black/African American, Women, LGBTQ+, Asian Pacific Islander and Latinx. Our diversity and inclusion principles

are also reflected in our employee training programs, which include trainings on non-discrimination and harassment and unconscious bias.

- *Employee Development and Training.* We provide a range of mandatory and optional employee development programs and opportunities for employees to develop the skills they need to be successful. Our learning and development teams create and teach a variety of live courses and our employees also have free access to a library of learning resources via LinkedIn Learning. In addition, we offer a tuition reimbursement benefit for employees, which allows eligible employees and their family members to receive reimbursement for completion of certain of our offerings.
- *Community Involvement.* We are committed to making an impact in our local communities through volunteering, financial donations, scholarships and other forms of engagement. Our corporate social responsibility program, “2U Engage”, supports local non-profit organizations in each location where we have a 2U office with a focus on organizations that are aligned with our mission to provide access to quality education. Employees are encouraged to volunteer for these organizations throughout the year using our “Volunteer Paid Time Off” program and bi-annually through Company-organized “Days of Service” events. We also endeavor to support the local community through scholarship initiatives, which focus on reaching the Black, Latinx and indigenous communities, as well as women and individuals from low income households.
- *Employee Experience and Wellness.* We strive to create employee programs that promote our guiding principles, support employee wellness and enable employees to work productively. Particularly during the COVID-19 pandemic with our global workforce working primarily remotely, supporting and engaging our employees has been our top priority. These efforts include providing access to free wellness resources such as meditation and mental health support, stipends for home-office improvements and Wi-Fi access, a Company-wide “Daily Dose of Team Time” call to foster employee engagement and connection and hosting remote-versions of our annual employee events.

#### **Other Information**

We were incorporated as a Delaware corporation in April 2008 and completed our initial public offering in April 2014. We acquired Get Educated International Proprietary Limited, or GetSmarter, in July 2017, and acquired Trilogy in May 2019.

Our principal executive offices are located at 7900 Harkins Road, Lanham, MD 20706, and our telephone number is (301) 892-4350.

You can obtain copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the U.S. Securities and Exchange Commission, or the SEC, and all amendments to these filings, free of charge from our website at [investor.2u.com](http://investor.2u.com) or on the SEC’s website at [www.sec.gov](http://www.sec.gov) as soon as reasonably practicable following our filing of any of these reports with the SEC. The contents of these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

## **Item 1A. Risk Factors**

In addition to the other information set forth in this Annual Report on Form 10-K, you should carefully consider the factors discussed in the “Special Note Regarding Forward-Looking Statements” in this Annual Report on Form 10-K.

### **Risk Factors Summary**

Our business is subject to numerous risks and uncertainties, including those highlighted in this section of our Annual Report on Form 10-K and summarized below. This risk factor summary does not contain all of the information that may be important to you, and you should read the risk factor summary together with the more detailed discussion of risks and uncertainties set forth following this section as well as elsewhere in this Annual Report on Form 10-K.

#### ***Risks Related to the COVID-19 Pandemic***

- The global coronavirus pandemic could harm our business, results of operations, and financial condition.

#### ***Risks Related to Our Business Model***

- We have incurred significant net losses since inception and may not achieve or maintain profitability in the future.
- Our financial performance depends heavily on our ability to recruit qualified potential students for our offerings, and our ability to do so may be affected by circumstances beyond our control.
- Our business depends heavily on the adoption by colleges and universities of online delivery of their educational offerings.
- To launch a new degree program, we must incur significant expense in technology and content development, as well as in marketing and sales to identify and attract prospective students, and it may be several years, if ever, before we generate revenue from a new program sufficient to recover our costs.
- If new offerings do not scale efficiently and in the time frames we expect, our reputation and our revenue will suffer.
- Our financial performance depends heavily on student retention within our offerings, and factors influencing student retention may be out of our control.
- A significant portion of our revenue is currently attributable to offerings with five university clients. The loss of, or a decline in enrollment in, these offerings could significantly reduce our revenue.
- The loss, or material underperformance, of any one of our degree programs could harm our reputation, which could in turn affect our future revenue growth.

#### ***Risks Related to Our Operations and Our Growth Strategy***

- Our student acquisition efforts depend in large part upon a limited number of third-party advertising platforms.
- If our security measures or those of our third-party service providers are breached or fail and result in unauthorized disclosure of data, we could lose university clients, fail to attract new university clients and be exposed to protracted and costly litigation.
- Disruption to or failures of our platform could reduce university client and student satisfaction with our offerings and could harm our reputation.
- If we fail to manage our growth effectively, the success of our business model will be compromised.
- We may expand by acquiring or investing in other companies or technologies, which may divert our management’s attention, result in dilution to our shareholders and consume resources that are necessary to sustain our business.
- We face competition from established and emerging companies, which could divert university clients or students to our competitors, result in pricing pressure and significantly reduce our revenue.
- If we do not retain our senior management team and key employees, we may not be able to sustain our growth or achieve our business objectives.

- We maintain offices outside of the United States, have international residents that apply to and enroll in our offerings and plan to expand our international business, which exposes us to risks inherent in international operations.

***Risks Related to Our Indebtedness and Capital Structure***

- Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk and prevent us from meeting our obligations with respect to our indebtedness.
- Despite current indebtedness levels and existing restrictive covenants, we may still incur additional indebtedness that could further exacerbate the risks associated with our substantial financial leverage.
- The Credit Agreement contains financial covenants that may limit our operational flexibility.
- To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.
- We may be unable to raise the funds necessary to repurchase the Notes for cash following a “fundamental change,” or to pay any cash amounts due upon conversion, and our other indebtedness may limit our ability to repurchase the Notes or pay cash upon their conversion.
- Conversion of the Notes may dilute the ownership interest of existing stockholders or may otherwise depress the price of our common stock.
- Provisions in the Indenture and in the Credit Agreement could delay or prevent an otherwise beneficial takeover of us.
- The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.
- The capped call transactions may affect the value of our common stock.
- We may need additional capital in the future to pursue our business objectives. Additional capital may not be available on favorable terms, or at all, which could compromise our ability to grow our business.

***Risks Related to Regulation of Our Business and That of Our University Clients***

- Our business model relies on university client institutions complying with federal and state laws and regulations.
- Our activities are subject to federal and state laws and regulations and other requirements.
- Activities of the U.S. Congress or Department of Education could result in adverse legislation or regulatory action.
- Our business model, which depends on our ability to receive a share of tuition revenue as payment from our university clients, has been validated by a DOE “dear colleague” letter, but such validation is not codified by statute or regulation and may be subject to change.
- If we or our subcontractors or agents violate the incentive compensation rule, we could be liable to our university clients for substantial fines, sanctions or other liabilities.
- Our future growth could be impaired if our university clients fail to obtain timely approval from applicable regulatory agencies to offer new programs, make substantive changes to existing programs or expand their programs into or within certain states.
- Evolving regulations and legal obligations related to data privacy, data protection and information security and our actual or perceived failure to comply with such obligations, could have an adverse effect on our business.

**Risk Factors**

**Risks Related to the COVID-19 Pandemic**

***The global coronavirus pandemic could harm our business, results of operations, and financial condition.***

The ongoing and rapidly evolving COVID-19 pandemic has caused, and continues to cause, significant disruptions to the flow of the economy and is putting unprecedented strains on governments, health care systems, educational institutions, businesses and individuals around the world and has resulted in significant volatility and uncertainty in the global economy. In response to the pandemic, governments and businesses have implemented, and are continuing to implement, numerous

unprecedented measures, including orders to shelter-in-place, travel restrictions, mandated business closures and social distancing orders, which have adversely affected workforces, organizations, customers, economies and financial markets globally, leading to an economic downturn and increased market volatility. It has also disrupted the normal operations of many businesses, including ours. Furthermore, different jurisdictions are in varying stages of restrictions and have achieved varying degrees of success at controlling the spread of the pandemic, with many jurisdictions seeing a resurgence in COVID-19 cases and subsequently having to halt or reverse their reopening plans. As such, we cannot predict, with any degree of certainty, the ultimate duration and severity of the adverse effects of the COVID-19 pandemic and the measures taken in response to the pandemic on the global economy and our business, or the likelihood or frequency of future resurgence of the COVID-19 pandemic or other similar major public health concerns.

In response to the COVID-19 pandemic, we have taken steps to protect and assist our employees, including requiring employees in most of our offices to work remotely, implementing travel restrictions that prohibit all non-essential business travel, postponing, cancelling or converting to virtual-only certain industry, analyst and employee events.

This outbreak, as well as intensified measures undertaken to contain the spread of COVID-19, including the measures we have taken, could cause disruptions and severely impact our business, including, but not limited to:

- causing one or more of our university clients to file for bankruptcy protection or shut down;
- reducing student demand for our degree programs, short courses and boot camps, whether due to funding constraints related to loss of employment or lack of interest in pursuing education during a period of uncertainty;
- impacting current and prospective university clients' desire to launch new educational offerings with us;
- negatively impacting collections of accounts receivable;
- negatively impacting our ability to facilitate in-program placements for students in clinical graduate programs;
- increased cyberattacks and security challenges as our employees and those of our university clients and third-party service providers work remotely from networks that may be less secure;
- negatively impacting the efficiency of our marketing activities;
- difficulties or delays in ramping, training and retaining new employees in an effective manner;
- negative physical and mental health impacts on, and resulting unavailability or reduced productivity of, our key executives or other employees as a result of such employees or their family members contracting the virus, being placed in quarantine or self-isolation, being in jurisdictions where travel or other activities remain restricted, or due to prolonged social isolation or distancing measures;
- delays to the anticipated launch dates of our offerings;
- inability to meet in person or otherwise effectively communicate with our current or potential university clients, which may negatively affect our current and future relationships with such university clients;
- changes in our internal controls, policies and procedures due to remote work arrangements, which may result in significant deficiencies or material weaknesses in our internal controls in the preparation of our financial reports and the resulting increased costs of controls and compliance oversight activities; and
- harming our business, results of operations and financial condition.

We cannot predict with any certainty whether and to what degree the disruption caused by the COVID-19 pandemic and reactions thereto will continue and how our business and results of operation will be impacted as the COVID-19 pandemic tapers, particularly as a vaccine becomes widely distributed. As a result, we expect to face difficulty accurately predicting our internal financial forecasts.

The COVID-19 pandemic may also have the effect of heightening many of the other risks identified in this "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2020. It is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business, results of operations or financial condition at this time, but such effects may be material.

## Risks Related to Our Business Model

***Our limited operating history, and the evolving scope of our offerings, make it difficult to predict our future financial and operating results, and we may not achieve our expected financial and operating results in the future.***

We were incorporated in 2008 and launched our first graduate program in 2009. In July 2017, we acquired GetSmarter and extended our offerings to include premium online short courses, and in May 2019, we acquired Trilogy and further extended our offerings to include skills-based boot camps. As a result of our limited operating history, and the evolving scope of our offerings, our ability to forecast our future operating results, including revenue, cash flows and profitability, is limited and subject to a number of risks and uncertainties. If our assumptions regarding these risks and uncertainties are incorrect or change, or if we do not manage these risks successfully, our operating and financial results may differ materially from our expectations and our business may suffer.

***We have incurred significant net losses since inception and may not achieve or maintain profitability in the future.***

We incurred net losses of \$216.5 million, \$235.2 million, and \$38.3 million during the years ended December 31, 2020, 2019 and 2018, respectively. We will need to generate and sustain increased revenue levels in future periods to become profitable, and, even if we do, we may not be able to maintain or increase our profitability. We expect to continue to expend substantial financial and other resources on technology and production efforts to support a growing number of offerings and our marketing and sales efforts to drive the acquisition of potential students. Our efforts to grow our business may be more costly than we expect, and we may not be able to increase our revenue enough to offset our operating expenses. If we are forced to reduce our expenses, our growth strategy could be compromised. We may incur significant losses in the future for a number of reasons, including unforeseen expenses, difficulties, complications, delays and other unknown events. As a result, we may be unable to achieve and maintain profitability, and the value of our company and our common stock could decline significantly.

***Our financial performance depends heavily on our ability to recruit qualified potential students for our offerings, and our ability to do so may be affected by circumstances beyond our control.***

Building awareness of our offerings is critical to our ability to recruit prospective students for our university clients' offerings and generate revenue. A substantial portion of our expenses is attributable to marketing and sales efforts dedicated to attracting potential students to our offerings. Because we generate revenue based on a portion of the tuition and fees that students pay, it is critical to our success that we identify qualified prospective students for our offerings in a cost-effective manner, and that enrolled students remain active in our offerings until graduation or completion.

We have experienced, and may in the future experience, fluctuations in our student enrollments based on a variety of factors. For example, student enrollments have declined, and may decline in the future, due to our university clients changing their admissions standards. In addition, beginning in March 2020, we experienced an increase in student enrollments in our offerings as a result of the COVID-19 pandemic. We are unable to predict the impact of the COVID-19 pandemic on student enrollments in the future, and in particular, we do not know if student enrollments will return to pre-pandemic levels as the COVID-19 pandemic tapers.

The following factors, many of which are largely outside of our control, may prevent us from successfully driving and maintaining student enrollment in our offerings in a cost-effective manner or at all, which would adversely affect our revenue and ability to achieve profitability:

- ***Negative perceptions about online learning programs.*** Online offerings that we or our competitors provide may not be successful or operate efficiently, and new entrants to the market also may not perform well. Such underperformance could create the perception that online offerings in general are not an effective way to educate students, whether or not our offerings achieve satisfactory performance.
- ***Unsuccessful marketing efforts.*** We invest substantial resources in developing and implementing data-driven marketing strategies that focus on identifying the right potential student at the right time. These marketing efforts make substantial use of search engine optimization, paid search, social media and custom website development and deployment and we rely on a small number of internet search engines and marketing partners. The effectiveness of our marketing efforts has varied over time and from offering to offering based on economic conditions, competition, offerings type, university client reputation and other factors.
- ***Damage to university client reputation.*** Because we use a university client's brand in connection with our marketing efforts for their offerings, our university clients' reputations are critical to our ability to enroll students. Many factors affecting our university clients' reputations are beyond our control and can change over time, including their academic performance, ranking among nonprofit educational institutions and university leadership positions.

- *Lack of interest in an offering.* We may encounter difficulties attracting qualified students for offerings that are not highly desired or that are relatively new within their fields. Macroeconomic conditions beyond our control may diminish interest in employment in a field, which could contribute to a lack of interest in offerings related to that field.
- *Reduced support from our university clients.* Our ability to grow our revenue from a particular offering depends on the growth of enrollment in that offering. Our university clients could limit enrollment in their offerings, cease providing the offerings altogether or significantly curtail or inhibit our ability to promote their offerings, any of which would negatively impact our revenue.
- *Our lack of control over our university clients' admissions standards and admissions decisions for degree programs.* Even if we identify prospective students for a degree program, there is no guarantee that students will be admitted to that program. In the Degree Program Segment, our university clients retain complete discretion over setting admissions standards and making admissions decisions, and university clients may change admissions standards or inconsistently apply admissions standards.
- *Inability of students to secure funding.* Like on-campus college and university students, many of the students in our university clients' offerings, in particular degree programs, rely on the availability of third-party financing to pay for tuition and other costs of their educations. This may include federal or private student loans, scholarships and grants, or benefits or reimbursement provided by an employer. Any developments that reduce the availability or increase the cost of financial aid for higher education generally, or for our university clients' offerings, could impair students' abilities to meet their financial obligations.
- *General economic conditions.* Student enrollment in our offerings may be affected by changes in global economic conditions, including changes caused by the COVID-19 pandemic. An improvement in economic conditions and, in particular, an improvement in the economic conditions in the U.S. and the U.S. unemployment rate, may reduce demand among potential students for educational services, as they may find adequate employment without additional education. Conversely, a worsening of economic and employment conditions may reduce the willingness of employers to sponsor educational opportunities for their employees or discourage existing or potential students from pursuing additional education due to a perception that there are insufficient job opportunities, increased economic uncertainty or other factors, any of which could adversely impact our ability to attract qualified students to our offerings.

***Our business depends heavily on the adoption by colleges and universities of online delivery of their educational offerings. If we fail to attract new university clients, or if new leadership at existing university clients does not have an interest in continuing or expanding online delivery of their educational offerings, our revenue growth and profitability may suffer.***

The success of our business depends in large part on our ability to enter into agreements with additional nonprofit colleges and universities to provide their offerings online. In particular, to engage new university clients, we need to convince potential university clients, many of which have been educating students only in on-campus programs for hundreds of years, to invest significant time and resources to introduce a new teaching modality. The delivery of online education at leading nonprofit colleges and universities is evolving, but many administrators and faculty members continue to have concern regarding the perceived loss of control over the education process that might result from offering content online, as well as skepticism regarding the ability of colleges and universities to provide high-quality education online that maintains the standards they set for their on-campus programs. It may be difficult to overcome this resistance, and online programs of the kind we develop with our university clients may not achieve significant market acceptance. In addition, our university clients have regular turnover in their leadership positions, and there is no guarantee that any new leader will have an interest in continuing or expanding online delivery of the university's educational offerings. If new leaders at our university clients do not embrace online delivery of educational offerings, we may not be able to add additional offerings with the university client and the university client may attempt to terminate or may not renew their relationship with us.

***The market for our offerings may be limited based on the types of nonprofit colleges and universities we target and due to exclusivity provisions in certain of our contracts with university clients. We have agreed to incur, and we may incur in the future, costs to terminate some or all of the exclusivity obligations in certain of our university client contracts.***

Certain of our contracts with our university clients limit our ability to enable competitive offerings with other schools. In our Degree Program Segment, we have determined that enabling some of these contractually prohibited competitive programs may be part of our business strategy. We have in the past, and may in the future, agree with certain university clients to do some or all of the following to reduce or eliminate certain exclusivity obligations: make fixed and contingent cash payments over time, reduce our revenue share over time, and/or make minimum investments in marketing under certain conditions.

In addition, in order to maintain good relations with our university clients, we may decide not to approach certain institutions that our university clients regard as their direct competitors to offer similar programs or courses, even if we are

allowed to do so under our contracts. If we need to incur contingent costs in connection with enabling competitive offerings or if we determine not to approach certain institutions, our ability to grow our business and achieve profitability would be impaired.

***Attracting new university clients for the launch of new offerings is complex and time-consuming. If we pursue unsuccessful opportunities, we may forgo more profitable opportunities and our operating results and growth would be harmed.***

The process of identifying new offerings at nonprofit colleges and universities, and then negotiating contracts with potential university clients, is complex and time-consuming. Because of the initial reluctance on the part of some nonprofit colleges and universities to embrace online delivery of their education offerings and the complicated approval process within universities, our sales process to attract and engage a new university client can be lengthy.

The sales cycle for a new university client often spans one year or longer. In addition, our sales cycle can vary substantially because of a number of factors, including the university client's approval processes or disagreements over the terms of our offerings. We spend substantial time and management resources on these sales efforts without any assurance that our efforts will result in the launch of a new offering. If we invest substantial resources pursuing unsuccessful opportunities, we may forgo other more profitable university client relationships, which would harm our operating results and growth.

***To launch a new degree program, we must incur significant expense in technology and content development, as well as in marketing and sales to identify and attract prospective students, and it may be several years, if ever, before we generate revenue from a new program sufficient to recover our costs.***

To launch a new degree program, we must integrate components of our platform with the various student information and other operating systems our university clients use to manage functions within their institutions. In addition, our content development staff must work closely with the university client's faculty members to produce engaging online coursework and content, and we must commence student acquisition activities. This process is time-consuming and costly and, under our agreements with our university clients, we are primarily responsible for the significant costs of this effort, even before we generate any revenue and there is no guarantee we will ever recoup these costs.

In exchange for the upfront investments we make in our university clients' degree programs, our university client agreements provide that we receive a fixed percentage of the tuition that the university clients receive from the students enrolled in their degree programs. We only begin to recover these upfront costs once students are enrolled and our university clients begin billing students for tuition and fees. The time that it takes for us to recover our investment in a new degree program depends on a variety of factors, primarily our content development costs, student acquisition costs, the rate of growth in student enrollment in the program, and the tuition of the program. We estimate that, on average, it takes approximately four to five years after engagement with a university client to fully recover our investment in that university client's new degree program. Because of the lengthy period required to recoup our investment in a new degree program, unexpected developments beyond our control could occur that result in the university client ceasing or significantly curtailing a degree program before we are able to fully recoup our investment. As a result, we may ultimately be unable to recover the full investment that we make in a new degree program or achieve our expected level of profitability for the degree program.

***If new offerings do not scale efficiently and in the time frames we expect, our reputation and our revenue will suffer.***

Our continued growth and profitability depends on our and our university clients' ability to successfully scale newly launched offerings. Our ability to scale new offerings in the time frame we expect has varied over time and from offering to offering. If we are not successful in recruiting potential students for our offerings, it would adversely impact our ability to generate revenue, and our university clients and the students in their offerings could lose confidence in the knowledge and capability of our employees. If we cannot quickly and efficiently scale our technology to handle growing student enrollment and new offerings, our university clients' and their students' experiences may suffer, which could damage our reputation among colleges and universities and their faculty and students and impact our ability to acquire new university clients.

In addition, in our Degree Program Segment, if our university clients cannot quickly develop the infrastructure and hire sufficient faculty and administrators to handle growing student enrollments, our university clients' and their students' experiences with our platform may suffer, which could damage our reputation among colleges and universities and their faculty and students.

Our ability to efficiently scale new offerings will depend on a number of factors, including our ability to:

- satisfy existing students in, and attract and enroll new students for, our offerings;
- assist our university clients in recruiting qualified faculty to support their expanding enrollments;

- assist our university clients in developing and producing an increased volume of course content;
- successfully introduce new features and enhancements and maintain a high level of functionality in our platform; and
- deliver high-quality support to our university clients and their faculty and students.

If student enrollment in our offerings does not increase, if we are unable to launch new offerings in a cost-effective manner or if we are otherwise unable to manage new offerings effectively, our ability to grow our business and achieve profitability would be impaired, and the quality of our platform and the satisfaction of our university clients and their students could suffer.

***Our financial performance depends heavily on student retention within our offerings, and factors influencing student retention may be out of our control.***

Once a student is enrolled in an offering, we and our university client must retain the student over the life of the offering to generate ongoing revenue. Our strategy involves offering high-quality support to students enrolled in these offerings to support their retention. If we are unable to help students quickly resolve any educational, technological or logistical issues they encounter, otherwise provide effective ongoing support to students or deliver high-quality, engaging educational content, students may withdraw from the offering, which would negatively impact our revenue.

In addition, student retention could be compromised by the following factors, many of which are largely outside of our control:

- *Lack of support from faculty members in our university clients' degree programs.* It takes a significant time commitment and dedication from our university clients' faculty members to work with us to develop course content for their degree programs and courses designed for an online learning environment. Our university clients' faculty may be unfamiliar with the development and production process, may not understand the time commitment involved, or may otherwise be resistant to changing the ways in which they present the same content in an on-campus class. Our ability to maintain high student retention will depend in part on our ability to convince our university clients' faculty of the value in the time and effort they will spend developing the course content. Lack of support from faculty could cause the quality of our degree programs to decline, which could contribute to decreased student satisfaction and retention in our Degree Program Segment.
- *Student dissatisfaction.* Enrolled students may drop out of our offerings based on their individual perceptions of the value they are getting from the offering. For example, we may face retention challenges as a result of students' dissatisfaction with our university clients' faculty, changing views of the value of our offerings and perceptions of employment prospects following completion of the offering.
- *Personal factors.* Personal factors, such as ability to continue to pay tuition, ability to meet the rigorous demands of the offering, and lack of time to continue classes, all of which are generally beyond our control, may impact a student's willingness and ability to stay enrolled in an offering.

If student retention is compromised by any of these factors, it could significantly reduce the revenue that we generate from our offerings, which would negatively impact our return on investment for the particular offering, and could compromise our ability to grow our business and achieve profitability.

***A significant portion of our revenue is currently attributable to offerings with five university clients. The loss of, or a decline in enrollment in, these offerings could significantly reduce our revenue.***

We expect that our offerings with our five largest university clients will continue to account for a large portion of our consolidated revenue until our other university client offerings become more mature and achieve significantly higher enrollment levels. Any decline in reputation, any increase in tuition, or any changes in policies or leadership at these university clients, could adversely affect the number of students that enroll in these offerings. These university clients are not required to expand student enrollment in these online offerings, and, upon the expiration of their contracts, they are not required to continue using us as the provider of these offerings. If certain of these offerings were to materially underperform for any reason or if any of these university clients terminated or did not renew their relationships with us, it would significantly reduce our revenue.

***The loss, or material underperformance, of any one of our offerings could harm our reputation, which could in turn affect our future revenue growth.***

We rely on our reputation for delivering high-quality online degree programs and alternative credential offerings and recommendations from existing university clients to attract potential new university clients. Therefore, the loss of any single offering, or the failure of any university client to renew its agreement with us upon expiration, could harm our reputation and impair our ability to pursue our growth strategy and ultimately to become profitable.

**Risks Related to Our Operations and Our Growth Strategy**

***Our student acquisition efforts depend in large part upon a limited number of third-party advertising platforms.***

Our marketing efforts make substantial use of search engine optimization, paid search, social media and custom website development and deployment and we rely on advertising through a limited number of third-party advertising platforms such as Google, Facebook and LinkedIn, to direct traffic to, and recruit new students for, our offerings. Changes in the way these platforms operate — whether due to changes in law, changes in the practices of mobile operating system providers, or otherwise — or changes in their advertising prices, data use practices, or other terms have impacted the cost and efficiency of our student acquisition efforts in the past and could in the future make marketing our offerings more expensive, or more difficult. In addition, the elimination of a particular medium or platform on which we advertise, could limit our ability to direct traffic to our offerings and recruit new students on a cost-effective basis, any of which could have a material adverse effect on our business, results of operations and financial condition.

***If internet search engines' methodologies are modified, our search engine optimization capability in connection with our student recruiting efforts could be harmed.***

Our search engine optimization capability in connection with our student acquisition efforts substantially depends on various internet search engines, such as Google, to direct a significant amount of traffic to websites related to our offerings. Our ability to influence the number of visitors directed to these websites through search engines is not entirely within our control. For example, search engines frequently revise their algorithms in an attempt to optimize their search result listings. We have experienced fluctuations in our search result listings and website traffic based on changes to search engine algorithms, and future algorithm changes by Google or any other search engines could cause the websites for our offerings to receive less favorable placements, which could reduce the number of prospective students who visit these websites and impact our ability to effectively utilize search engine optimization as part of our student acquisition strategies in the long-term. Further, if our competitors' search engine optimization efforts are more successful than ours, fewer prospective students may be directed to our websites.

In October 2020, the U.S. Department of Justice brought an antitrust lawsuit against Google claiming that Google improperly uses its monopoly over internet search to impede competition and harm consumers. We cannot predict the impact that this lawsuit may have on advertising costs or Google's future operations. Any reduction in the number of prospective students directed to our websites could negatively affect our ability to generate prospective students, and ultimately revenue, through our student acquisition activities.

***If our security measures or those of our third-party service providers are breached or fail and result in unauthorized disclosure of data, we could lose university clients, fail to attract new university clients and be exposed to protracted and costly litigation.***

Our platform and computer systems store and transmit proprietary and confidential university, student, and company information, which may include personal information of students, prospective students, faculty and employees, that are subject to stringent legal and regulatory obligations. As a technology company, we face an increasing number of threats to our platform and computer systems, including unauthorized activity and access, system viruses, worms, malicious code, denial of service attacks, phishing attacks, and organized cyberattacks, any of which could breach our security and disrupt our platform and our university clients' offerings. The techniques used by computer hackers and cyber criminals to obtain unauthorized access to data or to sabotage computer systems change frequently and generally are not detected until after an incident has occurred. We have implemented certain safeguards and processes to thwart hackers and protect the data in our platform and computer systems. However, our efforts to maintain the security and integrity of our platform, and the cybersecurity measures taken by our third-party service providers may be unable to anticipate, detect or prevent all attempts to compromise our systems. If our, or our third-party service providers', security measures are breached or fail as a result of third-party action, employee error, malfeasance or otherwise, it could result in the loss or misuse of proprietary and confidential university, student (including prospective student), employee and company information, which could subject us to liability, or interrupt our business, potentially over an extended period of time. Any or all of these issues could harm our reputation, adversely affect our ability to attract new university clients and students, cause existing university clients to scale back their offerings or elect not to renew

their agreements, cause prospective students not to enroll or existing students to not stay enrolled in our offerings, or subject us to third-party lawsuits, regulatory fines or other action or liability. Further, any reputational damage resulting from breach of our security measures could create distrust of our company by prospective university clients or students. In addition, our insurance coverage may not be adequate to cover losses associated with such events, and in any case, such insurance may not cover all of the types of costs, expenses and losses we could incur to respond to and remediate a security breach. As a result, we may be required to expend significant additional resources to protect against the threat of these disruptions and security breaches or to alleviate problems caused by such disruptions or breaches.

Many governments have enacted laws that require companies and institutions to notify impacted individuals of data breach incidents, usually in writing. Under the terms of our contracts with our university clients, we would be responsible for the costs of investigating and disclosing data breaches to the university clients' students. In addition to costs associated with investigating and fully disclosing a data breach, we could be subject to substantial monetary fines or private claims by affected parties and our reputation would likely be harmed.

***Disruption to or failures of our platform could reduce university client and student satisfaction with our offerings and could harm our reputation.***

The performance and reliability of our platform is critical to our operations, reputation and ability to attract new university clients, as well as our student acquisition and retention efforts. Our university clients rely on our platform to provide their offerings online, and students access our platform on a frequent basis as an important part of their educational experience. Because our platform is complex and incorporates a variety of hardware and proprietary and third-party software, our platform may have errors or defects that could result in unanticipated downtime for our university clients and students. Web- and mobile- based applications frequently contain undetected errors when first introduced or when new versions or enhancements are released, and we have from time to time found errors and defects in our technology and new errors and defects may be detected in the future. In addition, we have experienced and may in the future experience temporary system interruptions to our platform for a variety of reasons, including network failures, power failures, problems with third-party firmware and software updates, as well as an overwhelming numbers of users trying to access our platform. Any errors, defects, disruptions or other performance problems with our platform could damage our or our university clients' reputations, decrease student satisfaction and retention and impact our ability to attract new students and university clients. If any of these problems occur, our university clients could attempt to terminate their agreements with us, or make indemnification or other claims against us. In addition, sustained or recurring disruptions in our platform could adversely affect our and our university clients' compliance with applicable regulations and accrediting body standards.

***We rely upon Amazon Web Services to host certain aspects of our platform and any disruption of or interference with our use of Amazon Web Services could impair our ability to deliver our platform to university clients and students, resulting in university client and student dissatisfaction, damage to our reputation, and harm to our business.***

Our online learning platform and certain of our other technology and services are hosted on data centers provided by Amazon Web Services, or AWS. Given this, along with the fact that we cannot easily switch our AWS operations to another cloud provider, any disruption of, or interference with our use of, AWS would impact our operations and our business would be adversely impacted. AWS may terminate its agreement with us upon 30 days' notice. Additionally, AWS has the right to terminate the agreement immediately with notice to us in certain scenarios, such as if AWS believes providing the services could create a substantial economic or technical burden or material security risk for AWS, or in order to comply with the law or requests of governmental entities. If any of our arrangements with AWS is terminated, we could experience interruptions in our platform as well as delays and additional expenses in arranging new facilities and services.

Our operations depend, in part, on AWS's abilities to protect their data center hosting facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. The occurrence of spikes in usage volume, a natural disaster, an act of terrorism, vandalism or sabotage, a decision to close a facility without adequate notice, or other unanticipated problems at a facility could result in lengthy interruptions in the availability of our platform, which would result in harm to our business. In the event of a system failure, the backup systems and disaster recovery services provided by AWS may be insufficient or fail. Also, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. These factors in turn could further reduce our revenue, subject us to liability or cause our university clients to fail to renew or terminate their contracts, any of which could harm our business.

***Our internal information technology systems are critical to our business. System integration and implementation issues could disrupt our operations, which could have a material adverse impact on our business or result in significant deficiencies or material weaknesses in our internal controls.***

We rely on the efficient and uninterrupted operation of complex information technology systems, including systems for billing, human resources, enterprise resource planning, and customer relationship management. As our business has grown

in size and complexity, the growth has placed, and will continue to place, significant demands on our internal information technology systems. To effectively manage this growth, we must commit significant financial resources and personnel to maintain and enhance existing systems and develop or acquire new systems to keep pace with continuing changes in our business and information-processing technology as well as evolving industry, regulatory, and accounting standards. If the information we rely upon to run our businesses is determined to be inaccurate or unreliable, or if we fail to properly maintain or enhance our internal information technology systems, we could have operational disruptions, significant deficiencies, or material weaknesses in our internal controls, incur increased operating and administrative expenses, lose our ability to produce timely and accurate financial reports, or suffer other adverse consequences

***If we fail to manage our growth effectively, the success of our business model will be compromised.***

We have experienced rapid growth in a relatively short period of time, which has placed, and will continue to place, a significant strain on our administrative and operational infrastructure and may require us to expand personnel on certain teams, as well as our facilities and infrastructure. We will also be required to refine our operational, financial and management controls and reporting systems and procedures. If we fail to manage the growth of our business efficiently, our costs and expenses may increase more than we plan and we may not successfully expand our university client base, enhance our platform, develop new offerings with new and existing university clients, attract a sufficient number of qualified students in a cost-effective manner, satisfy the requirements of our existing university clients, respond to competitive challenges or otherwise execute our business plan. Accordingly, our historical revenue growth rate may not continue in the future.

Our ability to manage any significant growth of our business effectively will depend on a number of factors, including our ability to:

- effectively recruit, integrate, train and motivate any new employees, while retaining existing employees;
- maintain the beneficial aspects of our corporate culture and effectively execute our business plan;
- implement systems enhancements and continue to improve our operational, financial and management controls;
- protect and further develop our strategic assets, including our intellectual property rights; and
- make sound business decisions in light of the scrutiny associated with operating as a public company.

These activities will require significant capital expenditures and place significant demands on our management and our operational and financial infrastructure.

We may not be able to effectively manage any future growth in a cost-effective or timely manner, or at all, which could negatively affect the quality of our platform, our reputation, results of operations and overall business.

***We may expand by acquiring or investing in other companies or technologies, which may divert our management's attention, result in dilution to our shareholders and consume resources that are necessary to sustain our business.***

We have in the past and may in the future acquire complementary products, services, technologies or businesses. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to complete these transactions may be subject to conditions or approvals that are beyond our control. In addition, we may not be able to identify desirable acquisition targets, may incorrectly estimate the value of an acquisition target or may not be successful in entering into an agreement with any particular target. Consequently, these transactions, even if undertaken and announced, may not close.

An acquisition, investment, or new business relationship may result in unforeseen operating difficulties and expenditures. The integration process could also result in material challenges, including, without limitation:

- diversion of management's attention from ongoing business concerns and performance;
- managing a larger combined company;
- maintaining employee morale and retaining key management and other employees;
- retaining existing business and operational relationships and attracting new business and operational relationships;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations and inconsistencies in standards, controls, procedures and policies;
- coordinating geographically separate organizations;

- unanticipated issues in integrating information technology, communications and other systems;
- undetected errors or unauthorized use of a third party's code in the products of the acquired companies or in the technology acquired;
- breaches of our cybersecurity measures if there are cybersecurity issues we are not aware of at the time of the acquisition;
- entry into highly competitive markets in which we have no or limited direct prior experience and where competitors have stronger market positions;
- the inability to recognize acquired deferred revenue in accordance with our revenue recognition policies; and
- exposure to unknown liabilities, including claims and disputes by third parties against the companies we acquire.

Many of these factors will be outside of the combined company's control and any one of them could result in delays, increased costs, decreased revenue and diversion of management's time and energy, which could materially affect our financial position, results of operations and cash flows.

If we experience difficulties with the integration process following an acquisition, the anticipated benefits of the acquisition may not be realized fully or at all, or may take longer to realize than expected. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized.

In addition, in connection with an acquisition, investment or new business relationship we may:

- issue additional equity securities that would dilute current shareholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay or that may place burdensome restrictions on our operations;
- incur large charges or substantial liabilities; or
- become subject to adverse tax consequences.

Any of these outcomes could harm our business and operating results. In addition, a significant portion of the purchase price of companies we acquire may be allocated to goodwill and other intangible assets, which must be assessed for impairment at least annually. If our acquisitions do not ultimately yield expected returns, we may be required to make changes to our operating results based on our impairment assessment process. For example, an interim goodwill impairment test performed in 2019 indicated that the carrying value of Trilogy exceeded its fair value. As a result, we recorded an impairment charge of \$70.4 million on our consolidated statements of operations and comprehensive loss for the year ended December 31, 2019.

***We face competition from established and emerging companies, which could divert university clients or students to our competitors, result in pricing pressure and significantly reduce our revenue.***

We expect that the online learning market will continue to expand and that the number of degree and non-degree offerings available online will proliferate.

Particularly in the Degree Program Segment, the number of new competitive entrants into the online learning market has expanded rapidly in recent years. As the number of online degree programs expands, we face increasing competition to enroll students in our offerings. This expansion has also resulted in an increase in the number of regional online degree program offerings for potential students. In addition to making enrollment decisions based on factors such as program quality and university brand strength, we have observed potential students giving preference to universities located in their region, which has further impacted the competitive landscape in our Degree Program Segment.

In our Alternative Credential Segment, which has a lower barrier to entry, we are facing increasing competition from massive open online course providers, which have evolved from providing their traditional open online courses to providing short course certificates, nano-degrees and similar non-degree alternatives, as well as from companies that provide corporate training programs and online courses taught outside the university environment (e.g., by experts in various fields). Many of these competitors can leverage the strength of their consumer facing brands to attract students to their offerings at a low cost.

We expect existing competitors and new entrants to the online learning market to revise and improve their business models constantly in response to challenges from competing businesses, including ours. If these or other market participants introduce new or improved delivery of online education and technology-enabled services that we cannot match or exceed in a timely or cost-effective manner, our ability to grow our revenue and achieve profitability could be compromised.

Some of our competitors and potential competitors have significantly greater resources than we do. Increased competition may result in pricing pressure for us in terms of the percentage of tuition and fees we are able to negotiate to receive. The competitive landscape may also result in longer and more complex sales cycles with a prospective university client or a decrease in our market share among select nonprofit colleges and universities seeking to offer online educational offerings, any of which could negatively affect our revenue and future operating results and our ability to grow our business.

A number of competitive factors could cause us to lose potential university client and student opportunities or force us to offer our platform on less favorable economic terms, including:

- competitors may develop service offerings that our potential university clients or students find to be more compelling than ours;
- competitors may adopt more aggressive pricing policies and offer more attractive sales terms, adapt more quickly to new technologies and changes in university client and student requirements, and devote greater resources to the acquisition of qualified students than we can;
- current and potential competitors may establish cooperative relationships among themselves or with third parties to enhance their products and expand their markets, and our industry is likely to see an increasing number of new entrants and increased consolidation. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share; and
- colleges and universities may choose to continue using or to develop their own online learning solutions in-house, rather than pay for our platform.

We may not be able to compete successfully against current and future competitors. In addition, competition may intensify as our competitors raise additional capital and as established companies in other market segments or geographic markets expand into our market segments or geographic markets. If we cannot compete successfully against our competitors, our ability to grow our business and achieve profitability could be impaired.

***If for-profit postsecondary institutions, which offer online education alternatives different from ours, or online program management providers perform poorly or continue to attract negative publicity, it could tarnish the reputation of online education as a whole, which could impair our ability to grow our business.***

For-profit postsecondary institutions, many of which provide course offerings predominantly online, remain under intense regulatory and other scrutiny, which has led to media attention that has portrayed that sector in an unflattering light. Some for-profit online school operators have been subject to governmental investigations alleging the misuse of public funds, financial irregularities, exaggerated promises to students, and failure to achieve positive outcomes for students, including the inability to obtain employment in their fields. These allegations have attracted significant adverse media coverage and have prompted ongoing legislative hearings and actions as well as regulatory responses at both the state and federal level. These investigations have focused on specific companies and individuals, and the entire industry in the case of marketing and recruiting practices by for-profit higher education companies. Even though we do not market our platform to for-profit institutions, and have a different business model from them, this negative media attention may nevertheless foster skepticism about online higher education generally and our company specifically. Allegations of abuse of federal financial aid funds and other statutory violations against for-profit higher education companies, even if unfounded, could negatively impact our opportunity to succeed due to increased regulation or decreased demand for our offerings. Our company has been the subject of articles and inquiries by critics of for-profit education models generally, and such critics have advocated for changes in law and regulation at the state and federal level that would be adverse to our business model and sought information regarding the business practices of online program management companies generally. Such critics have sometimes compared our business to that of entities that were formally for-profit institutions and that subsequently converted to non-profit status, and the conflation of these newer business models with our own may increase scrutiny of our business by Congress or regulatory agencies. Any of these factors could negatively impact our ability to increase our university client base and grow our offerings and our revenue, which would make it difficult to continue to grow our business.

***If we do not retain our senior management team and key employees, we may not be able to sustain our growth or achieve our business objectives.***

Our future success is substantially dependent on the continued service of our senior management team. Our senior management team is heavily involved in the university client identification and sales process, and their expertise is critical in navigating the complex approval processes of large nonprofit colleges and universities. We do not maintain key-person insurance on any of our employees, including our senior management team. The loss of the services of any individual on our senior management team, or failure to find a suitable successor, could make it more difficult to successfully operate our business and achieve our business goals.

Our future success also depends heavily on the retention of our marketing and sales, technology and content development and support teams to continue to attract and retain qualified students, thereby generating revenue for us. In particular, our highly-skilled technology and content development employees provide the technical expertise underlying our bundled technology-enabled services that support our university clients' offerings and the students enrolled in these offerings. Competition for these employees is intense. As a result, we may be unable to attract or retain these key personnel that are critical to our success, resulting in harm to our relationships with university clients, loss of expertise or know-how and unanticipated recruitment and training costs.

In addition, as a result of business acquisitions, current and prospective employees of 2U and any acquired company may experience uncertainty about their future roles following the acquisition. If our employees or the employees of any acquired company depart because of issues relating to uncertainty or perceived difficulties of integration, our ability to realize the anticipated benefits of an acquisition could be adversely impacted.

***We have incurred substantial transaction and integration expenses related to the acquisition of Trilogy and expect to incur additional integration expenses related to the Trilogy acquisitions that could negatively impact our financial results and cash flows.***

We have incurred, and expect to continue to incur, a number of non-recurring costs associated with the Trilogy acquisition and associated integration activities. For example, we expect to incur costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the integration process. Any expected efficiencies to offset these costs may not be achieved in the near term, or at all.

***We maintain offices outside of the United States, have international residents that apply to and enroll in our offerings and plan to expand our international business, which exposes us to risks inherent in international operations.***

Since 2017, we have significantly increased our international operations, including the number of international applicants and students in our offerings. One element of our growth strategy is to continue expanding our international operations and to establish a worldwide client base. Our current international operations and future initiatives will involve a variety of risks that could constrain our operations and compromise our growth prospects, including:

- the need to localize and adapt online offerings for specific countries, including translation into foreign languages and ensuring that these offerings enable our university clients to comply with local education laws and regulations;
- the burden of complying with a wide variety of laws, including those relating to labor and employment matters, education, data protection and privacy;
- difficulties in staffing and managing foreign operations, including different pricing environments, longer sales cycles, longer accounts receivable payment cycles and collections issues;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- new and different sources of competition, and practices which may favor local competitors;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including employment, tax, education, privacy and data protection, and anti-bribery laws and regulations, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act;

- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- adverse tax consequences, including liabilities for indirect taxes or the potential for required withholding taxes for our overseas employees;
- terrorist attacks, public health crises, acts of violence or war and adverse environmental conditions;
- a country's response to the COVID-19 pandemic or economic and political measures taken to contain the spread of COVID-19;
- unstable regional, economic or political conditions; and
- fluctuations in currency exchange rates or restrictions on foreign currency, and the resulting effect on our revenue and expenses.

Our expansion efforts may not be successful. Our experience with attracting university clients and students in the U.S. may not be relevant to our ability to attract clients and students in other markets. If we invest substantial time and resources to expand our international operations and are unable to attract university clients and students successfully and in a timely manner, our business and operating results will be harmed.

***Our operations in South Africa expose us to risks that could have an adverse effect on our business.***

We have a significant employee base in South Africa. We may incur costs complying with labor laws, rules and regulations in South Africa, including laws that regulate work time, provide for mandatory compensation in the event of termination of employment for operational reasons, and impose monetary penalties for non-compliance with administrative and reporting requirements in respect of affirmative action policies. Our reliance on a workforce in South Africa also exposes us to disruptions in the business, political, and economic environment in that region, as well as natural disasters, public health crises and other environmental conditions. Maintenance of a stable political environment is important to our operations in South Africa, and terrorist attacks and acts of violence or war may directly affect our physical facilities and workforce or contribute to general instability. Our operations in South Africa require us to comply with complex local laws and regulatory requirements and expose us to foreign currency exchange rate risk. The economy of South Africa in the past has been, and in the future may continue to be, characterized by rates of inflation and interest rates that are substantially higher than those prevailing in the United States, which could increase our South-African-based costs and decrease our operating margins. Our operations in South Africa may also subject us to trade restrictions, exchange control limitations, reduced or inadequate protection for intellectual property rights, security breaches, and other factors that may adversely affect our business. Negative developments in any of these areas could increase our costs of operations or otherwise harm our business.

***We engage some individuals classified as independent contractors, not employees, and if federal or state law mandates that they be classified as employees, our business would be adversely impacted.***

We engage independent contractors and are subject to the Internal Revenue Service regulations and applicable state law guidelines regarding independent contractor classification. These regulations and guidelines are subject to judicial and agency interpretation, and it could be determined that our current or former independent contractor classifications are inapplicable. Further, if legal standards for classification of independent contractors change, it may be necessary to modify our compensation structure for these personnel, including by paying additional compensation or reimbursing expenses. In addition, if our independent contractors are determined to have been misclassified as independent contractors, we would incur additional exposure under federal and state law, workers' compensation, unemployment benefits, labor, employment and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings. Any of these outcomes could result in substantial costs to us, could significantly impair our financial condition and our ability to conduct our business as we choose, and could damage our reputation and our ability to attract and retain other personnel.

***We rely on certain third-party providers of software and services integral to the operations of our business.***

We rely on software that we license from third parties and services provided by third parties to offer certain components of our technology and services. In addition, we may need to obtain future licenses or services from third parties necessary for the continued provision of our technology and services, which might not be available to us on acceptable terms, or at all. If our agreements with third-party software or services vendors are not renewed or the third-party software or services become obsolete, fail to function properly, are defective or otherwise fail to provide quality service or address our or our university clients' needs, there is no assurance that we would be able to replace the functionality provided by the third-party

software or service provider with software or services from alternative providers. Any of these factors could have a material adverse effect on our financial condition, cash flows or results of operations.

### **Risks Related to Our Indebtedness and Capital Structure**

***Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk and prevent us from meeting our obligations with respect to our indebtedness.***

As of December 31, 2020, we had approximately \$384.8 million of indebtedness on a consolidated basis. See Note 9 in the “Notes to Consolidated Financial Statements” included in Part II, Item 8 of this Annual Report on Form 10-K.

Our substantial indebtedness could have important consequences. For example, it could:

- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, investments and other general corporate purposes;
- require a substantial portion of our cash from operating activities to be dedicated to debt service payments and reduce the amount of cash available for working capital, capital expenditures, investments or acquisitions and other general corporate purposes;
- place us at a competitive disadvantage compared to certain of our competitors who have less debt;
- hinder our ability to adjust rapidly to changing market conditions;
- limit our ability to secure adequate bank financing in the future with reasonable terms and conditions; and
- increase our vulnerability to, and limit our flexibility in planning for or reacting to, a potential downturn in general economic conditions or in one or more of our businesses.

The Indenture and the Credit Agreement contain, and the agreements governing indebtedness we may incur in the future may contain, affirmative and negative covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

In addition, any variable rate indebtedness may use LIBOR as a benchmark for establishing the rate. On July 27, 2017, the authority that regulates LIBOR announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated with a broad set of short-term repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere.

***Despite current indebtedness levels and existing restrictive covenants, we may still incur additional indebtedness that could further exacerbate the risks associated with our substantial financial leverage.***

We may incur significant additional indebtedness in the future under the agreements governing our indebtedness. We will not be restricted under the terms of the Indenture from incurring additional debt. Although the Credit Agreement contains, and any future indebtedness may contain, restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of thresholds, qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. Additionally, these restrictions could permit us to incur obligations that, although preferential to our common stock in terms of payment, do not constitute indebtedness.

Furthermore, any future indebtedness may prohibit or otherwise restrict us from making any cash payments on the conversion or repurchase of the Notes. Our failure to make cash payments upon the conversion or repurchase of the Notes as required under the terms of the Notes would permit holders of the Notes to accelerate our obligations under the Notes. In addition, any future indebtedness that we may incur may contain financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with such covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that indebtedness becoming immediately payable in full.

***The Credit Agreement contains financial covenants that may limit our operational flexibility.***

The Credit Agreement requires us to comply with several customary financial and other restrictive covenants, such as maintaining leverage ratios in certain situations, maintaining insurance coverage, and restricting our ability to make certain investments. We are also required to maintain minimum Liquidity (as defined in the Credit Agreement) as of the last day of each fiscal quarter through the fiscal quarter ending on December 31, 2021, which may limit our ability to engage in new lines of business, make certain investments, pay dividends, or enter into various transactions. The Credit Agreement also includes covenants that require us to (i) meet certain minimum Consolidated EBITDA (as defined in the Credit Agreement) amounts through our fiscal quarter ending on December 31, 2021, (ii) not exceed certain maximum amounts for the Consolidated Secured Leverage Ratio (as defined in the Credit Agreement) as of the last day of any period of four consecutive fiscal quarters ending after (but not including) December 31, 2021 through maturity and (iii) maintain certain minimum amounts for the Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Agreement) for any period of four consecutive fiscal quarters ending after (but not including) December 31, 2021 through maturity.

These covenants may limit the flexibility of our operations, and failure to meet any one of these financial covenants could result in a default under the Credit Agreement. If such a default were to occur, the lenders would have the right to terminate their commitments to provide loans under the Credit Agreement and declare any and all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, the lenders would have the right to proceed against the collateral in which we granted a first priority security interest to them, which consists of substantially all our assets. If the debt under the Credit Agreement were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could immediately materially and adversely affect our business, financial condition, and results of operations. See Note 9 in the “Notes to Consolidated Financial Statements” included in Part II, Item 8 of this Annual Report on Form 10-K for additional details regarding our Credit Agreement.

***To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.***

Our ability to make cash payments on and to refinance our indebtedness will depend upon our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to financial, business, legislative, regulatory and other factors beyond our control.

If we are unable to generate sufficient cash from operating activities or are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or amounts paid upon conversion of the Notes, or if we fail to comply with the various covenants in the instruments governing our indebtedness and we are unable to obtain waivers from the required lenders or noteholders, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of our indebtedness could elect to declare all the funds borrowed to be due and payable, together with accrued and unpaid interest. As a result, we could be forced into bankruptcy or liquidation.

***We may be unable to raise the funds necessary to repurchase the Notes for cash following a “fundamental change,” or to pay any cash amounts due upon conversion, and our other indebtedness may limit our ability to repurchase the Notes or pay cash upon their conversion.***

Holders of the Notes may, subject to certain exceptions, require us to repurchase their Notes following a “fundamental change” (as defined in the Indenture) at a cash repurchase price generally equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion, we will satisfy part or all of our conversion obligation in cash unless we elect to settle conversions solely in shares of our common stock. We may not have enough available cash or be able to obtain financing at the time we are required to repurchase the Notes or pay the cash amounts due upon conversion. In addition, applicable law, regulatory authorities and the agreements governing our other indebtedness may restrict our ability to repurchase the Notes or pay the cash amounts due upon conversion. Our failure to repurchase Notes or to pay the cash amounts due upon conversion when required will constitute a default under the Indenture. A default under the Indenture or the fundamental change itself could also lead to a default under agreements governing our other indebtedness, which may result in that other indebtedness becoming immediately payable in full. We may not have sufficient funds to satisfy all amounts due under the other indebtedness and the Notes.

***Conversion of the Notes may dilute the ownership interest of existing stockholders or may otherwise depress the price of our common stock.***

The conversion of some or all of the Notes may dilute the ownership interests of existing stockholders to the extent we deliver shares upon any conversion of the Notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions. The anticipated conversion of the Notes into shares of our common stock could also depress the price of our common stock.

***Provisions in the Indenture and in the Credit Agreement could delay or prevent an otherwise beneficial takeover of us.***

Certain provisions in the Notes and the Indenture could make a third-party attempt to acquire us more difficult or expensive. For example, if a takeover constitutes a “fundamental change” (as defined in the Indenture), then noteholders will have the right to require us to repurchase their Notes for cash. In addition, if a takeover constitutes a “make-whole fundamental change” (as defined in the Indenture), then we may be required to temporarily increase the conversion rate. In either case, and in other cases, our obligations under the Notes and the Indenture, as well as the Credit Agreement, under which a “change of control” is an event of default resulting in acceleration of all indebtedness thereunder, could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management, including in a transaction that noteholders or holders of our common stock may view as favorable.

***The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.***

In May 2008, the Financial Accounting Standards Board (the “FASB”) issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification Subtopic 470-20, Debt with Conversion and Other Options (“ASC 470-20”). Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheets at the issuance date, and the value attributed to the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period’s amortization of the debt discount and the instrument’s coupon interest rate, which could adversely affect our reported or future financial results or the trading price of our common stock.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares of common stock issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. For example, the FASB recently issued ASU No. 2020-06 to amend these accounting standards to eliminate the treasury stock method for convertible instruments and instead require application of the “if-converted” method. Under that method, upon adoption, diluted earnings per share would generally be calculated assuming that all the Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

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

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

The option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions from time to time (and are likely to do so following any conversion of the Notes, any repurchase of the Notes by us on any fundamental change repurchase date, any redemption date or any other date on which the Notes are retired by us, in each case, if we exercise our option to terminate the relevant portion of the capped call transactions). This activity could also cause or avoid an increase or a decrease in the market price of our common stock.

In addition, if any such capped call transactions are terminated for any reason, the option counterparties or their respective affiliates may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock.

Furthermore, the option counterparties are financial institutions, and we will be subject to the risk that any or all of them might default under the capped call transactions. Our exposure to the credit risk of the option counterparties will not be

secured by any collateral. Past global economic conditions have resulted in the actual or perceived failure or financial difficulties of a number of financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the capped call transactions with such option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

***We might not be able to utilize a portion of our net operating loss carryforwards, which could adversely affect our profitability.***

As of December 31, 2020, we had federal net operating loss carryforwards due to prior period losses, which, if not utilized, will begin to expire in 2029. Our gross state net operating loss carryforwards are equal to or less than the federal net operating loss carryforwards and expire over various periods based on individual state tax laws. These net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. Similar rules may apply under state tax laws. During the three-year period ended December 31, 2016, we determined that such an ownership change occurred. Absent a subsequent ownership change, however, all of our historical net operating losses should be available. Therefore, the occurrence of the ownership change during the three-year period ended December 31, 2016 is not expected to limit our ability to carry forward historical net operating losses before expiration. We may experience ownership changes in the future as a result of subsequent shifts in our stock ownership. If a future ownership change occurs and limits our ability to use our historical net operating loss carryforwards, it would harm our future financial statement results by increasing our future tax obligations. We also have net operating loss carryforwards in South Africa, the United Kingdom and Canada, and there is no guarantee that entities in these countries will generate enough taxable income to fully utilize them.

***We may need additional capital in the future to pursue our business objectives. Additional capital may not be available on favorable terms, or at all, which could compromise our ability to grow our business.***

We may need to raise additional funds to respond to business challenges or opportunities, accelerate our growth, develop new offerings or enhance our platform. Our continued access to sources of liquidity depends on multiple factors, including global economic conditions, the condition of global financial markets, the availability of sufficient amounts of financing and our operating performance, all of which may be impacted by the COVID-19 pandemic. If we seek to raise additional capital, it may not be available on favorable terms or may not be available at all. In addition, under our Credit Agreement, we may be restricted from using the net proceeds of financing transactions for our operating objectives. Lack of sufficient capital resources could significantly limit our ability to manage our business and to take advantage of business and strategic opportunities. Any additional capital raised through the sale of equity or debt securities with an equity component would dilute our stock ownership. If adequate additional funds are not available if and when needed, we may be required to delay, reduce the scope of, or eliminate material parts of our business strategy.

#### **Risks Related to Regulation of Our Business and That of Our University Clients**

***Our business model relies on university client institutions complying with federal and state laws and regulations.***

Higher education is heavily regulated. All of our university clients in the United States and certain university clients outside of the United States participate in Title IV federal student financial assistance programs under the HEA of 1965, as amended, or HEA, and are subject to extensive regulation by the DOE, as well as various state agencies, licensing boards and accrediting commissions. To participate in the Title IV programs, an institution must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting commission recognized by the DOE, and be certified by the DOE as an eligible institution. If a university client participating in Title IV was found to be in non-compliance with any of these laws, regulations, standards or policies, the university client could lose some or all of its access to Title IV program funds, lose the ability to offer certain programs or lose its ability to operate in certain states, any of which could cause our revenue from that university client’s program to decline.

The regulations, standards and policies applicable to our university clients change frequently and are often subject to interpretation. Changes in, or new interpretations of, applicable laws, regulations or standards could compromise our university clients’ accreditation, authorization to operate in various states, permissible activities or use of federal funds under Title IV programs. We cannot predict with certainty how the requirements applied by our university clients’ regulators will be interpreted, or whether our university clients will be able to comply with these requirements in the future.

***Our activities are subject to federal and state laws and regulations and other requirements.***

Although we are not an institution of higher education, we are required to comply with certain education laws and regulations as a result of our role as a service provider to higher education institutions, either directly or indirectly through our contractual arrangements with university clients. Failure to comply with these laws and regulations could result in breach of contract and indemnification claims and could cause damage to our reputation and impair our ability to grow our business and achieve profitability.

***Activities of the U.S. Congress or Department of Education could result in adverse legislation or regulatory action.***

The process of reauthorization of the HEA began in 2014 and is expected to continue until the HEA is updated. Congressional hearings will continue to be scheduled by the U.S. Senate Committee on Health, Education, Labor and Pensions, the U.S. House of Representatives Committee on Education and the Workforce and other Congressional committees regarding various aspects of the education industry, including accreditation matters, student debt, student recruiting, cost of tuition, distance learning, competency-based learning, student success and outcomes and other matters. Future hearings may include a discussion of the role of online program management companies.

The increased scrutiny and results-based accountability initiatives in the education sector, as well as ongoing policy differences in Congress regarding spending levels and other issues, could lead to significant changes in connection with the reauthorization of the HEA or otherwise. These changes may place new or additional regulatory burdens on postsecondary schools generally, and specific initiatives may be targeted at or have an impact upon companies like us that serve higher education. The adoption of any laws or regulations that limit our ability to provide our bundled services to our university clients could compromise our ability to drive revenue through their programs or make our platform less attractive to them. Congress could also enact laws or authorize regulations that require us to modify our practices in ways that could increase our costs, including as a result of new regulatory burdens.

In addition, regulatory activities and initiatives of the DOE may have similar consequences for our business even in the absence of Congressional action. For example, in September 2015, the DOE publicly released its College Scorecard website, a tool aimed at helping students make informed decisions about education options after high school (including 2 and 4-year degree programs, certificate programs and some degree programs). In May 2019, the DOE expanded the data available in College Scorecard and students can now view data regarding salary after completion or graduation, graduation rates, average cost, transfer rates, median debt after graduation, and earnings based on fields of study, among other data. College Scorecard data may not accurately reflect our university clients' offerings because it only includes students who are recipients of Title IV program funds and does not distinguish between a university's online and campus-based programs, however it may impact enrollment in our offerings if students have a negative impression of our university clients' offerings based on the data presented. The DOE is expected to update the data annually to demonstrate how graduates' earning prospects and debt levels progress in years following completion or graduation. We cannot predict the impact that College Scorecard or other DOE initiatives may have on enrollment in our offerings, reputation or operating results or how this tool may be changed in the future.

***Our business model, which depends on our ability to receive a share of tuition revenue as payment from our university clients, has been validated by a DOE "dear colleague" letter, but such validation is not codified by statute or regulation and may be subject to change.***

Each institution that participates in Title IV programs agrees it will not "provide any commission, bonus, or other incentive payment based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid, to any person or entity who is engaged in any student recruitment or admission activity, or in making decisions regarding the award of Title IV, HEA program funds." All of our university clients participate in Title IV Programs.

Although this rule, referred to as the incentive compensation rule, generally prohibits entities or individuals from receiving incentive-based compensation payments for the successful recruitment, admission or enrollment of students, the DOE provided guidance in 2011 permitting tuition revenue-sharing arrangements known as the "bundled services rule." Our current business model relies in part on the bundled services rule to enter into tuition revenue-sharing agreements with our university clients.

Because the bundled services rule was promulgated in the form of agency guidance issued by the DOE in the form of a "dear colleague" letter, or DCL, and is not codified by statute or regulation, there is risk that the rule could be altered or removed without customary administrative procedural requirements, such as adequate prior notice, that accompany formal agency rulemaking. Although the DCL represents the current policy of the DOE, the bundled services rule could be reviewed, altered or vacated in the future. In addition, the legal weight the DCL would carry in litigation over the propriety of any specific compensation arrangements under the HEA or the incentive compensation rule is uncertain. We can offer no assurances as to how the DCL would be interpreted by a court. The revision, removal or invalidation of the bundled services rule by Congress,

the DOE or a court, whether in an action involving our company or our university clients, or in action that does not involve us, could require us to change our business model and renegotiate the terms of our university client contracts and could compromise our ability to generate revenue.

***If we or our subcontractors or agents violate the incentive compensation rule, we could be liable to our university clients for substantial fines, sanctions or other liabilities.***

Even though the DCL clarifies that tuition revenue-sharing arrangements with our university clients are permissible, we are still subject to other provisions of the incentive compensation rule that prohibit us from offering to our employees who are involved with or responsible for recruiting or admissions activities any bonus or incentive-based compensation based on the successful identification, admission or enrollment of students into any institution. If we or our subcontractors or agents violate the incentive compensation rule, we could be liable to our university clients for substantial fines, sanctions or other liabilities, including liabilities related to “whistleblower” claims under the federal False Claims Act. Any such claims, even if without merit, could require us to incur significant costs to defend the claim, distract management’s attention and damage our reputation.

***If we or our subcontractors or agents violate the misrepresentation rule, or similar federal and state regulatory requirements, we could face fines, sanctions and other liabilities.***

We are required to comply with other regulations promulgated by the DOE that affect our student acquisition activities, including the misrepresentation rule. The misrepresentation rule is broad in scope and applies to statements our employees, subcontractors or agents may make about the nature of a university client’s program, a university client’s financial charges or the employability of a university client’s program graduates. A violation of this rule, FTC rules or other federal or state regulations applicable to our marketing activities by an employee, subcontractor or agent performing services for university clients could hurt our reputation, result in the termination of university client contracts, require us to pay fines or other monetary penalties or require us to pay the costs associated with indemnifying a university client from private claims or government investigations.

***If our university clients fail to maintain their state authorizations, or we or our university clients violate other state laws and regulations, students in their offerings could be adversely affected and we could lose our ability to operate in that state and provide services to these university clients.***

Our university clients must be authorized in certain states to offer online educational offerings, engage in recruiting and operate externships, internships, clinical training or other forms of field experience, depending on state law. The loss of or failure to obtain state authorization would, among other things, limit the ability of a university client to enroll students in that state, render the university client and its students ineligible to participate in Title IV programs in that state, diminish the attractiveness of the university client’s offering and ultimately compromise our ability to generate revenue and become profitable.

In addition, if we or any of our university clients fail to comply with any state agency’s rules, regulations or standards beyond authorizations, the state agency or state attorney general could limit the ability of the university client to offer educational offerings in that state or limit our ability to perform our contractual obligations to our university client in that state.

***If our university clients fail to maintain institutional or programmatic accreditation for their offerings, our revenue could be materially affected.***

The loss or suspension of a university client’s accreditation or other adverse action by the university client’s institutional or programmatic accreditor would render the institution or its offerings ineligible to participate in Title IV programs, could prevent the university client from offering certain educational offerings and, for certain degree-granting programs, could make it impossible for the graduates of the university client’s program to obtain employment in the profession for which they trained. If any of these results occurs, it could hurt our ability to generate revenue from that offering.

***Our future growth could be impaired if our university clients fail to obtain timely approval from applicable regulatory agencies to offer new programs, make substantive changes to existing programs or expand their programs into or within certain states.***

Our university clients are required to obtain the appropriate approvals from the DOE and applicable state and accrediting regulatory agencies for new programs or locations, which may be conditioned, delayed or denied in a manner that could impair our strategic plans and future growth. Regulatory constraints have resulted in delays to various approvals our university clients are requesting, and such delays could in turn delay the timing of our ability to generate revenue from our university clients’ programs.

***If more state agencies require specialized approval of our university clients' offerings, our operating costs could increase significantly, approval times could lag, or we could be prohibited from operating in certain states.***

In addition to state licensing agencies, our university clients may be required to obtain approval from professional licensing boards in certain states to offer specialized programs in specific fields of study. Currently, relatively few states require institutions to obtain professional board approval for their online educational offerings. However, more states could pass laws requiring our university clients' offerings, such as graduate programs in teaching or nursing, to obtain approval from state professional boards. If a significant number of states pass additional laws requiring schools to obtain professional board approval, the cost of obtaining all necessary state approvals could dramatically increase, which could make our platform less attractive to university clients, and these university clients could be barred from operating in some states entirely.

***Evolving regulations and legal obligations related to data privacy, data protection and information security and our actual or perceived failure to comply with such obligations, could have an adverse effect on our business.***

The legislative and regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. In providing our platform to university clients and in operating our business, we collect and process regulated personal information from students, faculty, prospective students and employees. Our handling of this personal information is subject to a variety of laws and regulations, which have been adopted by federal, state and foreign governments to regulate the collection, distribution, use and storage of personal information. Any failure or perceived failure by us to comply with these privacy laws and regulations or any security incident that results in the unauthorized release or transfer of this personal information in our possession, could result in government enforcement actions, litigation, fines and penalties or adverse publicity, all of which could have an adverse effect on our reputation and business.

Various federal, state and foreign legislative, regulatory or other governmental bodies have adopted laws or regulations concerning privacy, security, data storage and data protection that could materially adversely impact our business. Moreover much of the personal information we collect and process is regulated by multiple privacy laws across various jurisdictions. For example, the General Data Protection Regulation ("GDPR"), which took effect in May 2018, introduced new requirements for the protection of personal data of individuals in the EU and substantial fines for non-compliance, including fines up to 4% of a Company's annual global revenue. However, with the withdrawal of the UK from the EU, we must also comply with the local laws of that jurisdiction such as the UK Data Protection Act 2018 and the United Kingdom General Data Protection Regulation. This introduces the risk of possible enforcement from a separate data protection authority, with its distinct power to impose substantial fines for non-compliance. As another example, in July 2020, South Africa's privacy law known as the Protection of Personal Information Act became effective, which introduced new requirements for processing of personal information by entities domiciled in South Africa and our Company must comply with these laws.

We are also subject to evolving EU laws on data transfer, as we may transfer personal data from the European Economic Area to other jurisdictions. In July 2020, the European courts invalidated the EU-U.S. Privacy Shield framework and drew into question the long-term viability of an alternative means of data transfer, the Standard Contractual Clauses (SCC). Currently, we rely on SCCs to meet EU adequacy requirements for cross-border transfer of personal information. The European Commission has proposed new modular SCCs and we or our service providers may be required to execute new SCCs and make modifications to our practice in order to comply.

In the U.S., California passed the California Consumer Privacy Act ("CCPA") in 2018, which took effect in January 2020. Pursuant to the CCPA, we are required, among other things, to meet certain enhanced notice requirements to California residents regarding our use or disclosure of their personal information, allow California residents to opt-out of certain uses and disclosures of their personal information without penalty, and provide Californians with other choices related to personal data in our possession. The California Attorney General may seek substantial monetary penalties and injunctive relief in the event of our non-compliance with the CCPA. The CCPA also allows for private lawsuits from Californians in the event of certain data breaches. Aspects of the CCPA remain uncertain, and we or our service providers may be required or choose to make modifications to our policies or practices in order to comply.

We also expect that there will continue to be new proposed laws, regulations, rulings and industry standards concerning privacy, security, data storage and data protection in the U.S., the EU and other jurisdictions and we cannot yet determine the impact such future laws, regulations, rulings and standards may have on our business. For example, the European ePrivacy Directive (Directive 2002/58/EC, as amended by Directive 2009/136/EC), which obliges EU member states to introduce certain national laws regulating privacy in the electronic communications sector, will soon be replaced by the ePrivacy Regulation. As the text of the ePrivacy Regulation is still under development and in draft form, and as further guidance is issued and interpretations of both the ePrivacy Regulation and the GDPR develop, it is difficult to assess the impact of either on our business or operations, but it may require us to modify our data practices and policies (e.g., in relation to management of cookies and direct marketing messages sent through different media) and we could incur substantial costs as a

result. In addition, new or updated privacy laws in India and Singapore are expected to come into force in 2021, and Canada and Australia are considering major revisions to their respective privacy regimes. In the U.S., various states have proposed privacy laws that represent a trend towards stronger privacy protections and greater data transparency. In November, California voters approved the California Privacy Rights Act (CPRA) through a ballot measure. The CPRA will amend the CCPA, giving Californians additional control over their personal information and imposing further obligations on businesses processing the personal information of Californians. The CPRA includes the creation of a privacy-specific enforcement agency, the first of its kind in any U.S. state, that will be singularly focused on enforcing the new law. The CPRA takes effect on January 1, 2023. Without an overarching federal law driving privacy compliance in the U.S., the risk is high of a patchwork of privacy legislation formed by individual state laws, similar to the states' approach to breach notification obligations. This could not only increase costs for compliance but also raise the risk of enforcement by individual state attorneys general.

Complying with these and other changing requirements could cause us to incur substantial costs, or require us to change our business practices, any of which could materially adversely affect our business and operating results.

***We are required to comply with the Family Educational Rights and Privacy Act, or FERPA, and failure to do so could harm our reputation and negatively affect our business.***

FERPA generally prohibits an institution of higher education participating in Title IV programs from disclosing personally identifiable information from a student's education records without the student's consent. Our university clients and their students disclose to us certain information that originates from or comprises a student education record under FERPA. As an entity that provides services to institutions participating in Title IV programs, we are indirectly subject to FERPA, and we may not transfer or otherwise disclose any personally identifiable information from a student record to another party other than in a manner permitted under the statute. If we violate FERPA, it could result in a material breach of contract with one or more of our university clients and could harm our reputation. Further, in the event that we disclose student information in violation of FERPA, the DOE could require a university client to suspend our access to its student information for at least five years.

***In our Alternative Credential Segment, we are subject to risks and compliance rules and regulations related to the third-party credit card payment processing platform integrated within our websites or otherwise used by our business.***

Students typically use a credit or debit card to pay application and enrollment fees and to make tuition payments for our short courses and boot camps. We are subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. We believe that we and the payment processing service providers we use are compliant in all material respects with the Payment Card Industry Data Security Standard. However, there is no guarantee that such compliance will be maintained or that compliance will prevent illegal or improper use of our systems that are integrated with our payment processing providers. If we or any of the third-party payment processors we use fails to be in compliance with applicable credit card rules and regulations, we may be required to migrate to an alternate payment processor which could result in transaction downtime during the migration and/or a loss of students and have a material adverse effect on our business, financial condition and results of operations.

## **Risks Related to Intellectual Property**

***We operate in an industry with extensive intellectual property litigation. Claims of infringement against us may hurt our business.***

Our success depends, in part, upon our ability to avoid infringing intellectual property rights owned by others and being able to resolve claims of intellectual property infringement without major financial expenditures or adverse consequences. The technology and software fields generally are characterized by extensive intellectual property litigation and many companies that own, or claim to own, intellectual property have aggressively asserted their rights. In addition, we face potential copyright and trademark infringement from the content we produce in connection with our marketing activities, including in websites related to our offerings. From time to time, we may be subject to legal proceedings and claims relating to the intellectual property rights of others, and we expect that third parties will assert intellectual property claims against us, particularly as we expand the complexity and scope of our business. In addition, our university client agreements require us to indemnify our university clients against claims that our platform infringes the intellectual property rights of third parties.

Future litigation may be necessary to defend ourselves or our university clients from intellectual property infringement claims or to establish our proprietary rights. Some of our competitors have substantially greater resources than we do and would be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies that focus solely on extracting royalties and settlements by enforcing patent rights may target us. Regardless of whether claims that we are infringing patents or other intellectual property rights have any merit, these claims are time-consuming and costly to evaluate and defend and could:

- hurt our reputation;
- adversely affect our relationships with our current or future university clients;
- cause delays or stoppages in providing our platform;
- divert management’s attention and resources;
- require technology changes to our software that could cause us to incur substantial cost;
- subject us to significant liabilities; and
- require us to cease some or all of our activities.

In addition to liability for monetary damages against us, which may include attorneys’ fees, treble damages in the event of a finding of willful infringement, or, in some circumstances, damages against our university clients, we may be prohibited from developing, commercializing or continuing to provide some or all of our bundled technology-enabled platform unless we obtain licenses from, and pay royalties to, the holders of the patents or other intellectual property rights, which may not be available on commercially favorable terms, or at all.

***We may incur liability, or our reputation may be harmed, as a result of the activities of our university clients and students or the content in our online learning platforms.***

We may be subject to potential liability for the activities of our university clients or students in connection with the data they post or store in our online learning platforms. For example, university personnel or students, or our employees or independent contractors, may post to our online learning platforms various articles or other third-party content for use in class discussions or within asynchronous lessons.

Various U.S. federal statutes may apply to us with respect to these activities. For example, the Digital Millennium Copyright Act of 1998, or DMCA and the Communications Decency Act, or CDA, have provisions that limit our liability for certain content posted by third parties on our platforms.

Although statutes and case law in the U.S. have generally shielded us from liability for these activities to date, court rulings in pending or future litigation may narrow the scope of protection afforded us under these laws. In addition, laws governing these activities are unsettled in many international jurisdictions. As a result, we could incur liability to third parties for the unauthorized duplication, distribution or other use of third-party content. Any such claims could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether the claims have merit. Our various liability insurance coverages may not cover potential claims of this type adequately or at all, and we may be required to alter or cease our uses of such material, which may include changing or removing content from courses or altering the functionality of our online learning platform, or to pay monetary damages.

Additionally, university personnel or students, or our employees or independent contractors could use our online learning platform to store or process regulated personal information without our knowledge. In the event that our systems experience a data security incident, or an individual or entity accesses information without, or in excess of, proper authorization, we could be subject to data security incident notification laws, as described elsewhere, which may require prompt remediation and notification to individuals. If we are unaware of the data and information stored on our systems, we may be unable to appropriately comply with all legal obligations, and we may be exposed to governmental enforcement or prosecution actions, private litigation, fines and penalties or adverse publicity and these incidents could harm our reputation and business.

***Our failure to protect our intellectual property rights could diminish the value of our platform, weaken our competitive position and reduce our revenue.***

We regard the protection of our intellectual property, which includes trade secrets, copyrights, trademarks and domain names, as critical to our success. We protect our proprietary information from unauthorized use and disclosure by entering into confidentiality agreements with any party that may come in contact with such information. We also seek to ensure that we own intellectual property created for us by signing agreements with employees, independent contractors, consultants, companies and any other third party that may create intellectual property for us that assigns any copyright and patent rights to us. However, these arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary information or deter independent development of similar technologies by others.

We pursue the registration of our domain names, trademarks and service marks in the United States and in jurisdictions outside the United States. However, third parties may knowingly or unknowingly infringe on our trademark or service mark

rights, third parties may challenge our trademark or service mark rights, and pending or future trademark or service mark applications may not be approved. In addition, effective trademark protection may not be available in every country in which we operate or intend to operate. In any or all cases, we may be required to expend significant time and expense to prevent infringement or enforce our rights.

Monitoring unauthorized use of our intellectual property is difficult and costly. Our efforts to protect our proprietary rights may not be adequate to prevent misappropriation of our intellectual property. Further, we may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Our competitors may also independently develop similar technology. In addition, the laws of many countries may not protect our proprietary rights to as great an extent as do the laws of the United States. Further, the laws in the United States and elsewhere change rapidly, and any future changes could adversely affect us and our intellectual property rights. Our failure to meaningfully protect our intellectual property could result in competitors offering services that incorporate our most technologically advanced features, which could seriously reduce demand for our platform. In addition, we may in the future need to initiate litigation such as infringement or administrative proceedings, to protect our intellectual property rights. Litigation, whether we are a plaintiff or a defendant, can be expensive, time-consuming and may divert the efforts of our technical staff and managerial personnel, whether or not such litigation results in a determination that is unfavorable to us. In addition, litigation is inherently uncertain, and thus we may not be able to stop our competitors from infringing upon our intellectual property rights.

***The use of “open source” software in our platform could negatively affect our ability to offer our platform and subject us to possible litigation.***

A portion of our platform incorporates so-called “open source” software, and we may incorporate additional open source software in the future. Open source software is generally freely accessible, usable and modifiable. Certain open source licenses may, in certain circumstances, require us to offer our platform that incorporates the open source software for no cost, to make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and to license such modifications or derivative works under the terms of the particular open source license. Our efforts to monitor the use of open source software in our platform to ensure that no open source software is used in such a way as to require us to disclose our source code when we do not wish to do so, may be unable to prevent such use from occurring. In addition, if a third-party software provider has incorporated certain types of open source software into software we license from such third party without our knowledge, we could, under certain circumstances, be required to comply with the foregoing conditions. If an author or other third party that distributes open source software that we use were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, including being enjoined from offering the component of our platform that contained the open source software and being required to comply with the foregoing conditions, which could disrupt our ability to offer certain components of our platform.

We could also be subject to suits by parties claiming ownership of what we believe to be open source software. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts. Accordingly, there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to offer our platform. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition and require us to devote additional research and development resources to change our products.

***Individuals that appear in content hosted on our online learning platform may claim violation of their rights.***

Faculty and students that appear in video segments hosted on our online learning platform may claim that proper assignments, licenses, consents and releases were not obtained for use of their likenesses, images or other contributed content. Our contracts typically require that our university clients ensure that proper assignments, licenses, consents and releases are obtained for their course material, but we cannot know with certainty that they have obtained all necessary rights. Moreover, the laws governing rights of publicity and privacy, and the laws governing faculty ownership of course content, are imprecise and adjudicated on a case-by-case basis, such that the enforcement of agreements to transfer the necessary rights is unclear. As a result, we could incur liability to third parties for the unauthorized duplication, display, distribution or other use of this material. Any such claims could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether the claims have merit. Our various liability insurance coverages may not cover potential claims of this type adequately or at all, and we may be required to alter or cease our use of such material, which may include changing or removing content from courses, or to pay monetary damages. Moreover, claims by faculty and students could damage our reputation, regardless of whether such claims have merit.

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

***Our operating results have fluctuated in the past and may do so in the future, which could cause our stock price to decline.***

Our operating results have historically fluctuated due to seasonality and changes in our business, and our future operating results may vary significantly due to a variety of factors, many of which are beyond our control. You should not rely on period-to-period comparisons of our operating results as an indication of our future performance. Factors that may cause fluctuations in our operating results include, but are not limited to, the following:

- the timing of our costs incurred in connection with the launch of new degree programs and the delay in receiving revenue from these new programs, which delay may last for several years;
- seasonal variation driven by the semester schedules for our university clients' degree programs, which may vary from year to year;
- changes in the student enrollment and retention levels in our university clients' offerings;
- changes in our key metrics or the methods used to calculate our key metrics;
- changes in tuition rates;
- the timing and amount of our marketing and sales expenses;
- costs necessary to improve and maintain our platform;
- fluctuations in foreign currency exchange rates;
- the impact of the COVID-19 pandemic, including on the global economy, educational institutions and our results of operations;
- costs related to any acquisition and integration of business and technology;
- our ability to effectively integrate businesses and technologies that we acquire; and
- changes in the prospects of the economy generally, which could alter current or prospective university clients' or students' spending priorities, or could increase the time it takes us to launch new offerings.

Our operating results may fall below the expectations of market analysts and investors in some future periods, which could cause the market price of our common stock to decline substantially.

***The trading price of the shares of our common stock may be volatile, and purchasers of our common stock could incur substantial losses.***

The trading price of the shares of our common stock may be volatile. The stock market in general, and the market for technology companies in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the price paid for the shares. The market price for our common stock may be influenced by many factors, including:

- actual or anticipated variations in our operating results;
- variations between our actual operating results and the expectations of securities analysts, investors and the financial community;
- changes in financial estimates by us or by any securities analysts who might cover our stock or our failure to meet these financial estimates;
- conditions or trends in our industry, the stock market or the economy;
- the level of demand for our stock, including the amount of short interest in our stock;

- stock market price and volume fluctuations of comparable companies and, in particular, those that operate in the software and information technology industries;
- announcements by us or our competitors of new product or service offerings, significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- capital commitments;
- investors' general perception of our company and our business;
- actions instituted by activist shareholders or others;
- lawsuits threatened or filed against us;
- recruitment or departure of key personnel; and
- sales of our common stock, including sales by our directors and officers or specific stockholders; and
- other factors such as political or social unrest, terrorist attacks, other hostilities, natural disasters and potential public health crises, such as COVID-19.

Activist shareholders who disagree with the composition of our board of directors, our strategy or the way we are managed may seek to effect change through various strategies that range from private engagement to publicity campaigns, proxy contests, efforts to force transactions not supported by our board of directors and litigation. Responding to these actions may be costly and time-consuming, disrupt our operations, divert the attention of our board of directors, management and employees and interfere with the execution of our strategic plan. A contested election could also require us to incur substantial legal and public relations fees and proxy solicitation expenses. The perceived uncertainty as to our future direction resulting from activist strategies could also affect the market price and volatility of our common stock.

As described in Part I, Item 3 of this Annual Report on Form 10-K, certain stockholders have initiated class action lawsuits against us. Our defense against this litigation will cause us to incur additional expenses and could divert management's attention and resources from our business.

***Provisions in our corporate charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management and hinder efforts to acquire a controlling interest in us, and the market price of our common stock may be lower as a result.***

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control is considered favorable by you and other stockholders. For example, our board of directors has the authority to issue up to 5,000,000 shares of preferred stock. The board of directors can fix the price, rights, preferences, privileges, and restrictions of the preferred stock without any further vote or action by our stockholders. An issuance of shares of preferred stock may result in the loss of voting control to other stockholders, which could delay or prevent a change in control transaction. As a result, the market price of our common stock and the voting and other rights of our stockholders may be adversely affected.

Our charter documents also contain other provisions that could have an anti-takeover effect, including:

- only one of our three classes of directors is elected each year;
- stockholders are not entitled to remove directors other than by a 66<sup>2</sup>/<sub>3</sub>% vote and only for cause;
- stockholders are not permitted to take actions by written consent;
- stockholders are not permitted to call a special meeting of stockholders;
- our board of directors is allowed to adopt, amend or repeal our bylaws; and
- stockholders are required to give us advance notice of their intention to nominate directors or submit proposals for consideration at stockholder meetings.

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions by prohibiting Delaware corporations from engaging in specified business combinations with particular stockholders of those companies. These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for our common stock, including transactions that may be in your best interests. These provisions may also prevent changes in our management or limit the price that investors are willing to pay for our stock.

***Concentration of ownership of our common stock among our existing executive officers, directors and large stockholders may prevent smaller stockholders from influencing significant corporate decisions.***

Our executive officers, directors and current beneficial owners of 5% or more of our common stock and their respective affiliates, in the aggregate, beneficially own a substantial percentage of our outstanding common stock. These persons, acting together, are able to significantly influence all matters requiring stockholder approval, including the election and removal of directors, any merger, consolidation, sale of all or substantially all of our assets, or other significant corporate transaction. The interests of this group of stockholders may not coincide with our interests or the interests of other stockholders.

***If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.***

We are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act and the rules and regulations of the Nasdaq Global Select Market. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are required to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting in our Form 10-K filing for that year, as required by Section 404 of the Sarbanes-Oxley Act. This may require us to incur substantial additional professional fees and internal costs to further expand our accounting and finance functions and expend significant management efforts.

We may in the future discover material weaknesses in our system of internal financial and accounting controls and procedures that could result in a material misstatement of our financial statements. In addition, our internal control over financial reporting will not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to errors or fraud will not occur or that all control issues and instances of fraud will be detected.

If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial statements. If that were to happen, the market price of our stock could decline and we could be subject to sanctions or investigations by the stock exchange on which our common stock is listed, the Securities and Exchange Commission, or SEC, or other regulatory authorities.

***Because we do not anticipate paying any cash dividends on our common stock in the foreseeable future, capital appreciation, if any, will be your sole source of gains and you may never receive a return on your investment.***

We have not declared or paid cash dividends on our common stock to date. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of our Credit Agreement preclude, and the terms of any future debt agreements are likely to similarly preclude, us from paying dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future. Investors seeking cash dividends should not purchase our common stock.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

Our headquarters are located in Lanham, Maryland, where we occupy approximately 309,000 square feet under a lease that expires in 2028. Our other material properties are 166,000 square feet of leased office space in Denver, Colorado, 86,000 square feet of leased office space in Brooklyn, New York and 98,000 square feet of leased office space in Cape Town, South Africa. All of our material properties are used to support both of our business segments.

We intend to adjust our facility occupancy commensurate with our business needs and believe that we will be able to do so on commercially reasonable terms.

**Item 3. Legal Proceedings**

As disclosed in Note 7 in the “Notes to Consolidated Financial Statements” included in Part II, Item 8 of this Annual Report on Form 10-K, the Company is involved in various claims and legal proceedings arising in the ordinary course of business and the disclosure in Note 7 relating to certain legal proceedings is incorporated herein by reference.

**Item 4. Mine Safety Disclosures**

None.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

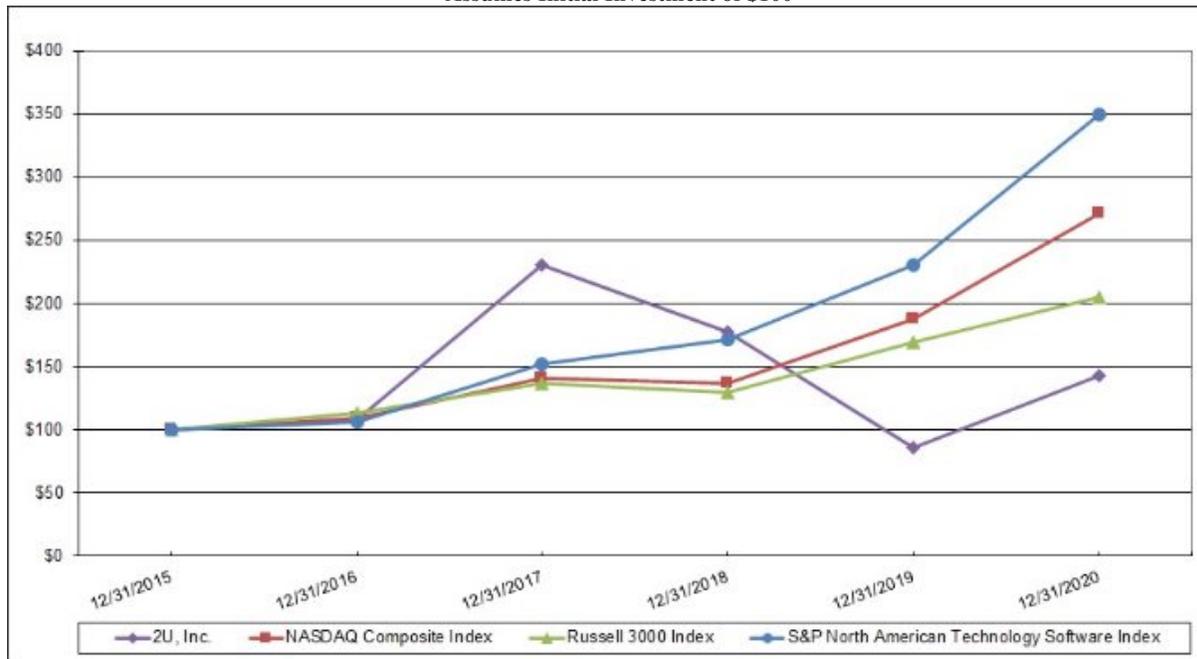
Our common stock has been listed on the Nasdaq Global Select Market since March 28, 2014, under the symbol “TWOU.”

As of February 23, 2021, there were 48 registered stockholders of record for our common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

**Stock Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock with that of the Nasdaq Composite Index, the Russell 3000 Index and the S&P North American Technology Software Index for the five years ended December 31, 2020. The graph assumes that \$100 was invested at the close of market on the last trading day of the fiscal year ended December 31, 2015 in the common stock of 2U, Inc., the Nasdaq Composite Index, the Russell 3000 Index and the S&P North American Technology Software Index. We have not paid any cash dividends and, therefore, the cumulative total return calculation on our common stock is based solely upon our stock price appreciation or depreciation and does not include any reinvestment of cash dividends. The data for the Nasdaq Composite Index, the Russell 3000 Index and the S&P North American Technology Software Index assumes reinvestments of gross dividends. The comparisons shown in the graph below are based upon historical data, and are not necessarily indicative of, nor intended to forecast, the potential future stock performance of our common stock.

**Comparison of Cumulative Total Return  
Through December 31, 2020  
Assumes Initial Investment of \$100**



The information presented above in the stock performance graph shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, except to the extent that we subsequently specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act of 1933, as amended, or a filing under the Securities Exchange Act of 1934, as amended.

**Item 6. Selected Financial Data**

The following selected consolidated statements of operations data for the years ended December 31, 2020, 2019 and 2018, and the selected consolidated balance sheets data as of December 31, 2020 and 2019 are derived from our audited consolidated financial statements in “Financial Statements and Supplementary Data” included in Part II, Item 8 of this Annual Report on Form 10-K. The selected consolidated statements of operations data for the years ended December 31, 2017 and 2016, and the selected consolidated balance sheets data as of December 31, 2018, 2017 and 2016 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K, except as otherwise noted. Our historical results are not necessarily indicative of the results to be expected in the future. The selected consolidated financial data should be read together with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in conjunction with the consolidated financial statements, related notes, and other financial information included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(in thousands, except share and per share amounts)				
<b>Consolidated Statements of Operations Data:</b>					
<b>Revenue</b>	\$ 774,533	\$ 574,671	\$ 411,769	\$ 286,752	\$ 205,864
<b>Costs and expenses</b>					
Curriculum and teaching	107,968	63,270	23,290	6,609	—
Servicing and support	125,851	98,890	67,203	50,767	40,982
Technology and content development	155,949	115,473	63,812	45,926	33,283
Marketing and sales	390,174	342,395	221,015	150,923	106,610
General and administrative	173,526	131,020	82,989	62,665	46,021
Impairment charge	—	70,379	—	—	—
<b>Total costs and expenses</b>	<u>953,468</u>	<u>821,427</u>	<u>458,309</u>	<u>316,890</u>	<u>226,896</u>
<b>Loss from operations</b>	(178,935)	(246,756)	(46,540)	(30,138)	(21,032)
Interest income	1,354	5,800	5,173	371	383
Interest expense	(27,317)	(13,419)	(108)	(87)	(35)
Loss on debt extinguishment	(11,671)	—	—	—	—
Other expense, net	(1,429)	(707)	(1,722)	(866)	—
<b>Loss before income taxes</b>	<u>(217,998)</u>	<u>(255,082)</u>	<u>(43,197)</u>	<u>(30,720)</u>	<u>(20,684)</u>
<b>Income tax benefit</b>	1,514	19,860	4,867	1,297	—
<b>Net loss</b>	<u>\$ (216,484)</u>	<u>\$ (235,222)</u>	<u>\$ (38,330)</u>	<u>\$ (29,423)</u>	<u>\$ (20,684)</u>
<b>Net loss per share, basic and diluted</b>	<u>\$ (3.22)</u>	<u>\$ (3.83)</u>	<u>\$ (0.69)</u>	<u>\$ (0.60)</u>	<u>\$ (0.44)</u>
<b>Weighted-average common shares outstanding used in computing net loss per share, basic and diluted</b>	<u>67,142,976</u>	<u>61,393,666</u>	<u>55,833,492</u>	<u>49,062,611</u>	<u>46,609,751</u>

	As of December 31,				
	2020	2019	2018	2017	2016
	(in thousands)				
<b>Consolidated Balance Sheets Data:</b>					
Cash and cash equivalents	\$ 500,629	\$ 170,593	\$ 449,772	\$ 223,370	\$ 168,730
Working capital*	367,513	104,994	453,200	190,053	143,629
Goodwill and amortizable intangible assets, net	728,600	751,425	198,457	162,749	34,131
Total assets	1,544,264	1,186,830	807,354	482,062	244,320
Total liabilities	603,274	475,580	102,345	94,230	49,083
Additional paid-in capital	1,646,574	1,197,379	957,631	588,289	371,455
Total stockholders' equity	\$ 940,990	\$ 711,250	\$ 705,009	\$ 387,832	\$ 195,237

\* We define working capital as current assets minus current liabilities.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review “Special Note Regarding Forward-Looking Statements” and Item 1A “Risk Factors” in this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

*This section of this Form 10-K does not address certain items regarding the year ended December 31, 2018. For a discussion of our results of operations and liquidity and capital resources for the year ended December 31, 2018, including a year-over-year comparison between the years ended December 31, 2019 and 2018, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019.*

### **Overview**

We are a leading digital transformation partner for nonprofit colleges and universities. We build, deliver, and support more than 500 digital and in-person educational offerings, including graduate degrees, undergraduate degrees, professional certificates, boot camps, and short courses. Together with our university clients, we have positively transformed the lives of more than 300,000 students.

Our comprehensive platform of tightly integrated technology and services provides the digital infrastructure that universities rely on to attract, enroll, educate and support students at scale throughout their lives. We believe ongoing learning is critical to career success today. Our broad array of offerings allow our university clients to meet student needs throughout their lives — whether they are earning a full degree, reskilling to learn something new or embarking on a new career path. We refer to the spectrum of educational offerings that a learner may benefit from during their lives and careers as the “Career Curriculum Continuum.” Our platform empowers university clients to play a central role at each stage of a student’s learning journey.

We have two reportable segments: the Degree Program Segment and the Alternative Credential Segment.

In our Degree Program Segment, we provide the technology and services to nonprofit colleges and universities to enable the online delivery of degree programs. Students enrolled in these programs are generally seeking an undergraduate or graduate degree of the same quality they would receive on campus. In the first quarter of 2021, we changed the name of this segment from Graduate Program Segment to Degree Program Segment because this segment now includes undergraduate degree programs.

In our Alternative Credential Segment, we provide premium online short courses and technical, skills-based boot camps through relationships with nonprofit colleges and universities. Students enrolled in these offerings are generally seeking to reskill or upskill through shorter duration, lower-priced offerings that are relevant to the needs of industry and society.

### **COVID-19 Update**

In March 2020, the World Health Organization characterized COVID-19 as a pandemic and, as of the date of this report, COVID-19 continues to spread around the world. In response to the COVID-19 pandemic, we have taken several steps to ensure the continuity of our business, to provide unique solutions to our university clients, and to ensure the health and safety of our employees in the current environment. For example, we have:

- shifted the majority of our global workforce to work-from-home arrangements, other than essential personnel;
- shifted boot camp offerings and other campus-based experiences from physical classrooms to online;
- modified our course production capability into a “Studio-in-a-Box” approach, which allows faculty to record asynchronous content directly in their home or office with virtual assistance from our course designers;
- provided training to our university clients’ campus-based faculty on best practices for successful online teaching through No Back Row® PRO; and
- offered new solutions for existing and new clients, including 2UOS Essential and 2UOS Plus, which provide continuity and support for university clients to conduct classes online and a virtual field placement program, which

allows students in certain clinical graduate programs to fulfill the field placement component of their programs remotely.

Following the outbreak of the COVID-19 pandemic, we experienced increasing demand from prospective and current university clients as universities initially moved classes online in Spring 2020 and later as they planned for the Fall 2020 academic term and beyond, which we expect to have an increasing impact on our results of operations moving forward.

We have also experienced increasing demand for our offerings from prospective students since the onset of the COVID-19 pandemic. Given the lag between enrollment and revenue in much of our portfolio, we expect this higher demand to have an increasing impact on our results of operations beginning in 2021.

While we have observed increasing demand from new and existing university clients and from prospective students due to the COVID-19 pandemic, we cannot estimate the impact of COVID-19 on these demand trends, our business or economic conditions generally and there is no assurance that we will continue to experience current demand levels as the COVID-19 pandemic tapers, particularly as vaccinations become widely available. For a discussion of additional risks related to COVID-19, see Part I, Item 1A. "Risk Factors."

### **Certain Trends and Uncertainties**

The following represents a summary of certain trends and uncertainties, which could have a significant impact on our financial condition and results of operations. This summary is not intended to be a complete list of potential trends and uncertainties and should be considered along with the factors identified in the section titled "Risk Factors" of this Annual Report on Form 10-K and elsewhere in this report.

- The risk of a data security breach or service disruption has increased as the frequency, intensity and sophistication of attempted attacks and intrusions from around the world have increased. While we make significant efforts to maintain the security and integrity of our services and computer systems, our cybersecurity measures and the cybersecurity measures taken by our third-party software and service providers may be unable to anticipate, detect or prevent all attempts to compromise our systems. In particular, during the COVID-19 pandemic, the risk of cyber-attacks or other privacy or data security incidents may be heightened as a result of our employees and third-party service providers working remotely from networks that may be less secure.
- We and our university clients are subject to certain education laws and regulations that are frequently revised, repealed or expanded. Any administration may change certain DOE rules or policies in accordance with its policy priorities. The outcome of the process to re-authorize the HEA, any DOE rulemakings, or other law and policy changes may alter the regulatory landscape of the higher education industry, and thereby impact the manner in which we conduct business and serve our university clients.
- Following the onset of the COVID-19 pandemic, we experienced increased demand for our technology and services from university clients and increased demand for our offerings from students. Although we believe that the COVID-19 pandemic has accelerated the trend towards adoption of online education that was already in process prior to the pandemic, we do not know if the university client and student demand levels we have experienced during the pandemic will continue as the COVID-19 pandemic tapers.
- Our university clients have regular turnover in leadership positions. These changes can have a positive or negative impact on our business. If new leaders do not support online delivery of educational offerings, we may not be able to add additional offerings with the university client or the university client may not renew their relationship with us. New leaders may also make changes in university policies, which could result in changes to admissions standards or application of admissions standards and negatively impact student enrollment in a university client's 2U-powered degree programs.

### **Our Business Model and Components of Operating Results**

The key elements of our business model and components of our operating results are described below.

#### ***Revenue Drivers***

In our Degree Program Segment, we derive substantially all of our revenue from revenue-share arrangements with our university clients under which we receive a contractually specified percentage of the amounts students pay them to enroll in degree programs. In our Alternative Credential Segment, we derive substantially all of our revenue from tuition and fees from students taking our short courses and boot camps. Revenue in each segment is primarily driven by the number of student enrollments in our offerings.

## ***Operating Expense***

### ***Marketing and Sales***

Our most significant expense relates to marketing and sales activities to attract students to our offerings across both of our segments. This includes the cost of Search Engine Optimization, Search Engine Marketing and Social Media Optimization, as well as personnel and personnel-related expense for our marketing and recruiting teams.

In our Degree Program Segment, our marketing and sales expense in any period generates student enrollments eight months later, on average. We then generate revenue as students progress through their programs, which generally occurs over a two-year period following initial enrollment. Accordingly, our marketing and sales expense in any period is an investment to generate revenue in future periods. Therefore, we do not believe it is meaningful to directly compare current period revenue to current period marketing and sales expense. Further, in this segment we believe that our marketing and sales expense in future periods will generally decline as a percentage of the revenue reported in those same periods as our revenue base from returning students in existing programs increases.

In our Alternative Credential Segment, our marketing and sales expense in any period generates student enrollments as much as 24 weeks later, on average. We then generate revenue as students progress through their courses, which typically occurs over a two- to six-month period following initial enrollment.

### ***Curriculum and Teaching***

Curriculum and teaching expense consists primarily of amounts due to universities for licenses to use their brand names and other trademarks in connection with our short course and boot camp offerings. The payments are based on contractually specified percentages of the tuition and fees we receive from students in those offerings. Curriculum and teaching expense also includes personnel and personnel-related expense for our short course and boot camp instructional staff.

### ***Servicing and Support***

Servicing and support expense consists primarily of personnel and personnel-related expense associated with the management and operations of our educational offerings, as well as supporting students and faculty members. Servicing and support expense also includes costs to support our platform, facilitate in-program field placements and student immersions, and assist with compliance requirements.

### ***Technology and Content Development***

Technology and content development expense consists primarily of personnel and personnel-related expense associated with the ongoing improvement and maintenance of our platform, as well as hosting and licensing costs. Technology and content expense also includes the amortization of capitalized technology and content.

### ***General and Administrative***

General and administrative expense consists primarily of personnel and personnel-related expense for our centralized functions, including executive management, legal, finance, human resources, and other departments that do not provide direct operational services. General and administrative expense also includes professional fees and other corporate expense.

### ***Impairment Charge***

Impairment charge consists of amounts recorded to write down the carrying value of assets to fair value.

### ***Net Interest Income (Expense)***

Net interest income (expense) consists primarily of interest expense from our long-term debt and interest income from our cash and cash equivalents. Interest expense also includes the amortization of debt issuance costs.

### ***Loss on Debt Extinguishment***

Loss on debt extinguishment consists of amounts recorded related to the retirement of our debt obligations.

### ***Other Income (Expense), Net***

Other income (expense), net consists primarily of foreign currency gains and losses.

### ***Income Taxes***

Our income tax provisions for all periods consist of U.S. federal, state and foreign income taxes. Our effective tax rate for the period is based on a mix of higher-taxed and lower-taxed jurisdictions.

## Results of Operations

### Consolidated Operating Results

Comparison of Years Ended December 31, 2020 and 2019

The following table presents selected consolidated statement of operations and comprehensive loss data for each of the periods indicated.

	Year Ended December 31,				Period-to-Period Change	
	2020		2019		Amount	Percentage
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(dollars in thousands)					
<b>Revenue</b>	\$ 774,533	100.0 %	\$ 574,671	100.0 %	\$ 199,862	34.8 %
<b>Costs and expenses</b>						
Curriculum and teaching	107,968	13.9	63,270	11.0	44,698	70.6
Servicing and support	125,851	16.2	98,890	17.2	26,961	27.3
Technology and content development	155,949	20.1	115,473	20.1	40,476	35.1
Marketing and sales	390,174	50.4	342,395	59.6	47,779	14.0
General and administrative	173,526	22.4	131,020	22.8	42,506	32.4
Impairment charge	—	—	70,379	12.2	(70,379)	*
<b>Total costs and expenses</b>	<b>953,468</b>	<b>123.0</b>	<b>821,427</b>	<b>142.9</b>	<b>132,041</b>	<b>16.1</b>
<b>Loss from operations</b>	<b>(178,935)</b>	<b>(23.0)</b>	<b>(246,756)</b>	<b>(42.9)</b>	<b>67,821</b>	<b>(27.5)</b>
Interest income	1,354	0.2	5,800	1.0	(4,446)	(76.7)
Interest expense	(27,317)	(3.5)	(13,419)	(2.3)	(13,898)	103.6
Loss on debt extinguishment	(11,671)	(1.5)	—	—	(11,671)	*
Other expense, net	(1,429)	(0.2)	(707)	(0.1)	(722)	101.8
<b>Loss before income taxes</b>	<b>(217,998)</b>	<b>(28.0)</b>	<b>(255,082)</b>	<b>(44.3)</b>	<b>37,084</b>	<b>(14.5)</b>
<b>Income tax benefit</b>	<b>1,514</b>	<b>0.2</b>	<b>19,860</b>	<b>3.5</b>	<b>(18,346)</b>	<b>(92.4)</b>
<b>Net loss</b>	<b>\$ (216,484)</b>	<b>(27.8) %</b>	<b>\$ (235,222)</b>	<b>(40.8) %</b>	<b>\$ 18,738</b>	<b>(8.0) %</b>

\* Not meaningful for comparative purposes.

*Revenue.* Revenue for the year ended December 31, 2020 increased \$199.8 million, or 34.8%, to \$774.5 million as compared to \$574.7 million in 2019. This increase was driven by an 82.8% increase in Alternative Credential Segment revenue and a 16.7% increase in Degree Program Segment revenue. The increase in revenue from the Alternative Credential Segment includes incremental revenue of \$95.6 million from Trilogly, which we acquired in May 2019.

Revenue from our Degree Program Segment increased \$69.5 million, or 16.7%, primarily due to growth in FCE enrollments of 36,837, or 22.8%.

Revenue from our Alternative Credential Segment increased \$130.3 million, or 82.8%, primarily due to growth in FCE enrollments of 29,675, or 58.0%. This growth in FCE enrollments was primarily due to the addition of 8,202 incremental FCE enrollments from Trilogly.

*Curriculum and Teaching.* Curriculum and teaching expense increased \$44.7 million, or 70.6%, to \$108.0 million as compared to \$63.3 million in 2019. This increase was primarily due to a \$31.4 million addition of curriculum and teaching expense from Trilogly. The remaining increase was primarily due to a \$13.3 million increase in university and instructional staff compensation expense from short courses.

*Servicing and Support.* Servicing and support expense increased \$27.0 million, or 27.3%, to \$125.9 million as compared to \$98.9 million in 2019. This increase was primarily due to a \$17.4 million increase in personnel and personnel-related expense to serve a greater number of students and faculty. The remaining increase was primarily due to an \$11.1 million

addition of servicing and support expense from Trilogy. These increases were partially offset by a \$2.9 million decrease in travel and related expense due to cost efficiencies and the impact of COVID-19.

*Technology and Content Development.* Technology and content development expense increased \$40.5 million, or 35.1%, to \$155.9 million as compared to \$115.5 million in 2019. This increase was primarily due to a \$19.8 million addition of technology and content development expense from Trilogy. The remaining increase was primarily due to a \$12.3 million increase in personnel and personnel-related expense and a \$9.4 million increase in amortization expense. These increases were partially offset by a \$2.1 million decrease in travel and related expense due to cost efficiencies and the impact of COVID-19.

*Marketing and Sales.* Marketing and sales expense increased \$47.8 million, or 14.0%, to \$390.2 million as compared to \$342.4 million in 2019. This increase was primarily due to a \$40.4 million addition of marketing and sales expense from Trilogy. The remaining increase was primarily due to an \$8.6 million increase in marketing costs to attract prospective students. These increases were partially offset by a \$4.1 million decrease in travel and related expense due to cost efficiencies and the impact of COVID-19, and a \$1.0 million decrease in personnel and personnel-related expense.

*General and Administrative.* General and administrative expense increased \$42.5 million, or 32.4%, to \$173.5 million as compared to \$131.0 million in 2019. This increase was primarily due to a \$30.6 million increase in personnel and personnel-related expense, a \$14.8 million addition of general and administrative expense from Trilogy, and a \$6.4 million increase in stockholder activism and litigation-related expense. These increases were partially offset by a \$9.7 million decrease in transaction, integration and restructuring-related expense, and a \$3.8 million decrease in travel and related expense due to cost efficiencies and the impact of COVID-19.

*Impairment charge.* In the year ended December 31, 2019, we recorded an impairment charge of \$70.4 million.

*Net Interest Income (Expense).* Net interest expense was \$26.0 million and \$7.6 million for the years ended December 31, 2020 and 2019, respectively. The net interest expense for the year ended December 31, 2020 was primarily due to our Notes and our Term Loan, partially offset by interest earned on our cash balances. The net interest expense for the year ended December 31, 2019 was primarily due to our Term Loan, partially offset by interest earned on our cash balances.

*Loss on Debt Extinguishment.* Loss on debt extinguishment was \$11.7 million and zero for the years ended December 31, 2020 and 2019, respectively. This increase was due to the write-off of deferred financing costs and fees paid in connection with the extinguishment of our Term Loan in April 2020.

*Other Expense, Net.* Other expense, net was \$1.4 million and \$0.7 million for the years ended December 31, 2020 and 2019, respectively. This increase was primarily due to the remeasurement of foreign currency transactions impacting our operations in the Alternative Credential Segment.

*Income Tax Benefit.* For the year ended December 31, 2020, we recognized an income tax benefit of \$1.5 million, and our effective tax rate was approximately 1%. This income tax benefit was primarily due to net operating losses and the reversal of taxable temporary differences of the acquired intangibles in our Alternative Credential Segment. For the year ended December 31, 2019, we recognized an income tax benefit of \$19.9 million, and our effective tax rate was approximately 8%. This income tax benefit primarily related to the reversal of our tax valuation allowance that was no longer needed as a result of recognizing an additional net deferred tax liability due to the acquisition of Trilogy. We expect to continue to recognize an income tax benefit for our Alternative Credential Segment to the extent that this segment continues to generate pre-tax losses while carrying a net deferred tax liability. To date, we have not been required to pay U.S. federal income taxes because of our current and accumulated net operating losses.

### **Business Segment Operating Results**

We define segment profitability as net income or net loss, as applicable, before net interest income (expense), foreign currency gains or losses, taxes, depreciation and amortization expense, deferred revenue fair value adjustments, transaction costs, integration costs, restructuring-related costs, stockholder activism costs, certain litigation-related costs, consisting of fees for certain non-ordinary course litigation and other proceedings, impairment charges, losses on debt extinguishment, and stock-based compensation expense. Some of these items may not be applicable in any given reporting period and they may vary from period to period. Total segment profitability is a non-GAAP measure when presented outside of the financial statement footnotes. Total segment profitability is a key measure used by our management and board of directors to understand and evaluate our operating performance and trends, to develop short- and long-term operational plans and to compare our performance against that of other peer companies using similar measures. In particular, the exclusion of certain expenses in calculating total segment profitability can provide a useful measure for period-to-period comparisons of our business. Accordingly, we believe that total segment profitability provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

The following table presents a reconciliation of total segment profitability to net loss for each of the periods indicated. This year we consolidated various adjustments into a single line item in our reconciliation table below for the purposes of streamlining our presentation.

	Year Ended December 31,	
	2020	2019
(in thousands)		
Net loss	\$ (216,484)	\$ (235,222)
Adjustments:		
Stock-based compensation expense	82,042	51,504
Foreign currency (gain) loss	1,429	707
Net interest expense	25,963	7,619
Income tax (benefit) expense	(1,514)	(19,860)
Depreciation and amortization expense	96,469	69,843
Loss on debt extinguishment	11,671	—
Impairment charge	—	70,379
Other*	16,497	31,084
Total adjustments	232,557	211,276
Total segment profitability	\$ 16,073	\$ (23,946)

\* Includes (i) transaction and integration costs of \$2.3 million and \$8.0 million for the years ended December 31, 2020 and 2019, respectively, (ii) restructuring-related costs of \$6.8 million and \$10.8 million for the years ended December 31, 2020 and 2019, respectively, (iii) stockholder activism and litigation-related costs of \$7.4 million and \$1.0 million for the years ended December 31, 2020 and 2019, respectively, and (iv) deferred revenue fair value adjustments of \$11.2 million for the year ended December 31, 2019.

#### Years Ended December 31, 2020 and 2019

Revenue by segment and segment profitability for the years ended December 31, 2020 and 2019 were as follows:

	Year Ended December 31,		Period-to-Period Change	
	2020	2019	Amount	Percentage
(dollars in thousands)				
<b>Revenue by segment*</b>				
Degree Program Segment	\$ 486,676	\$ 417,206	\$ 69,470	16.7 %
Alternative Credential Segment	287,857	157,465	130,392	82.8
Total revenue	\$ 774,533	\$ 574,671	\$ 199,862	34.8 %
<b>Segment profitability</b>				
Degree Program Segment	\$ 49,607	\$ 5,770	\$ 43,837	**
Alternative Credential Segment	(33,534)	(29,716)	(3,818)	(12.9)
Total segment profitability	\$ 16,073	\$ (23,946)	\$ 40,019	**

\* Immaterial amounts of intersegment revenue have been excluded from the above results for the years ended December 31, 2020 and 2019.

\*\* Not meaningful for comparative purposes.

Degree Program Segment profitability increased \$43.8 million to \$49.6 million as compared to \$5.8 million in 2019. This increase was primarily due to revenue growth of \$69.5 million, a reduced launch schedule, operational and marketing efficiency initiatives and reduced travel and related expense.

Alternative Credential Segment profitability decreased \$3.8 million, or 13%, to \$(33.5) million as compared to \$(29.7) million in 2019. This decrease was primarily due to the addition of Trilogy's results of operations since the acquisition date.

Segment profitability for the year ended December 31, 2019 included Trilogy's results of operations from May 22, 2019, the date of acquisition.

### Key Business and Financial Performance Metrics

We use a number of key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. In addition to adjusted EBITDA (loss), which we discuss below, and revenue and the components of loss from operations in the section above entitled "Our Business Model and Components of Operating Results," we utilize FCE enrollments as a key metric to evaluate the success of our business.

#### Full Course Equivalent Enrollments

We measure FCE enrollments for each of the courses offered during a particular period by taking the number of students enrolled in that course and multiplying it by the percentage of the course completed during that period. We add the FCE enrollments for each course within each segment to calculate the total FCE enrollments per segment. This metric allows us to consistently view period-over-period changes in enrollments by accounting for the fact that many courses we enable straddle multiple fiscal quarters. For example, if a course had 25 enrolled students and 40% of the course was completed during a particular period, we would count the course as having 10 FCE enrollments for that period. Any individual student may be enrolled in more than one course during a period.

Average revenue per FCE enrollment represents our weighted-average revenue per course across the mix of courses being offered during a period in each of our operating segments. This number is derived by dividing the total revenue for a period for each of our operating segments by the number of FCE enrollments within the applicable segment during that same period. This amount may vary from period to period depending on the academic calendars of our university clients, the relative growth rates of our degree programs, short courses, and boot camps, as applicable, and varying tuition levels, among other factors.

The following table presents the FCE enrollments and average revenue per FCE enrollment in our Degree Program Segment and Alternative Credential Segment for each of the periods indicated.

	Year Ended December 31,	
	2020	2019
<b>Degree Program Segment</b>		
FCE enrollments	198,143	161,306
Average revenue per FCE enrollment	\$ 2,456	\$ 2,586
<b>Alternative Credential Segment*</b>		
FCE enrollments	80,833	51,158
Average revenue per FCE enrollment**	\$ 3,561	\$ 3,296

\* Trilogy's results of operations are included in our results of operations since the acquisition date.

\*\* The calculation of the Alternative Credential Segment's average revenue per FCE enrollment includes \$11.2 million of revenue that was excluded from the results of operations in the year ended December 31, 2019, due to a deferred revenue fair value purchase accounting adjustment recorded in connection with the acquisition of Trilogy.

Of the increase in FCE enrollments in our Degree Program Segment for the years ended December 31, 2020 and 2019, 10,243 or 27.8%, and 4,354 or 12.9%, respectively, were attributable to offerings launched during the preceding 12 months.

Of the increase in FCE enrollments in our Alternative Credential Segment for the years ended December 31, 2020 and 2019, 12,864 or 43.3% and 7,106 or 37.5%, respectively, were attributable to offerings launched during the preceding 12 months.

#### Adjusted EBITDA (Loss)

We define adjusted EBITDA (loss) as net income or net loss, as applicable, before net interest income (expense), foreign currency gains or losses, taxes, depreciation and amortization expense, deferred revenue fair value adjustments, transaction costs, integration costs, restructuring-related costs, stockholder activism costs, certain litigation-related costs, consisting of fees for certain non-ordinary course litigation and other proceedings, impairment charges, losses on debt extinguishment, and stock-based compensation expense. Some of these items may not be applicable in any given reporting period and they may vary from period to period.

Adjusted EBITDA (loss) is a key measure used by our management and board of directors to understand and evaluate our operating performance and trends, to develop short- and long-term operational plans and to compare our performance against that of other peer companies using similar measures. In particular, the exclusion of certain expenses that are not reflective of our ongoing operating results in calculating adjusted EBITDA (loss) can provide a useful measure for period-to-period comparisons of our business. Accordingly, we believe that adjusted EBITDA (loss) provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA (loss) is not a measure calculated in accordance with U.S. GAAP, and should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with U.S. GAAP. Our use of adjusted EBITDA (loss) has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under U.S. GAAP. Some of the limitations are:

- although depreciation and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA (loss) does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA (loss) does not reflect (i) changes in, or cash requirements for, our working capital needs; (ii) the impact of changes in foreign currency exchange rates; (iii) acquisition related gains or losses such as, but not limited to, post-acquisition changes in the value of contingent consideration reflected in operations; (iv) transaction and integration costs; (v) restructuring-related costs; (vi) impairment charges; (vii) stockholder activism costs; (viii) certain litigation-related costs; (ix) losses on debt extinguishment; (x) the impact of deferred revenue fair value adjustments; (xi) interest or tax payments that may represent a reduction in cash; or (xii) the non-cash expense or the potentially dilutive impact of equity-based compensation, which has been, and we expect will continue to be, an important part of our compensation plan; and
- other companies, including companies in our industry, may calculate adjusted EBITDA (loss) differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider adjusted EBITDA (loss) alongside other U.S. GAAP-based financial performance measures, including various cash flow metrics, net income (loss) and our other U.S. GAAP results. The following table presents a reconciliation of adjusted EBITDA (loss) to net loss for each of the periods indicated. This year we consolidated various adjustments into a single line item in our reconciliation table below for the purposes of streamlining our presentation.

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in thousands)</b>	
Net loss	\$ (216,484)	\$ (235,222)
Adjustments:		
Stock-based compensation expense	82,042	51,504
Foreign currency loss	1,429	707
Net interest expense	25,963	7,619
Income tax benefit	(1,514)	(19,860)
Depreciation and amortization expense	96,469	69,843
Loss on debt extinguishment	11,671	—
Impairment charge	—	70,379
Other*	16,497	31,084
Total adjustments	<u>232,557</u>	<u>211,276</u>
Adjusted EBITDA (loss)	<u>\$ 16,073</u>	<u>\$ (23,946)</u>

\* Includes (i) transaction and integration costs of \$2.3 million and \$8.0 million for the years ended December 31, 2020 and 2019, respectively, (ii) restructuring-related costs of \$6.8 million and \$10.8 million for the years ended December 31, 2020 and 2019, respectively, (iii) stockholder activism and litigation-related costs of \$7.4 million and \$1.0 million for the years ended December 31, 2020 and 2019, respectively, and (iv) deferred revenue fair value adjustments of \$11.2 million for the year ended December 31, 2019.

## Liquidity and Capital Resources

As of December 31, 2020, our principal sources of liquidity were cash and cash equivalents totaling \$500.6 million, which were held for working capital and general corporate purposes, and the ability to borrow under our revolving credit facility as discussed below.

In April 2020, we issued the Notes in an aggregate principal amount of \$380 million, including the exercise by the initial purchasers of an option to purchase additional Notes, in a private placement to qualified institutional buyers under Rule 144A of the Securities Act. The Notes are governed by an indenture (the "Indenture") between the Company and Wilmington Trust, National Association, as trustee. The Notes bear interest at a rate of 2.25% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2020. The Notes mature on May 1, 2025, unless repurchased, redeemed or converted in accordance with their terms prior to such date. Prior to November 1, 2024, the Notes are convertible only upon satisfaction of certain conditions, and thereafter at any time until the close of business on the second scheduled trading date immediately before the maturity date. In connection with the Notes, we entered into privately negotiated capped call transactions with a premium cost of approximately \$50.5 million. The capped call transactions are generally expected to reduce the potential dilution to our common stock upon any conversion of the Notes and/or to offset any cash payments we are required to make in excess of the principal amount of the converted Notes, with such reduction and/or offset subject to the cap. The net proceeds from the issuance of the Notes were \$319.0 million after deducting the initial purchasers' discount, offering expenses and the cost of the capped call transactions. Refer to Note 9 in the "Notes to Consolidated Financial Statements" included in Part II, Item 8 of this Annual Report on Form 10-K for more information regarding our Notes.

On April 23, 2020, we repaid our \$250 million Term Loan in full (including interest and prepayment premium) and terminated our credit agreement with Owl Rock Capital Corporation. In connection with the extinguishment of the Term Loan, we recognized a charge of approximately \$11.7 million in the second quarter of 2020.

On June 25, 2020, we entered into a \$50 million credit agreement (the "Credit Agreement") with Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent, and certain other lenders party thereto that provides for \$50 million in revolving loans. The Credit Agreement allows for incremental borrowings from time to time in an aggregate amount for all such incremental amounts not to exceed (i) the lesser of (x) \$50 million and (y) an amount such that the aggregate principal amount of the lenders' commitments under the revolving credit facility does not exceed \$100 million, plus (ii) certain specified prepayments of indebtedness, plus (iii) an unlimited amount subject to satisfaction of a leverage ratio based compliance test. As of December 31, 2020, no amounts were outstanding under the Credit Agreement.

On August 6, 2020, we sold 6,800,000 shares of our common stock to the public. We received net proceeds of \$299.8 million, which we intend to use for working capital and other general corporate purposes, including capital expenditures, potential acquisitions, growth opportunities and strategic transactions.

We have financed our operations primarily through payments from university clients and students for our technology and services, public and private equity financings, and the Notes. We believe that our existing cash and cash equivalents, together with cash generated from operations and available borrowing capacity under the Credit Agreement, will be sufficient to meet our working capital and capital expenditure requirements for the next 12 months.

Our operations require us to make capital expenditures for content development, capitalized technology, and property and equipment. During the years ended December 31, 2020 and 2019, our capital asset additions were \$72.6 million and \$81.4 million.

We or our affiliates may, at any time and from time to time, seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity or debt, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will be upon such terms and at such prices as we may determine, and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

### *Operating Activities*

Cash flows from operating activities have typically been generated from our net income (loss) and by changes in our operating assets and liabilities, particularly from accounts receivable, adjusted for non-cash expense items such as depreciation and amortization expense and stock-based compensation expense.

Net cash provided by operating activities for the year ended December 31, 2020 was \$29.6 million, consisting primarily of adjustments for non-cash items including \$96.5 million of depreciation and amortization expense, \$82.0 million of

stock-based compensation expense, \$16.3 million of non-cash interest expense, \$15.2 million of reductions in the carrying amounts of our right-of-use assets, and an \$11.7 million loss on debt extinguishment. The net change in operating assets and liabilities of \$19.8 million was favorable to cash flows from operations primarily due to a \$30.6 million increase in accrued compensation and related benefits, a \$26.1 million increase in deferred revenue, and an \$11.3 million increase in accounts payable and accrued expenses. Items offsetting cash provided by operating activities included our net loss of \$216.5 million, an increase in prepaid expenses and other assets of \$28.3 million, and an increase in accounts receivable of \$17.9 million.

Net cash used in operating activities for the year ended December 31, 2019 was \$52.0 million, consisting primarily of our net loss of \$235.2 million, adjusted for non-cash items including a \$70.4 million impairment charge, \$69.8 million of depreciation and amortization expense, \$51.5 million of stock-based compensation expense, and \$11.7 million of reductions in the carrying amounts of our right-of-use assets. The net change in operating assets and liabilities of \$22.8 million was unfavorable to cash flows from operations primarily due to a \$29.7 million decrease in other liabilities, a \$21.7 million increase in payments to university clients, and a \$6.8 million increase in prepaid expenses and other assets, partially offset by favorable changes in accounts payable and accrued expenses of \$17.1 million, an \$11.9 million increase in accounts receivable, and deferred revenue of \$10.0 million.

### ***Investing Activities***

Net cash used in investing activities for the year ended December 31, 2020 was \$69.3 million, consisting primarily of \$62.8 million of additions of amortizable intangible assets and \$6.5 million of purchases of property and equipment.

Net cash used in investing activities for the year ended December 31, 2019 was \$451.4 million, consisting primarily of a \$388.0 million outflow related to our acquisition of Trilogy, net of cash acquired, additions of amortizable intangible assets of \$64.9 million, purchases of property and equipment of \$13.4 million and a \$10.0 million investment purchase. These outflows were partially offset by a \$25.0 million inflow from the maturity of a certificate of deposit investment.

### ***Financing Activities***

Net cash provided by financing activities for the year ended December 31, 2020 was \$367.5 million, consisting primarily of \$319.0 million of proceeds from the issuance of the Notes (net of payments related to the initial purchasers' discount, offering expenses and the cost of the capped call transactions) and \$299.8 million in proceeds received from our public offering of common stock in August 2020. These increases were partially offset by the repayment of \$253.0 million of principal, interest and prepayment premium primarily associated with the extinguishment of our Term Loan and \$2.5 million of payments of debt issuance costs.

Net cash provided by financing activities for the year ended December 31, 2019 was \$244.5 million, consisting primarily of \$242.7 million of proceeds, net of issuance costs, from our Term Loan.

### ***Contractual Obligations and Commitments***

The following table summarizes our obligations under the Notes, deferred government grant obligations, non-cancelable operating leases, commitments to certain of our university clients in exchange for contract extensions and various marketing and other rights, and purchase obligations as of December 31, 2020. Future events could cause actual payments to differ from these amounts.

<b><u>Contractual Obligations</u></b>	<b>Payment due by period</b>				<b>Total</b>
	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>More than 5 years</b>	
	<b>(in thousands)</b>				
Convertible senior notes*	\$ 8,550	\$ 17,100	\$ 392,825	\$ —	\$ 418,475
Deferred government grant obligations	—	—	—	3,500	3,500
Operating lease obligations	19,847	37,766	32,720	48,965	139,298
Future minimum payments to university clients	1,625	1,250	1,250	2,525	6,650
Purchase obligations**	10,107	13,724	—	—	23,831
<b>Total</b>	<b>\$ 40,129</b>	<b>\$ 69,840</b>	<b>\$ 426,795</b>	<b>\$ 54,990</b>	<b>\$ 591,754</b>

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\* Amounts represent principal and fixed-rate interest cash payments over the life of the convertible senior notes, including anticipated interest payments that are not recorded on our consolidated balance sheets. Any future settlement of convertible senior notes would impact our cash payments.

\*\* Other purchase orders made in the ordinary course of business are excluded from the table above. Any amounts for which we are liable under purchase orders are reflected on our consolidated balance sheets as accounts payable and accrued liabilities.

### **Contingent Payments**

We have entered into agreements with certain of our university clients in our Degree Program Segment that require us to make future minimum payments in the event that certain program metrics are not achieved on an annual basis. We recognize any estimated contingent payments under these agreements as contra revenue over the period to which they relate, and record a liability in other current liabilities on our consolidated balance sheets.

As of December 31, 2020, we have entered into an agreement to make an additional investment in an education technology company of up to \$5.0 million, upon demand by the investee.

See Note 7 in the “Notes to Consolidated Financial Statements” included in Part II, Item 8 and “Legal Proceedings” contained in Part I, Item 3 of this Annual Report on Form 10-K for additional information regarding contingencies.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

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

This management’s discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reported period. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates if conditions differ from our assumptions.

While our significant accounting policies are more fully described in Note 2 in the “Notes to Consolidated Financial Statements” included in Part II, Item 8 of this Annual Report on Form 10-K, we believe the following accounting policies are critical to the process of making significant judgments and estimates in preparation of our consolidated financial statements.

#### **Revenue Recognition, Accounts Receivable and Provision for Credit Losses**

We generate substantially all of our revenue from contractual arrangements, with either our university clients or students, to provide a comprehensive platform of tightly integrated technology and technology-enabled services that support our offerings.

#### **Performance Obligations**

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring services to the customer. To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing the expected value method. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Any estimates, including the effect of the constraint on variable consideration, are evaluated at each reporting period, and if necessary, we adjust our estimate of the overall transaction price. Revenue is then recognized over the remaining estimated period of performance using the cumulative catch-up method.

Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. Our contracts with university clients in this segment typically have terms of 10 to 15 years and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts. The single performance obligation is delivered as the university clients receive and consume

benefits, which occurs ratably over a series of academic terms. The amounts received from university clients over the term of the arrangement are variable in nature in that they are dependent upon the number of students that are enrolled in the program within each academic term. These amounts are allocated to and are recognized ratably over the related academic term, defined as the period beginning on the first day of classes through the last. Revenue is recognized net of an allowance, which is established for our expected obligation to refund tuition and fees to university clients.

Our Alternative Credential Segment derives revenue primarily from contracts with students for the tuition and fees paid to enroll in, and progress through, our short courses and boot camps. Our short courses run between six and 16 weeks, while our boot camps run between 12 and 24 weeks. In this segment, our contracts with students include the delivery of the educational and related student support services and are treated as either a single performance obligation or multiple performance obligations, depending upon the offering being delivered. All performance obligations are satisfied ratably over the same presentation period, which is defined as the period beginning on the first day of the course through the last. We recognize the proceeds received, net of any applicable pricing concessions, from the students enrolled and share contractually specified amounts received from students with the associated university client, in exchange for licenses to use the university brand name and other university trademarks. These amounts are recognized as curriculum and teaching costs on our consolidated statements of operations and comprehensive loss. Our contracts with university clients in this segment are typically shorter and less restrictive than our contracts with university clients in our Degree Program Segment.

We do not disclose the value of unsatisfied performance obligations for our Degree Program Segment because the variable consideration is allocated entirely to a wholly unsatisfied promise to transfer a service that forms part of a single performance obligation. We do not disclose the value of unsatisfied performance obligations for our Alternative Credential Segment because the performance obligations are part of contracts that have original durations of less than one year.

#### *Contract Acquisition Costs*

We pay commissions to certain of our employees to obtain contracts with university clients in our Degree Program Segment. These costs are capitalized and recorded on a contract-by-contract basis and amortized using the straight-line method over the expected life, which is generally the length of the contract.

With respect to contract acquisition costs in our Alternative Credential Segment, we have elected to apply the practical expedient in ASC Topic 606 to expense these costs as incurred, as the terms of contracts with students in this segment are less than one year.

#### *Payments to University Clients*

Pursuant to certain of our contracts in the Degree Program Segment, we have made, or are obligated to make, payments to university clients at either the execution of a contract or at the extension of a contract in exchange for various marketing and other rights. Generally, these amounts are capitalized as other assets on our consolidated balance sheets, and amortized as contra revenue over the life of the contract, commencing on the later of when payment is due or when contract revenue recognition begins.

#### *Receivables, Contract Assets and Liabilities*

Balance sheet items related to contracts consist of accounts receivable, net and deferred revenue on our consolidated balance sheets. Accounts receivable, net includes trade accounts receivable, which are comprised of billed and unbilled revenue. Our trade accounts receivable balances have terms of less than one year. Accounts receivable, net is stated at amortized cost net of provision for credit losses. Our methodology to measure the provision for credit losses requires an estimation of loss rates based upon historical loss experience adjusted for factors that are relevant to determining the expected collectability of accounts receivable. Some of these factors include current market conditions, delinquency trends, aging behavior of receivables and credit and liquidity quality indicators for industry groups, customer classes or individual customers. Our estimates are reviewed and revised periodically based on the ongoing evaluation of credit quality indicators. Historically, actual write-offs for uncollectible accounts have not significantly differed from prior estimates.

Interest-free financing and tuition payment plans are made available to students enrolling in select boot camps within our Alternative Credential Segment. The financing plans, which are managed and serviced by third-party providers, are designed to assist students who are unable to completely cover tuition costs and are available only after all other student financial assistance and scholarships have been applied. The associated financing receivables generally have payment terms that exceed one year and are recorded on our consolidated balance sheets net of any implied pricing concessions, based on our collections history and market data, and significant financing components. The amount of financing receivables recorded within other assets on our consolidated balance sheets was \$25.4 million and \$3.9 million as of December 31, 2020 and 2019, respectively.

We recognize unbilled revenue when revenue recognition occurs in advance of billings. Unbilled revenue is recognized in our Degree Program Segment because billings to university clients do not occur until after the academic term has commenced and final enrollment information is available. Our unbilled revenue represents contract assets. Unbilled accounts receivable is recognized in our Alternative Credential Segment once the presentation period commences for amounts to be invoiced to students under installment plans that are paid over the same presentation period.

Deferred revenue represents the excess of amounts billed or received as compared to amounts recognized in revenue on our consolidated statements of operations and comprehensive loss as of the end of the reporting period, and such amounts are reflected as a current liability on our consolidated balance sheets. Our deferred revenue represents contract liabilities. We generally receive payments from Degree Program Segment university clients early in each academic term and from Alternative Credential Segment students, either in full upon registration for the course or in full before the end of the course based on a payment plan, prior to completion of the service period. These payments are recorded as deferred revenue until the services are delivered or until our obligations are otherwise met, at which time revenue is recognized.

### ***Long-Lived Assets***

#### *Amortizable Intangible Assets*

*Acquired Intangible Assets.* We capitalize purchased intangible assets, such as software, websites and domains, and amortize them on a straight-line basis over their estimated useful life. Historically, we have assessed the useful lives of these acquired intangible assets to be between three and 10 years.

*Capitalized Technology.* Capitalized technology includes certain purchased software and technology licenses, direct third-party costs, and internal payroll and payroll-related costs used in the creation of our internal-use software. Software development projects generally include three stages: the preliminary project stage (all costs are expensed as incurred), the application development stage (certain costs are capitalized and certain costs are expensed as incurred) and the post-implementation/operation stage (all costs are expensed as incurred). Costs capitalized in the application development stage include costs of designing the application, coding, integrating our and the university's networks and systems, and the testing of the software. Capitalization of costs requires judgment in determining when a project has reached the application development stage and the period over which we expect to benefit from the use of that software. Once the software is placed in service, these costs are amortized using the straight-line method over the estimated useful life of the software, which is generally three to five years.

*Capitalized Content Development.* We develop content for each offering on a course-by-course basis in collaboration with university client faculty and industry experts. Depending upon the offering, we may use materials provided by university clients and their faculty, including curricula, case studies, presentations and other reading materials. We are responsible for the creation of materials suitable for delivery through our online learning platform, including all expenses associated with this effort. With respect to the Degree Program Segment, the development of content is part of our single performance obligation and is considered a contract fulfillment cost.

The content development costs that qualify for capitalization are third-party direct costs, such as videography, editing and other services associated with creating digital content. Additionally, we capitalize internal payroll and payroll-related costs incurred to create and produce videos and other digital content utilized in the university clients' offerings for delivery via our online learning platform. Capitalization ends when content has been fully developed by both us and the university client, at which time amortization of the capitalized content development costs begins. The capitalized costs for each offering are recorded on a course-by-course basis and included in capitalized content costs in amortizable intangible assets, net on our consolidated balance sheets. These costs are amortized using the straight-line method over the estimated useful life of the respective course, which is generally four to five years. The estimated useful life corresponds with the planned curriculum refresh rate. This refresh rate is consistent with expected curriculum refresh rates as cited by faculty members for similar on-campus offerings.

#### *Evaluation of Long-Lived Assets*

We review long-lived assets, which consist of property and equipment, capitalized technology costs, capitalized content development costs and acquired finite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. In order to assess the recoverability of the capitalized technology and content development costs, the costs are grouped by the lowest level of independent cash flows. Recoverability of a long-lived asset is measured by a comparison of the carrying value of an asset or asset group to the future undiscounted net cash flows expected to be generated by that asset or asset group. If such assets are not recoverable, the impairment to be recognized is measured by the amount by which the carrying value of an asset exceeds the estimated fair value (discounted cash flow) of the asset or asset group. Our impairment analysis is based upon cumulative results and forecasted performance.

## **Goodwill**

Goodwill is the excess of purchase price over the fair value of identified net assets of businesses acquired. Our goodwill balance relates to the acquisitions of GetSmarter in July 2017 and Trilogy in May 2019. We review goodwill annually, as of October 1. Between annual tests, goodwill is reviewed for possible impairment if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We test our goodwill at the reporting unit level, which is an operating segment or one level below an operating segment. We initially assess qualitative factors to determine if it is necessary to perform a quantitative goodwill impairment review. We review goodwill for impairment using a quantitative approach if we decide to bypass the qualitative assessment or determine that it is more likely than not that the fair value of a reporting unit is less than its carrying value based on a qualitative assessment. Upon completion of a quantitative assessment, we may be required to recognize an impairment based on the difference between the carrying value and the fair value of the reporting unit.

We determine the fair value of a reporting unit by utilizing a weighted combination of the income-based and market-based approaches.

The income-based approach requires us to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies, discount rates, terminal growth rates, and forecasts of revenue, operating income, depreciation and amortization expense, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, we consider each reporting unit's historical results and current operating trends, revenue, profitability, cash flow results and forecasts, and industry trends. These estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, market capitalization, the continued efforts of competitors to gain market share and prospective student enrollment patterns.

In addition, the value of a reporting unit using the market-based approach is estimated by comparing the reporting unit to other publicly-traded companies and/or to publicly-disclosed business mergers and acquisitions in similar lines of business. The value of a reporting unit is based on pricing multiples of certain financial parameters observed in the comparable companies. We also make estimates and assumptions for market values to determine a reporting unit's estimated fair value.

Based on our quantitative assessment performed during 2019 and our qualitative assessment performed as of October 1, 2020, the date of our annual goodwill impairment assessment, we concluded that the estimated fair values of our reporting units exceeded their carrying values by no less than 10%. It is possible that future changes in our circumstances, including potential impacts from COVID-19, or in the variables associated with the judgments, assumptions and estimates used in assessing the fair value of our reporting units, could require us to record additional impairment charges in the future.

## **Recent Accounting Pronouncements**

Refer to Note 2 in the "Notes to Consolidated Financial Statements" included in Part II, Item 8 of this Annual Report on Form 10-K for a discussion of FASB's recent accounting pronouncements and their effect on us.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of loss to future earnings, values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. Our exposure to market risk related to changes in foreign currency exchange rates is deemed moderate as further described below. In addition, we do not use derivative financial instruments for speculative, hedging or trading purposes, although in the future we may enter into exchange rate hedging arrangements to manage the risks described in the succeeding paragraphs.

### **Interest Rate Risk**

We are subject to interest rate risk in connection with potential borrowings under our Credit Agreement that provides for revolving loans (the "Loans") that mature on December 26, 2023. Loans under the Credit Agreement bear interest, at our option, at variable rates based on (i) a customary base rate plus an applicable margin of 2.75% or (ii) an adjusted LIBOR rate (with a floor of 0.00%) for the interest period relevant to such borrowing plus an applicable margin of 3.75%. Increases in our lender's customary base rate or LIBOR would increase the amount of interest payable on any borrowings outstanding under this Credit Agreement. No Loan amounts under our Credit Agreement were outstanding as of December 31, 2020.

### **Foreign Currency Exchange Risk**

We transact material business in foreign currencies and are exposed to risks resulting from fluctuations in foreign currency exchange rates. Our primary exposures are related to non-U.S. dollar denominated revenue and operating expenses in

South Africa and the United Kingdom. Accounts relating to foreign operations are translated into U.S. dollars using prevailing exchange rates at the relevant period end. As a result, we would experience increased revenue and operating expenses in our non-U.S. operations if there were a decline in the value of the U.S. dollar relative to these foreign currencies. Conversely, we would experience decreased revenue and operating expenses in our non-U.S. operations if there were an increase in the value of the U.S. dollar relative to these foreign currencies. Translation adjustments are included as a separate component of stockholders' equity.

For the years ended December 31, 2020 and 2019, our foreign currency translation adjustment was a loss of \$3.0 million and a gain of \$1.7 million, respectively. For the years ended December 31, 2020 and 2019, we recognized foreign currency exchange losses of \$1.4 million and \$0.7 million, respectively, included on our consolidated statements of operations and comprehensive loss.

The foreign exchange rate volatility of the trailing 12 months ended December 31, 2020 was 13% and 9% for the South African rand and British pound, respectively. The foreign exchange rate volatility of the trailing 12 months ended December 31, 2019 was 10% and 7% for the South African rand and British pound, respectively. A 10% fluctuation of foreign currency exchange rates would have had an immaterial effect on our results of operations and cash flows for all periods presented. The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Such volatility, even when it increases our revenue or decreases our expense, impacts our ability to accurately predict our future results and earnings.

### **Inflation**

We do not currently believe that inflation has had a material effect on our business, financial condition or results of operations, though we continue to monitor costs we incur in higher inflationary economies. Additionally, we continue to monitor all inflation-driven costs, regardless of where they are incurred. If our costs were to become subject to significant inflationary pressures, the price increases implemented by our university clients and our own pricing strategies might not fully offset the higher costs, which could harm our business, financial condition and results of operations.

**Item 8. Financial Statements and Supplementary Data**

**2U, Inc.**  
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## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
2U, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of 2U, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and financial statement Schedule II—Valuation and Qualifying Accounts (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Changes in Accounting Principles*

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### *Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Assessment of capitalized technology costs incurred on software development projects*

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company's capitalized technology includes certain purchased software and technology licenses, direct third-party costs, and internal payroll and payroll-related costs used in the creation of internal-use software. As discussed in Note 5 to the consolidated financial statements, the Company's capitalized technology costs, net of accumulated amortization, was \$89.4 million as of December 31, 2020.

We identified the assessment of capitalized technology costs incurred on software development projects during the year ended December 31, 2020 as a critical audit matter. Specifically, assessing if the costs incurred on the

software development project have met the capitalization criteria required a higher degree of auditor judgment. This included applying procedures to determine that the costs related to a project that had entered the application development stage, resulted in additional functionality, and for which it was probable that the project would be completed and used to perform the function intended. Evaluating these criteria required subjective auditor judgment to assess the technical aspects of individual projects to which the capitalized costs are related.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the critical audit matter. This included controls over the determination that a software development project met the capitalization criteria. For certain software development projects, we inspected the Company's documentation to test the determination that the project met the capitalization criteria. In addition, for those projects tested, we evaluated the Company's documentation through corroborative inquiry with certain of the Company's technology developers responsible for performing the software development activities.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

McLean, Virginia  
February 25, 2021

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
2U, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited 2U, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and financial statement Schedule II—Valuation and Qualifying Accounts (collectively, the consolidated financial statements), and our report dated February 25, 2021 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

McLean, Virginia  
February 25, 2021

**2U, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except share and per share amounts)

	December 31, 2020	December 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 500,629	\$ 170,593
Restricted cash	18,237	19,276
Accounts receivable, net	46,663	33,655
Prepaid expenses and other assets	39,353	37,424
<b>Total current assets</b>	<b>604,882</b>	<b>260,948</b>
<b>Property and equipment, net</b>	<b>52,734</b>	<b>57,643</b>
<b>Right-of-use assets</b>	<b>60,785</b>	<b>43,401</b>
<b>Goodwill</b>	<b>415,830</b>	<b>418,350</b>
<b>Amortizable intangible assets, net</b>	<b>312,770</b>	<b>333,075</b>
<b>Other assets, non-current</b>	<b>97,263</b>	<b>73,413</b>
<b>Total assets</b>	<b>\$ 1,544,264</b>	<b>\$ 1,186,830</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 130,674	\$ 87,266
Deferred revenue	75,493	48,833
Lease liability	10,024	7,320
Other current liabilities	21,178	12,535
<b>Total current liabilities</b>	<b>237,369</b>	<b>155,954</b>
<b>Long-term debt</b>	<b>273,173</b>	<b>246,620</b>
<b>Deferred tax liabilities, net</b>	<b>2,810</b>	<b>5,133</b>
<b>Lease liability, non-current</b>	<b>83,228</b>	<b>66,974</b>
<b>Other liabilities, non-current</b>	<b>6,694</b>	<b>899</b>
<b>Total liabilities</b>	<b>603,274</b>	<b>475,580</b>
<b>Commitments and contingencies (Note 7)</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, none issued	—	—
Common stock, \$0.001 par value, 200,000,000 shares authorized, 72,451,521 shares issued and outstanding as of December 31, 2020; 63,569,109 shares issued and outstanding as of December 31, 2019	72	63
Additional paid-in capital	1,646,574	1,197,379
Accumulated deficit	(695,872)	(479,388)
Accumulated other comprehensive loss	(9,784)	(6,804)
<b>Total stockholders' equity</b>	<b>940,990</b>	<b>711,250</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,544,264</b>	<b>\$ 1,186,830</b>

See accompanying notes to consolidated financial statements.

**2U, Inc.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**(in thousands, except share and per share amounts)**

	Year Ended December 31,		
	2020	2019	2018
<b>Revenue</b>	\$ 774,533	\$ 574,671	\$ 411,769
<b>Costs and expenses</b>			
Curriculum and teaching	107,968	63,270	23,290
Servicing and support	125,851	98,890	67,203
Technology and content development	155,949	115,473	63,812
Marketing and sales	390,174	342,395	221,015
General and administrative	173,526	131,020	82,989
Impairment charge	—	70,379	—
<b>Total costs and expenses</b>	<u>953,468</u>	<u>821,427</u>	<u>458,309</u>
<b>Loss from operations</b>	(178,935)	(246,756)	(46,540)
Interest income	1,354	5,800	5,173
Interest expense	(27,317)	(13,419)	(108)
Loss on debt extinguishment	(11,671)	—	—
Other expense, net	(1,429)	(707)	(1,722)
<b>Loss before income taxes</b>	<u>(217,998)</u>	<u>(255,082)</u>	<u>(43,197)</u>
<b>Income tax benefit</b>	1,514	19,860	4,867
<b>Net loss</b>	<u>\$ (216,484)</u>	<u>\$ (235,222)</u>	<u>\$ (38,330)</u>
<b>Net loss per share, basic and diluted</b>	<u>\$ (3.22)</u>	<u>\$ (3.83)</u>	<u>\$ (0.69)</u>
<b>Weighted-average shares of common stock outstanding, basic and diluted</b>	<u>67,142,976</u>	<u>61,393,666</u>	<u>55,833,492</u>
<b>Other comprehensive income (loss)</b>			
Foreign currency translation adjustments, net of tax of \$0 for all periods presented	(2,980)	1,710	(13,840)
<b>Comprehensive loss</b>	<u>\$ (219,464)</u>	<u>\$ (233,512)</u>	<u>\$ (52,170)</u>

See accompanying notes to consolidated financial statements.

**2U, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
(in thousands, except share amounts)

	Common Stock		Additional Paid- In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
<b>Balance, December 31, 2017</b>	52,505,856	\$ 53	\$ 588,289	\$ (205,836)	\$ 5,326	\$ 387,832
Issuance of common stock in connection with a public offering of common stock, net of offering costs	3,833,334	4	330,897	—	—	330,901
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	553,159	—	(3,451)	—	—	(3,451)
Exercise of stock options	1,012,473	1	7,365	—	—	7,366
Issuance of common stock in connection with employee stock purchase plan	63,671	—	3,121	—	—	3,121
Stock-based compensation expense	—	—	31,410	—	—	31,410
Net loss	—	—	—	(38,330)	—	(38,330)
Foreign currency translation adjustment	—	—	—	—	(13,840)	(13,840)
<b>Balance, December 31, 2018</b>	<u>57,968,493</u>	<u>58</u>	<u>957,631</u>	<u>(244,166)</u>	<u>(8,514)</u>	<u>705,009</u>
Issuance of common stock in connection with business combination, net of offering costs	4,608,101	5	184,317	—	—	184,322
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	502,795	—	(2,574)	—	—	(2,574)
Exercise of stock options	361,134	—	3,119	—	—	3,119
Issuance of common stock in connection with employee stock purchase plan	123,365	—	3,382	—	—	3,382
Issuance of common stock award	5,221	—	—	—	—	—
Stock-based compensation expense	—	—	51,504	—	—	51,504
Net loss	—	—	—	(235,222)	—	(235,222)
Foreign currency translation adjustment	—	—	—	—	1,710	1,710
<b>Balance, December 31, 2019</b>	<u>63,569,109</u>	<u>63</u>	<u>1,197,379</u>	<u>(479,388)</u>	<u>(6,804)</u>	<u>711,250</u>
Issuance of common stock in connection with a public offering of common stock, net of offering costs	6,800,000	7	299,789	—	—	299,796
Equity component of convertible senior notes, net of issuance costs	—	—	114,551	—	—	114,551
Purchases of capped calls in connection with convertible senior notes	—	—	(50,540)	—	—	(50,540)
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	1,582,362	2	(4,784)	—	—	(4,782)
Exercise of stock options	353,480	—	4,177	—	—	4,177
Issuance of common stock in connection with employee stock purchase plan	146,570	—	3,960	—	—	3,960
Stock-based compensation expense	—	—	82,042	—	—	82,042
Net loss	—	—	—	(216,484)	—	(216,484)
Foreign currency translation adjustment	—	—	—	—	(2,980)	(2,980)
<b>Balance, December 31, 2020</b>	<u>72,451,521</u>	<u>\$ 72</u>	<u>\$ 1,646,574</u>	<u>\$ (695,872)</u>	<u>\$ (9,784)</u>	<u>\$ 940,990</u>

See accompanying notes to consolidated financial statements.

**2U, Inc.**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
<b>Cash flows from operating activities</b>			
<b>Net loss</b>	\$ (216,484)	\$ (235,222)	\$ (38,330)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Non-cash interest expense	16,267	1,153	108
Depreciation and amortization expense	96,469	69,843	32,785
Stock-based compensation expense	82,042	51,504	31,410
Non-cash lease expense	15,153	11,725	—
Provision for credit losses	4,642	1,425	—
Impairment charge	—	70,379	—
Loss on debt extinguishment	11,671	—	—
Changes in operating assets and liabilities, net of assets and liabilities acquired:			
Accounts receivable, net	(17,877)	11,949	(18,497)
Payments to university clients	1,889	(21,675)	(11,322)
Prepaid expenses and other assets	(28,267)	(6,845)	(4,932)
Accounts payable and accrued expenses	11,322	17,081	4,724
Accrued compensation and related benefits	30,637	(5,539)	4,046
Deferred revenue	26,061	10,014	1,527
Other liabilities, net	(5,364)	(29,748)	(6,351)
Other	1,443	1,982	1,712
<b>Net cash provided by (used in) operating activities</b>	<b>29,604</b>	<b>(51,974)</b>	<b>(3,120)</b>
<b>Cash flows from investing activities</b>			
Purchase of a business, net of cash acquired	(949)	(388,004)	—
Additions of amortizable intangible assets	(62,784)	(64,923)	(65,190)
Purchases of property and equipment	(6,517)	(13,421)	(11,996)
Purchase of investments	—	(10,000)	(25,000)
Proceeds from maturities of investments	—	25,000	—
Advances made to university clients	—	(400)	(300)
Advances repaid by university clients	925	350	25
<b>Net cash used in investing activities</b>	<b>(69,325)</b>	<b>(451,398)</b>	<b>(102,461)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock, net of offering costs	299,796	—	330,901
Proceeds from debt	371,681	244,724	—
Payments on debt	(250,837)	—	—
Purchases of capped calls in connection with issuance of convertible senior notes	(50,540)	—	—
Prepayment premium on extinguishment of senior secured term loan facility	(2,528)	—	—
Payment of debt issuance costs	(3,419)	(1,953)	—
Tax withholding payments associated with settlement of restricted stock units	(4,784)	(2,574)	(3,451)
Proceeds from exercise of stock options	4,177	3,119	7,366
Proceeds from employee stock purchase plan share purchases	3,960	3,382	3,121
Payments for acquisition of amortizable intangible assets	—	(2,180)	(4,900)
<b>Net cash provided by financing activities</b>	<b>367,506</b>	<b>244,518</b>	<b>333,037</b>
<b>Effect of exchange rate changes on cash</b>	<b>1,212</b>	<b>(1,049)</b>	<b>(1,054)</b>
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>328,997</b>	<b>(259,903)</b>	<b>226,402</b>
<b>Cash, cash equivalents and restricted cash, beginning of period</b>	<b>189,869</b>	<b>449,772</b>	<b>223,370</b>
<b>Cash, cash equivalents and restricted cash, end of period</b>	<b>\$ 518,866</b>	<b>\$ 189,869</b>	<b>\$ 449,772</b>

See accompanying notes to consolidated financial statements.

**2U, Inc.**  
**Notes to Consolidated Financial Statements**

## **1. Organization**

2U, Inc. (together with its subsidiaries, the “Company”) is a leading digital transformation partner for nonprofit colleges and universities. The Company builds, delivers, and supports more than 500 digital and in-person educational offerings, including graduate degrees, undergraduate degrees, professional certificates, boot camps, and short courses, across the Career Curriculum Continuum.

The Company has two reportable segments: the Degree Program Segment and the Alternative Credential Segment.

The Company’s Degree Program Segment provides the technology and services to nonprofit colleges and universities to enable the online delivery of degree programs. Students enrolled in these programs are generally seeking an undergraduate or graduate degree of the same quality they would receive on campus. In the first quarter of 2021, the Company changed the name of this segment from Graduate Program Segment to Degree Program Segment because this segment now includes undergraduate degree programs.

The Company’s Alternative Credential Segment provides premium online short courses and technical, skills-based boot camps through relationships with nonprofit colleges and universities. Students enrolled in these offerings are generally seeking to reskill or upskill through shorter duration, lower-priced offerings that are relevant to the needs of industry and society.

On May 22, 2019, the Company completed its acquisition of Trilogy Education Services, Inc. (“Trilogy”), a workforce accelerator that prepares adult learners for high-growth careers in the digital economy through its boot camp offerings. The acquisition expanded the Company’s university client portfolio and added another offering on the Career Curriculum Continuum to make education more accessible for lifelong learners. The results of Trilogy’s operations are included in the Alternative Credential Segment. Refer to Note 3 for further information about the acquisition of Trilogy.

## **2. Significant Accounting Policies**

### ***Basis of Presentation and Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) and include the assets, liabilities, results of operations and cash flows of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

### ***Use of Estimates***

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported herein. The Company bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances. Significant estimates and assumptions are inherent in the analysis and the measurement of provisions for credit losses, acquired intangible assets, the recoverability of goodwill, deferred tax assets, and convertible senior notes. Due to the inherent uncertainty involved in making estimates, particularly in light of the COVID-19 pandemic, actual results reported in future periods may be affected by changes in those estimates. The Company evaluates its estimates and assumptions on an ongoing basis.

### ***Revenue Recognition, Accounts Receivable and Provision for Credit Losses***

The Company generates substantially all of its revenue from contractual arrangements, with either its university clients or students, to provide a comprehensive platform of tightly integrated technology and technology-enabled services that support its offerings.

### ***Performance Obligations***

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

## **2. Significant Accounting Policies (Continued)**

obligation is satisfied. The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing the expected value method. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Any estimates, including the effect of the constraint on variable consideration, are evaluated at each reporting period, and if necessary, the Company adjusts its estimate of the overall transaction price. Revenue is then recognized over the remaining estimated period of performance using the cumulative catch-up method.

The Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts the Company's university clients receive from their students in 2U-enabled degree programs for tuition and fees, less credit card fees and other specified charges the Company has agreed to exclude in certain university contracts. The Company's contracts with university clients in this segment typically have terms of 10 to 15 years and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts. The single performance obligation is delivered as the university clients receive and consume benefits, which occurs ratably over a series of academic terms. The amounts received from university clients over the term of the arrangement are variable in nature in that they are dependent upon the number of students that are enrolled in the program within each academic term. These amounts are allocated to and are recognized ratably over the related academic term, defined as the period beginning on the first day of classes through the last. Revenue is recognized net of an allowance, which is established for the Company's expected obligation to refund tuition and fees to university clients.

The Alternative Credential Segment derives revenue primarily from contracts with students for the tuition and fees paid to enroll in, and progress through, the Company's short courses and boot camps. The Company's short courses run between six and 16 weeks, while boot camps run between 12 and 24 weeks. In this segment, the Company's contracts with students include the delivery of the educational and related student support services and are treated as either a single performance obligation or multiple performance obligations, depending upon the offering being delivered. All performance obligations are satisfied ratably over the same presentation period, which is defined as the period beginning on the first day of the course through the last. The Company recognizes the proceeds received, net of any applicable pricing concessions, from the students enrolled and shares contractually specified amounts received from students with the associated university client, in exchange for licenses to use the university brand name and other university trademarks. These amounts are recognized as curriculum and teaching costs on the Company's consolidated statements of operations and comprehensive loss. The Company's contracts with university clients in this segment are typically shorter and less restrictive than the Company's contracts with university clients in the Degree Program Segment.

The Company does not disclose the value of unsatisfied performance obligations for the Degree Program Segment because the variable consideration is allocated entirely to a wholly unsatisfied promise to transfer a service that forms part of a single performance obligation. The Company does not disclose the value of unsatisfied performance obligations for the Alternative Credential Segment because the performance obligations are part of contracts that have original durations of less than one year.

### *Contract Acquisition Costs*

The Company pays commissions to certain of its employees to obtain contracts with university clients in the Degree Program Segment. These costs are capitalized and recorded on a contract-by-contract basis and amortized using the straight-line method over the expected life, which is generally the length of the contract.

With respect to contract acquisition costs in the Alternative Credential Segment, the Company has elected to apply the practical expedient in Accounting Standards Codification ("ASC") Topic 606 to expense these costs as incurred, as the terms of contracts with students in this segment are less than one year.

### *Payments to University Clients*

Pursuant to certain of the Company's contracts in the Degree Program Segment, the Company has made, or is obligated to make, payments to university clients at either the execution of a contract or at the extension of a contract in exchange for various marketing and other rights. Generally, these amounts are capitalized as other assets on the Company's consolidated balance sheets, and amortized as contra revenue over the life of the contract, commencing on the later of when payment is due or when contract revenue recognition begins.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**2. Significant Accounting Policies (Continued)***Receivables, Contract Assets and Liabilities*

Balance sheet items related to contracts consist of accounts receivable, net and deferred revenue on the Company's consolidated balance sheets. Accounts receivable, net includes trade accounts receivable, which are comprised of billed and unbilled revenue. The Company's trade accounts receivable balances have terms of less than one year. Accounts receivable, net is stated at amortized cost net of provision for credit losses. The Company's methodology to measure the provision for credit losses requires an estimation of loss rates based upon historical loss experience adjusted for factors that are relevant to determining the expected collectability of accounts receivable. Some of these factors include current market conditions, delinquency trends, aging behavior of receivables and credit and liquidity quality indicators for industry groups, customer classes or individual customers. The Company's estimates are reviewed and revised periodically based on the ongoing evaluation of credit quality indicators. Historically, actual write-offs for uncollectible accounts have not significantly differed from prior estimates.

Interest-free financing and tuition payment plans are made available to students enrolling in select boot camps within the Alternative Credential Segment. The financing plans, which are managed and serviced by third-party providers, are designed to assist students who are unable to completely cover tuition costs and are available only after all other student financial assistance and scholarships have been applied. The associated financing receivables generally have payment terms that exceed one year and are recorded on the Company's consolidated balance sheets net of any implied pricing concessions, based on our collections history and market data, and significant financing components. The amount of financing receivables recorded within other assets on the Company's consolidated balance sheets was \$25.4 million and \$3.9 million as of December 31, 2020 and 2019, respectively.

The Company recognizes unbilled revenue when revenue recognition occurs in advance of billings. Unbilled revenue is recognized in the Degree Program Segment because billings to university clients do not occur until after the academic term has commenced and final enrollment information is available. The Company's unbilled revenue represents contract assets. Unbilled accounts receivable is recognized in the Alternative Credential Segment once the presentation period commences for amounts to be invoiced to students under installment plans that are paid over the same presentation period.

The following table presents the change in provision for credit losses on the Company's consolidated balance sheets for the period indicated:

	<b>Provision for Credit Losses</b>
	<b>(in thousands)</b>
Balance as of January 1, 2020	\$ 1,331
Current period provision	4,642
Amounts written off	(16)
Other	(21)
Balance as of December 31, 2020	<u>\$ 5,936</u>

Deferred revenue represents the excess of amounts billed or received as compared to amounts recognized in revenue on the Company's consolidated statements of operations and comprehensive loss as of the end of the reporting period, and such amounts are reflected as a current liability on the Company's consolidated balance sheets. The Company's deferred revenue represents contract liabilities. The Company generally receives payments from Degree Program Segment university clients early in each academic term and from Alternative Credential Segment students, either in full upon registration for the course or in full before the end of the course based on a payment plan, prior to completion of the service period. These payments are recorded as deferred revenue until the services are delivered or until the Company's obligations are otherwise met, at which time revenue is recognized.

*Marketing and Sales Costs*

The Company's marketing and sales costs relate to activities to attract students to offerings across both of the Company's segments. This includes the cost of Search Engine Optimization, Search Engine Marketing and Social Media Optimization, as well as personnel and personnel-related expense for the Company's marketing and recruiting teams. For the years ended December 31, 2020, 2019 and 2018, expense related to the Company's marketing and advertising efforts of its own

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

## **2. Significant Accounting Policies (Continued)**

brand were not material. All such costs are expensed as incurred and reported in marketing and sales expense on the Company's consolidated statements of operations and comprehensive loss.

### ***Stock-Based Compensation***

The Company provides stock-based compensation awards consisting of restricted stock units ("RSUs"), performance restricted stock units ("PRSUs") and stock options to employees, directors and consultants. The Company measures all stock-based compensation awards at fair value as of the grant date. The fair values of RSUs and PRSUs containing performance-based vesting conditions are based on the fair value of the Company's stock. The Company uses a Monte Carlo model to estimate the fair value of PRSUs containing market-based vesting conditions and uses a Black-Scholes option pricing model to measure the fair value of stock option grants. The Company also maintains the 2017 Employee Stock Purchase Plan (the "ESPP") and estimates the fair value of each purchase right thereunder as of the grant date using a Black-Scholes option pricing model.

For awards subject only to service-based vesting conditions, the Company recognizes stock-based compensation expense on a straight-line basis over the awards' requisite service period. For awards subject to both service and performance-based vesting conditions, the Company recognizes stock-based compensation expense using an accelerated recognition method when it is probable that the performance condition will be achieved. For awards subject to both service and market-based vesting conditions, the Company recognizes stock-based compensation expense using an accelerated recognition method over the requisite service period beginning with the date of the grant and ending upon completion of the service period, with stock-based compensation expense being recognized irrespective of the achievement of the market condition. For shares subject to the ESPP, the Company uses the straight-line method to record stock-based compensation expense over the respective offering period.

Refer to Note 11 for further information about the Company's stock-based compensation awards.

### ***Income Taxes***

Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that are included in the financial statements. Under this method, the deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of the assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on the deferred tax assets and liabilities is recognized in earnings in the period when the new rate is enacted. Deferred tax assets are subject to periodic recoverability assessments. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. The Company considers all positive and negative evidence relating to the realization of the deferred tax assets in assessing the need for a valuation allowance. The Company currently maintains a full valuation allowance against deferred tax assets in the U.S. and certain entities in the foreign jurisdictions.

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company accounts for uncertainty in income taxes using a two-step approach for evaluating tax positions. Step one, recognition, occurs when the Company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Step two, measurement, determines the amount of benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. De-recognition of a tax position that was previously recognized would occur if the Company subsequently determines that a tax position no longer meets the more likely than not threshold of being sustained. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense on the consolidated statements of operations and comprehensive loss.

### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of bank checking accounts, money market accounts, investments in certificates of deposit that have an original maturity of three months or less and highly liquid marketable securities with maturities at the time of purchase of three months or less.

### ***Restricted Cash***

The Company maintains restricted cash as collateral for standby letters of credit for the Company's leased facilities and in connection with the deferred government grant obligations.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

## **2. Significant Accounting Policies (Continued)**

### ***Fair Value Measurements***

The carrying amounts of certain assets and liabilities, including cash and cash equivalents, accounts receivable, advances to university clients, accounts payable and accrued expenses and other current liabilities, approximate their respective fair values due to their short-term nature.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in the absence of a principal, most advantageous, market for the specific asset or liability.

U.S. GAAP provides for a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. The Company remeasures non-financial assets such as goodwill, intangible assets and other long-lived assets at fair value when there is an indicator of impairment, and records them at fair value only when recognizing an impairment loss. The fair value hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs when determining fair value. Refer to Notes 4 and 5 for further discussion of assets measured at fair value on a nonrecurring basis. The three tiers are defined as follows:

- *Level 1*—Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- *Level 2*—Observable inputs, other than quoted prices in active markets, that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- *Level 3*—Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The Company has financial instruments, including cash deposits, accounts receivable, accounts payable and debt. The carrying values for such financial instruments, other than debt, each approximated their fair values as of December 31, 2020 and 2019.

### ***Long-Lived Assets***

#### ***Property and Equipment***

Property and equipment is stated at cost less accumulated depreciation and amortization. Expenditures for major additions, construction and improvements are capitalized. Depreciation and amortization is expensed using the straight-line method over the estimated useful lives of the related assets, which range from three to five years for computer hardware and five to seven years for furniture and office equipment. Leasehold improvements are depreciated on a straight-line basis over the lesser of the remaining term of the leased facility or the estimated useful life of the improvement, which generally ranges from four to approximately 11 years. Useful lives of significant assets are periodically reviewed and adjusted prospectively to reflect the Company's current estimates of the respective assets' expected utility. Repair and maintenance costs are expensed as incurred.

#### ***Amortizable Intangible Assets***

***Acquired Intangible Assets.*** The Company capitalizes purchased intangible assets, such as software, websites and domains, and amortizes them on a straight-line basis over their estimated useful life. Historically, the Company has assessed the useful lives of these acquired intangible assets to be between three and 10 years.

***Capitalized Technology.*** Capitalized technology includes certain purchased software and technology licenses, direct third-party costs, and internal payroll and payroll-related costs used in the creation of our internal-use software. Software development projects generally include three stages: the preliminary project stage (all costs are expensed as incurred), the application development stage (certain costs are capitalized and certain costs are expensed as incurred) and the post-implementation/operation stage (all costs are expensed as incurred). Costs capitalized in the application development stage include costs of designing the application, coding, integrating the Company's and the university's networks and systems, and the testing of the software. Capitalization of costs requires judgment in determining when a project has reached the application

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

## **2. Significant Accounting Policies (Continued)**

development stage and the period over which the Company expects to benefit from the use of that software. Once the software is placed in service, these costs are amortized using the straight-line method over the estimated useful life of the software, which is generally three to five years.

*Capitalized Content Development.* The Company develops content for each offering on a course-by-course basis in collaboration with university client faculty and industry experts. Depending upon the offering, the Company may use materials provided by university clients and their faculty, including curricula, case studies, presentations and other reading materials. The Company is responsible for the creation of materials suitable for delivery through the Company's online learning platform, including all expenses associated with this effort. With respect to the Degree Program Segment, the development of content is part of the Company's single performance obligation and is considered a contract fulfillment cost.

The content development costs that qualify for capitalization are third-party direct costs, such as videography, editing and other services associated with creating digital content. Additionally, the Company capitalizes internal payroll and payroll-related costs incurred to create and produce videos and other digital content utilized in the university clients' offerings for delivery via the Company's online learning platform. Capitalization ends when content has been fully developed by both the Company and the university client, at which time amortization of the capitalized content development costs begins. The capitalized costs for each offering are recorded on a course-by-course basis and included in capitalized content costs in amortizable intangible assets, net on the Company's consolidated balance sheets. These costs are amortized using the straight-line method over the estimated useful life of the respective course, which is generally four to five years. The estimated useful life corresponds with the planned curriculum refresh rate. This refresh rate is consistent with expected curriculum refresh rates as cited by faculty members for similar on-campus offerings.

### *Evaluation of Long-Lived Assets*

The Company reviews long-lived assets, which consist of property and equipment, capitalized technology costs, capitalized content development costs and acquired finite-lived intangible assets, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. In order to assess the recoverability of the capitalized technology and content development costs, the costs are grouped by the lowest level of independent cash flows. Recoverability of a long-lived asset is measured by a comparison of the carrying value of an asset or asset group to the future undiscounted net cash flows expected to be generated by that asset or asset group. If such assets are not recoverable, the impairment to be recognized is measured by the amount by which the carrying value of an asset exceeds the estimated fair value (discounted cash flow) of the asset or asset group. The Company's impairment analysis is based upon cumulative results and forecasted performance.

### *Non-Cash Long-Lived Asset Additions*

The Company had non-cash capital asset additions of \$3.3 million and \$3.1 million in property and equipment, during the years ended December 31, 2020 and 2019, respectively, primarily related to landlord funded leasehold improvements. Due to extended payment terms associated with the timing of cash capital expenditures made more than 90 days after the date of purchase, an additional \$2.2 million was classified as cash flows from financing activities in the consolidated statement of cash flows for the year ended December 31, 2019.

### **Goodwill**

Goodwill is the excess of purchase price over the fair value of identified net assets of businesses acquired. The Company's goodwill balance relates to its acquisitions of GetSmarter in July 2017 and Trilogy in May 2019. The Company reviews goodwill annually, as of October 1. Between annual tests, goodwill is reviewed for possible impairment if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company tests goodwill at the reporting unit level, which is an operating segment or one level below an operating segment. The Company initially assesses qualitative factors to determine if it is necessary to perform a quantitative goodwill impairment review. The Company reviews goodwill for impairment using a quantitative approach if it decides to bypass the qualitative assessment or determines that it is more likely than not that the fair value of a reporting unit is less than its carrying value based on a qualitative assessment. Upon completion of a quantitative assessment, the Company may be required to recognize an impairment based on the difference between the carrying value and the fair value of the reporting unit.

The Company determines the fair value of a reporting unit by utilizing a weighted combination of the income-based and market-based approaches.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

## **2. Significant Accounting Policies (Continued)**

The income-based approach requires the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies, discount rates, terminal growth rates, and forecasts of revenue, operating income, depreciation and amortization expense, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, the Company considers each reporting unit's historical results and current operating trends, revenue, profitability, cash flow results and forecasts, and industry trends. These estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, market capitalization, the continued efforts of competitors to gain market share and prospective student enrollment patterns.

In addition, the value of a reporting unit using the market-based approach is estimated by comparing the reporting unit to other publicly traded companies and/or to publicly-disclosed business mergers and acquisitions in similar lines of business. The value of a reporting unit is based on pricing multiples of certain financial parameters observed in the comparable companies. The Company also makes estimates and assumptions for market values to determine a reporting unit's estimated fair value.

Based on the Company's quantitative assessment performed during 2019 and the qualitative assessment performed as of October 1, 2020, the date of the annual goodwill impairment assessment, the Company determined that the estimated fair values of the reporting units exceeded their carrying values. It is possible that future changes in the Company's circumstances, including potential impacts from COVID-19, or in the variables associated with the judgments, assumptions and estimates used in assessing the fair value of our reporting units, could require the Company to record additional impairment charges in the future.

### ***Equity Interests***

As of both December 31, 2020 and 2019, the Company had a \$10.0 million investment in an education technology company recorded within other assets, non-current on the consolidated balance sheets. This investment does not have a readily determinable fair value, and is accounted for as a cost method investment, which is subject to fair value remeasurement upon the occurrence of an observable event. As of December 31, 2020, there were no events that would require a change in the fair value of this investment.

### ***Employee Benefits***

The Company offers a variety of benefits to its employees (e.g., health care, gym memberships and tuition reimbursement). The Company accounts for costs related to providing employee benefits as incurred, unless there is a service requirement, in which case, such costs are recognized over the service commitment period.

### ***Convertible Senior Notes***

In April 2020, the Company issued 2.25% convertible senior notes due May 1, 2025 (the "Notes") in an aggregate principal amount of \$380 million, including the exercise by the initial purchasers of an option to purchase additional Notes, in a private offering. Refer to Note 9 for more information regarding the Notes.

The Notes are accounted for in accordance with Financial Accounting Standards Board ("FASB") ASC Subtopic 470-20, *Debt with Conversion and Other Options* ("ASC 470-20"). Pursuant to ASC 470-20, issuers of certain convertible debt instruments, such as the Notes, that have a net settlement feature and may be settled wholly or partially in cash upon conversion are required to separately account for the liability (debt) and equity (conversion option) components of the instrument. The carrying amount of the liability component of the instrument is computed by estimating the fair value of a similar liability without the conversion option using a market-based approach. The amount of the equity component is then calculated by deducting the fair value of the liability component from the principal amount of the instrument. The difference between the principal amount and the liability component represents a debt discount that 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, the allocation of issuance costs incurred between the liability and equity components was based on their relative values.

### ***Debt Issuance Costs***

Debt issuance costs are incurred as a result of entering into certain borrowing transactions and are presented as a reduction from the carrying amount of the debt liability on the Company's consolidated balance sheets. Debt issuance costs are

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**2. Significant Accounting Policies (Continued)**

amortized over the term of the associated debt instrument. The amortization of debt issuance costs is included as a component of interest expense on the Company's consolidated statements of operations and comprehensive loss. If the Company extinguishes debt prior to the end of the underlying instrument's full term, some or all of the unamortized debt issuance costs may need to be written off, and a loss on extinguishment may need to be recognized. Refer to Note 9 for further information about the Company's debt.

**Leases**

The Company adopted ASC Topic 842, *Leases*, on January 1, 2019 using the modified retrospective approach and no prior periods were restated. For the Company's operating leases, an assessment is performed to determine if an arrangement is a lease at inception. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the information necessary to determine the rate implicit in the Company's leases is not readily available, the Company determines its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any prepaid lease payments made, less lease incentives. The Company's lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company does not have any finance leases for any periods presented.

The Company has elected, as an accounting policy for its leases of real estate, to account for lease and non-lease components in a contract as a single lease component. In addition, the recognition requirements are not applied to leases with a term of 12 months or less. Rather, the lease payments for short-term leases are recognized on the consolidated statements of operations and comprehensive loss on a straight-line basis over the lease term.

Variable payments that depend on an index or a rate are initially measured using the index or rate at the lease commencement date. Such variable payments are included in the total lease payments when measuring the lease liabilities and ROU assets. The Company will only remeasure variable payments that depend on an index or a rate when the Company is remeasuring the lease liabilities due to any of the following occurring: (i) the lease is modified and the modification is not accounted for as a separate contract; (ii) a contingency, upon which some or all of the variable lease payments that will be paid over the remainder of the lease term are based, is resolved; (iii) there is a change in lease term; (iv) there is a change in the probability of exercising a purchase option; or (v) there is a change in the amount probable of being owed under residual value guarantees. Until the lease liabilities are remeasured due to one of the aforementioned events, additional payments for an increase in the index or rate will be recognized in the period in which they are incurred. Variable payments that do not depend on an index or a rate are excluded from the measurement of the lease liabilities and recognized in the consolidated statements of operations and comprehensive loss in the period in which the obligation for those payments is incurred.

**Business Combinations**

The purchase price of an acquisition is allocated to the assets acquired, including intangible assets, and liabilities assumed, based on their respective fair values at the acquisition date. Acquisition-related costs are expensed as incurred. The excess of the cost of an acquired entity, net of the amounts assigned to the assets acquired and liabilities assumed, is recognized as goodwill. The net assets and results of operations of an acquired entity are included on the Company's consolidated financial statements from the acquisition date.

**Foreign Currency Translation**

For the portion of the Company's non-U.S. business where the local currency is the functional currency, operating results are translated into U.S. dollars using the average rate of exchange for the period, and assets and liabilities are converted at the closing rates on the period end date. Gains and losses on translation of these accounts are accumulated and reported as a separate component of stockholder's equity and comprehensive loss.

For any transaction that is in a currency different from the entity's functional currency, the Company records a gain or loss based on the difference between the exchange rate at the transaction date and the exchange rate at the transaction settlement date (or rate at period end, if unsettled) as other income (expense), net on the consolidated statements of operations and comprehensive loss.

**Concentration of Credit Risk**

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

## **2. Significant Accounting Policies (Continued)**

Financial instruments that subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. All of the Company's cash is held at financial institutions that management believes to be of high credit quality. The Company's bank accounts exceed federally insured limits at times. The Company has not experienced any losses on cash to date. The Company maintains an allowance for doubtful accounts, if needed, based on collection history.

### ***Recent Accounting Pronouncements***

In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements*. The amendments in this ASU affect a wide variety of topics in the Accounting Standards Codification by either clarifying the codification or correcting unintended application of guidance. The amendments do not change U.S. GAAP and, therefore, are not expected to result in a significant change in current accounting practice. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. The Company does not expect the adoption of this ASU to have a material effect on its consolidated financial statements and related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. This ASU simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts indexed to and potentially settled in an entity's own equity. The new guidance eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. As a result, in more cases, convertible debt will be accounted for as a single instrument. The guidance also removes certain conditions for equity classification related to contracts in an entity's own equity and requires the application of the if-converted method for calculating diluted earnings per share. This ASU is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company is evaluating the impact that this ASU will have on its consolidated financial statements and related disclosures.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU is intended to provide optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, to ease the potential accounting and financial reporting burden associated with the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. This ASU may be applied as of the beginning of any interim period that includes its effective date (i.e., March 12, 2020) through December 31, 2022. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In January 2020, the FASB issued ASU No. 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. ASU No. 2020-01 was issued to clarify the interaction of the accounting for equity securities under ASC 321 and investments accounted for under the equity method of accounting in ASC 323 and the accounting for certain forward contracts and purchased options accounted for under ASC 815. With respect to the interactions between ASC 321 and ASC 323, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting when applying the measurement alternative in ASC 321, immediately before applying or discontinuing the equity method of accounting. The amendments in this ASU are effective for interim and annual reporting periods beginning after December 15, 2020. Early adoption is permitted, including adoption in any interim period. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, as part of its initiative to reduce complexity in the accounting standards. The amendments in the ASU include removal of certain exceptions to the general principles in Topic 740 related to recognizing deferred taxes for investments, performing intraperiod tax allocation and calculating income taxes in an interim period. The ASU also clarifies and simplifies other aspects of the accounting for income taxes, including the recognition of deferred tax liabilities for outside basis differences. The amendments in this ASU are effective for annual and interim periods in fiscal years beginning after December 15, 2020, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

## **2. Significant Accounting Policies (Continued)**

In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. ASU No. 2019-04 provides corrections, updates and clarifications to the previously issued updates of ASU No. 2016-01, ASU No. 2016-13 and ASU No. 2017-12. Various areas of the ASC were impacted by the update. This standard follows the effective dates of the previously issued ASUs, unless an entity has already early adopted the previous ASUs, in which case the effective date will vary according to each specific ASU adoption. The Company adopted the amendments related to ASU Nos. 2016-01 and 2016-13 on January 1, 2020 under the modified retrospective transition method, with the exception of the amendments related to equity securities without readily determinable fair values for which an entity elects the measurement alternative, which have been adopted prospectively. Adoption of these amendments did not have a material impact on the Company's consolidated financial statements or related disclosures. Refer below for further discussion of ASU No. 2016-13. The amendments to ASU No. 2017-12 are not applicable to the Company.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Subsequently, the FASB has issued the following standards related to ASU No. 2016-13: ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*; ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*; and ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. ASU No. 2016-13 requires entities to measure all expected credit losses for most financial assets held at the reporting date based on an expected loss model, which includes historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. ASU No. 2016-13 also requires enhanced disclosures to help financial statement users better understand assumptions used in estimating expected credit losses. The Company adopted this ASU and the related amendments on January 1, 2020 under the modified retrospective transition method, which resulted in no cumulative-effect adjustment to retained earnings.

## **3. Business Combination**

On May 22, 2019, the Company completed its acquisition of Trilogy pursuant to an Agreement and Plan of Merger and Reorganization, dated as of April 7, 2019 (the "Merger Agreement"), for a net purchase price of \$608.6 million in cash and stock consideration, subject to final adjustments related to working capital and indebtedness. These final adjustments to the purchase price were paid in the first quarter of 2020. Under the terms of the Merger Agreement, the Company has issued restricted stock units for shares of its common stock, par value \$0.001 per share, to certain employees and officers of Trilogy. These awards were issued pursuant to the Company's 2014 Equity Incentive Plan, are subject to future service requirements and primarily vested over an 18-month period. In addition, a portion of the purchase price held in escrow was recognized as compensation expense in the third quarter of 2019 as the service requirements of certain key employees was determined to be fulfilled. The net assets and results of operations of Trilogy are included on the Company's consolidated financial statements within the Alternative Credential Segment as of May 22, 2019.

The following table reflects the Company's completed valuation of the assets acquired and liabilities assumed of Trilogy as of the date of the acquisition:

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**3. Business Combination (Continued)**

	<u>Estimated Average Useful Life (in years)</u>	<u>Purchase Price Allocation</u>
		(in thousands)
Cash and cash equivalents		\$ 35,320
Current assets		30,081
Property and equipment, net		2,411
Other non-current assets		6,276
Amortizable intangible assets:		
Developed technology	3	48,096
Developed content	4	48,050
University client relationships	10	84,150
Trade names and domain names	5	7,100
Goodwill		425,346
Current liabilities		(57,010)
Non-current liabilities		(21,224)
		<u>\$ 608,596</u>

Intangible assets are valued using the cost replacement, multi-period excess earnings and relief-from-royalty methodologies, which are Level 3 measurements. The fair value of the developed technology and developed content acquired from Trilogy was determined using the replacement cost method under the cost approach. Under the replacement cost method, consideration was given to the estimated time, investment and resources required to recreate the acquired intangibles, adjusted for obsolescence, an estimated developer's profit and rate of return, in accordance with accepted valuation methodologies.

The fair value of university client relationships was determined using the multi-period excess earnings method under the income approach based on discounted projected cash flows associated with the net earnings attributable to the acquired customer relationships. These projected cash flows are estimated over the remaining economic life of the intangible asset and are considered from a market participant perspective. Significant estimates and assumptions required under this method include growth rates for revenue attributable to the existing university client base, forecasted margins, attrition and renewal rates, a discount rate, and contributory asset charges.

Trade names were valued using the relief-from-royalty method under the income approach. This method assumes that trade names have value to the extent that their owner is relieved of the obligation to pay royalties for the benefits received from them. This method required several assumptions, including future revenue for the trade name, the appropriate royalty rate and the discount rate.

The goodwill balance is primarily attributed to the assembled workforce, expanded market opportunities and operating synergies anticipated upon the integration of the operations of the Company and Trilogy. The goodwill resulting from the acquisition will not be tax deductible. Refer to Note 5 for details.

The Company's unaudited pro forma combined revenue, pro forma combined net loss and pro forma combined net loss per share were \$624.8 million, \$(268.9) million and \$(4.38), respectively, for the year ended December 31, 2019, as if the acquisition of Trilogy had occurred on January 1, 2019. This unaudited pro forma combined financial information is presented for illustrative purposes and does not purport to represent what the results of operations would actually have been if the business combination occurred as of the January 1, 2019 date indicated or what the results would be for any future periods.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

#### 4. Property and Equipment, Net

The following table presents the components of property and equipment, net on the Company's consolidated balance sheets as of each of the dates indicated.

	December 31, 2020	December 31, 2019
	(in thousands)	
Computer hardware	\$ 9,053	\$ 8,685
Furniture and office equipment	18,041	18,478
Leasehold improvements	58,443	50,461
Leasehold improvements in process	2,184	4,318
Total	87,721	81,942
Accumulated depreciation and amortization	(34,987)	(24,299)
Property and equipment, net	\$ 52,734	\$ 57,643

Depreciation expense of property and equipment was \$13.4 million, \$11.6 million and \$8.9 million for the years ended December 31, 2020, 2019 and 2018, respectively.

#### 5. Goodwill and Amortizable Intangible Assets

The following table presents the changes in the carrying amount of goodwill by reportable segment on the Company's consolidated balance sheets for the periods indicated.

	Degree Program Segment	Alternative Credential Segment	Total
	(in thousands)		
Balance as of December 31, 2018	\$ —	\$ 61,852	\$ 61,852
Goodwill recognized in connection with business combination	—	425,346	425,346
Impairment charge (cumulative)	—	(70,379)	(70,379)
Foreign currency translation adjustments	—	1,531	1,531
Balance as of December 31, 2019	—	418,350	418,350
Foreign currency translation adjustments and other	—	(2,520)	(2,520)
Balance as of December 31, 2020	\$ —	\$ 415,830	\$ 415,830

The Company experienced a sustained decline in its stock price during the third quarter of 2019, which management deemed a triggering event that required the Company to perform an interim goodwill impairment test as of September 1, 2019. The Company's test relied in part on the work of an independent valuation firm engaged to provide inputs as to the fair value of the reporting units and to assist in the related calculations and analysis. The results of the interim impairment test indicated that the carrying value of the boot camp business acquired in 2019 within the Company's Alternative Credential Segment exceeded the fair value by \$70.4 million. The decrease in this reporting unit's fair value was primarily due to lower expectations of future performance due to the impact of changes in key management as well as an increased focus in integrating the operations of the newly acquired reporting unit, which impacted the estimated operating cash flows. As a result, the Company recorded an impairment charge of \$70.4 million on the consolidated statements of operations and comprehensive loss in the third quarter of 2019. For purposes of testing the Company's goodwill for impairment, fair value measurements were determined primarily using a weighted combination of the income-based and market-based approaches. The income-based approach largely relied on inputs that were not observable to active markets, which would be deemed "Level 3" fair value measurements, as defined in the Fair Value Measurements section of Note 2. These inputs included the Company's expectations about future revenue growth, profitability, income tax rates, cash flows and the rate at which cash flows should be discounted, in order to determine this fair value estimate. The primary input used in the market-based approach was publicly-available data on the financial ratios of the Company's competitors.

The following table presents the components of amortizable intangible assets, net on the Company's consolidated balance sheets as of each of the dates indicated.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**5. Goodwill and Amortizable Intangible Assets (Continued)**

	Estimated Average Useful Life (in years)	December 31, 2020			December 31, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(in thousands)							
Capitalized technology	3-5	\$ 165,254	\$ (75,822)	\$ 89,432	\$ 142,712	\$ (41,106)	\$ 101,606
Capitalized content development	4-5	208,170	(88,168)	120,002	167,758	(54,736)	113,022
University client relationships	9-10	109,498	(23,376)	86,122	110,344	(12,419)	97,925
Trade names and domain names	5-10	26,697	(9,483)	17,214	26,462	(5,940)	20,522
Total amortizable intangible assets, net		<u>\$ 509,619</u>	<u>\$ (196,849)</u>	<u>\$ 312,770</u>	<u>\$ 447,276</u>	<u>\$ (114,201)</u>	<u>\$ 333,075</u>

The amounts presented in the table above include \$38.6 million and \$30.7 million of in process capitalized technology and content development as of December 31, 2020 and December 31, 2019, respectively.

The Company recorded amortization expense related to amortizable intangible assets of \$83.1 million, \$58.3 million and \$23.9 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table presents the estimated future amortization expense of the Company's amortizable intangible assets placed in service as of December 31, 2020.

	Future Amortization Expense
	(in thousands)
2021	\$ 81,927
2022	65,971
2023	48,928
2024	29,368
2025	16,434
Thereafter	31,477
Total	<u>\$ 274,105</u>

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**6. Accrued Expenses and Deferred Costs**

The following table presents the components of accounts payable and accrued expenses on the Company's consolidated balance sheets as of each of the dates indicated.

	December 31, 2020	December 31, 2019
	(in thousands)	
Accrued university and instructional staff compensation	\$ 27,371	\$ 23,419
Accrued marketing costs	24,682	22,055
Accrued transaction, integration and restructuring-related costs*	3,492	4,459
Accrued compensation and related benefits	52,820	21,885
Accounts payable and other accrued expenses	22,309	15,448
Total accounts payable and accrued expenses	<u>\$ 130,674</u>	<u>\$ 87,266</u>

\* As of December 31, 2020 and 2019, accrued transaction, integration and restructuring-related costs included zero and \$0.5 million, respectively, related to an employee termination benefits reserve for organizational restructuring.

In response to COVID-19, various government programs have been announced to provide financial relief for affected businesses. Most significantly, under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was enacted in the United States on March 27, 2020, the Company is allowed to defer payment of the employer's share of Social Security taxes incurred from March 27, 2020 through December 31, 2020. In addition, the CARES Act provides eligible employers with an employee retention tax credit for employees whose services were impacted by COVID-19. The amount of payroll taxes subject to deferred payment, net of employee retention tax credits, is approximately \$11.3 million. This total deferred amount is payable in equal installments, with 50% due by December 31, 2021 and the remainder due by December 31, 2022.

As of December 31, 2020 and 2019, the Company had balances of \$6.3 million and \$3.1 million, respectively, of deferred costs incurred to integrate the software associated with its cloud computing arrangements, within other assets, non-current on the consolidated balance sheets. Such costs are subject to amortization over the remaining contractual term of the associated cloud computing arrangement, with a useful life of between three to five years. The Company incurred \$1.3 million and \$0.3 million of such amortization for the years ended December 31, 2020 and 2019, respectively.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

## **7. Commitments and Contingencies**

### ***Legal Contingencies***

The Company is involved in various claims and legal proceedings arising in the ordinary course of business. The Company accrues a liability when a loss is considered probable and the amount can be reasonably estimated. While the Company does not expect that the ultimate resolution of any existing claims and proceedings (other than the specific matter described below, if decided adversely), individually or in the aggregate, will have a material adverse effect on its financial position, an unfavorable outcome in some or all of these proceedings could have a material adverse impact on the results of operations or cash flows for a particular period. This assessment is based on the Company's current understanding of relevant facts and circumstances. With respect to current legal proceedings, the Company does not believe it is probable a material loss exceeding amounts already recognized has been incurred as of the date of the balance sheets presented herein. As such, the Company's view of these matters is subject to inherent uncertainties and may change in the future.

#### *In re 2U, Inc., Securities Class Action*

On August 7 and 9, 2019, Aaron Harper and Anne M. Chinn filed putative class action complaints against the Company, Christopher J. Paucek, the Company's CEO, and Catherine A. Graham, the Company's former CFO, in the United States District Court for the Southern District of New York, alleging violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder, based upon allegedly false and misleading statements regarding the Company's business prospects and financial projections. The district court transferred the cases to the United States District Court for the District of Maryland, consolidated them under docket number 8:19-cv-3455 (D. Md.), and appointed Fiyyaz Pirani as the lead plaintiff in the consolidated action. On July 30, 2020, Mr. Pirani filed a consolidated class action complaint ("CAC"), adding Harsha Mokkarala, the Company's former Chief Marketing Officer, as a defendant. The CAC also asserts claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, as amended, against Mr. Paucek, Ms. Graham, members of the Company's board of directors, and the Company's underwriters, based on allegations related to the Company's secondary stock offering on May 23, 2018. The proposed class consists of all persons who acquired the Company's securities between February 26, 2018 and July 30, 2019. On October 27, 2020, defendants filed a motion to dismiss. On December 18, 2020, the plaintiffs filed their opposition brief and on February 9, 2021 the defendants filed a reply brief.

The Company believes that the claims are without merit, and it intends to vigorously defend against these claims. However, due to the complex nature of the legal and factual issues involved, the outcome of this matter is not presently determinable.

#### *Stockholder Derivative Suits*

On April 30, 2020, Richard Theis filed a stockholder derivative complaint purportedly on behalf of the Company and against Christopher J. Paucek, the Company's CEO, Catherine A. Graham, the Company's former CFO, and the Company's board of directors in the United States District Court for the Southern District of New York, with docket number 20-cv-3360. The complaint alleges claims for breaches of fiduciary duty, insider sales and misappropriation of information, unjust enrichment, and violations of Section 14(a) of the Exchange Act, based upon allegedly false and misleading statements regarding the Company's business prospects and financial projections. On July 22, 2020, the court entered a joint stipulation staying the case pending resolution of the securities class action. Due to the complex nature of the legal and factual issues involved, the outcome of this matter is not presently determinable.

On August 21, 2020, Thomas Lucey filed a stockholder derivative complaint purportedly on behalf of the Company and against Christopher J. Paucek, the Company's CEO, Catherine A. Graham, the Company's former CFO, Harsha Mokkarala, the Company's former Chief Marketing Officer and the Company's board of directors in the United States District Court for the District of Maryland, with docket number 1:20-cv-02424-GLR. The complaint alleges claims for breaches of fiduciary duty, insider trading, and contribution for alleged violations of Sections 10(b) and 21D of the Exchange Act, based upon allegedly false and misleading statements regarding the Company's business prospects and financial projections. On September 3, 2020, the court entered a joint stipulation staying the case pending resolution of the securities class action. Due to the complex nature of the legal and factual issues involved, the outcome of this matter is not presently determinable.

On November 30, 2020, Leo Shumacher filed a stockholder derivative complaint purportedly on behalf of the Company and against Christopher J. Paucek, the Company's CEO, Catherine A. Graham, the Company's former CFO, Harsha Mokkarala, the Company's former Chief Marketing Officer, and the Company's board of directors in the Court of Chancery of the State of Delaware, with docket number 2020-1019-AGB. The complaint alleges claims for breaches of fiduciary duty and

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**7. Commitments and Contingencies (Continued)**

unjust enrichment, based upon allegedly false and misleading statements regarding the Company's business prospects and financial projections. On January 6, 2021, the court entered a joint stipulation staying the case pending resolution of the securities class action. Due to the complex nature of the legal and factual issues involved, the outcome of this matter is not presently determinable.

**Marketing and Sales Commitments**

Certain agreements entered into between the Company and its university clients in the Degree Program Segment require the Company to commit to meet certain staffing and spending investment thresholds related to marketing and sales activities. In addition, certain agreements in the Degree Program Segment require the Company to invest up to agreed-upon levels in marketing the programs to achieve specified program performance. The Company believes it is currently in compliance with all such commitments.

**Future Minimum Payments to University Clients**

Pursuant to certain of the Company's contracts in the Degree Program Segment, the Company has made, or is obligated to make, payments to university clients in exchange for contract extensions and various marketing and other rights.

The following table presents the estimated future minimum payments due to university clients as of December 31, 2020.

	<b>Future Minimum Payments</b>
	<b>(in thousands)</b>
2021	\$ 1,625
2022	625
2023	625
2024	625
2025	625
Thereafter	2,525
<b>Total future minimum payments to university clients</b>	<b>\$ 6,650</b>

**Contingent Payments**

The Company has entered into agreements with certain of its university clients in the Degree Program Segment that require the Company to make future minimum payments in the event that certain program metrics are not achieved on an annual basis. The Company recognizes any estimated contingent payments under these agreements as contra revenue over the period to which they relate, and records a liability in other current liabilities on the consolidated balance sheets.

As of December 31, 2020, the Company has entered into an agreement to make an additional investment in an education technology company of up to \$5.0 million, upon demand by the investee.

**8. Leases**

The Company leases facilities under non-cancellable operating leases primarily in the United States, South Africa, the United Kingdom and Canada. The Company's operating leases have remaining lease terms of between less than one to 11 years, some of which include options to extend the leases for up to five years, and some of which include options to terminate the leases within one year. These options to extend the terms of the Company's operating leases were not deemed to be reasonably certain of exercise as of lease commencement and are therefore not included in the determination of their respective non-cancellable lease terms. The future lease payments due under non-cancellable operating lease arrangements contain fixed rent increases over the term of the lease. The Company also leases office equipment under non-cancellable leases.

In October 2020, the Company entered into an agreement with an unrelated party to sublease a portion of the Company's office space in the United States. As of December 31, 2020, this sublease was classified as an operating lease and had a remaining term of 2.8 years, with scheduled annual rent increases and no option to extend or renew the sublease term.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**8. Leases (Continued)**

Sublease income is recognized on a straight-line basis over the sublease term as a reduction to expense incurred by the Company under the associated head lease.

The following table presents the components of lease expense on the Company's consolidated statements of operations and comprehensive loss for each of the periods indicated.

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
	(in thousands)	
Operating lease expense	\$ 15,153	\$ 11,725
Short-term lease expense	362	737
Variable lease expense	5,837	4,195
Sublease income	(36)	—
<b>Total lease expense</b>	<b>\$ 21,316</b>	<b>\$ 16,657</b>

As of December 31, 2020, for the Company's operating leases, the weighted-average remaining lease term was 7.4 years and the weighted-average discount rate was 11.4%. For the years ended December 31, 2020 and 2019, cash paid for amounts included in the measurement of operating lease liabilities was \$17.3 million and \$13.5 million.

The following table presents the maturities of the Company's operating lease liabilities as of the date indicated, and excludes the impact of future sublease income totaling \$0.7 million in aggregate.

	<b>December 31, 2020</b>
	(in thousands)
2021	\$ 19,847
2022	18,992
2023	18,774
2024	18,373
2025	14,347
Thereafter	48,965
<b>Total lease payments</b>	<b>139,298</b>
Less: imputed interest	(46,046)
<b>Total lease liability</b>	<b>\$ 93,252</b>

As of December 31, 2020, the Company had additional operating leases for facilities that have not yet commenced with future minimum lease payments of approximately \$51.2 million. Each of these operating leases will commence during the fiscal year ending 2021 and have lease terms of approximately 12 years.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**9. Debt**

The following table presents the components of outstanding long-term debt on the Company's consolidated balance sheets as of each of the dates indicated.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	(in thousands)	
Convertible senior notes	\$ 380,000	\$ —
Senior secured term loan facility	—	250,000
Deferred government grant obligations	3,500	3,500
Other borrowings	1,343	998
Less: unamortized debt discount and issuance costs	(111,043)	(7,238)
Total debt	273,800	247,260
Less: current portion of long-term debt	(627)	(640)
Total long-term debt	<u>\$ 273,173</u>	<u>\$ 246,620</u>

The Company believes the carrying value of its long-term debt approximates the fair value of the debt as the terms and interest rates approximate the market rates, other than the Notes, which had an estimated fair value of \$616.6 million as of December 31, 2020. Each of the Company's long-term debt instruments were classified as Level 2 within the fair value hierarchy.

**Convertible Senior Notes**

In April 2020, the Company issued the Notes in an aggregate principal amount of \$380 million, including the exercise by the initial purchasers of an option to purchase additional Notes, in a private placement to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. The net proceeds from the offering of the Notes were approximately \$369.6 million after deducting the initial purchasers' discounts, commissions and offering expenses payable by the Company.

The Notes are governed by an indenture (the "Indenture") between the Company and Wilmington Trust, National Association, as trustee. The Notes bear interest at a rate of 2.25% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2020. The Notes will mature on May 1, 2025, unless earlier repurchased, redeemed or converted. The interest expense related to the Notes for the year ended December 31, 2020, including amortization of the debt discount and debt issuance costs, was \$19.8 million. The associated effective interest rate of the Notes for the year ended December 31, 2020 was approximately 10.9%.

The Notes are the senior, unsecured obligations of the Company and are equal in right of payment with the Company's senior unsecured indebtedness, senior in right of payment to the Company's indebtedness that is expressly subordinated to the Notes, effectively subordinated to the Company's senior secured indebtedness (including the Loans (as defined below)), to the extent of the value of the collateral securing that indebtedness, and structurally subordinated to all indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company's subsidiaries.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated using a discount rate of 10.3%, which was determined by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option, excluding debt issuance costs, was \$117.8 million and was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense at an annual effective interest rate over the contractual term of the Notes.

Holders may convert their Notes at their option in the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the last reported sale price per share of the Company's common stock, exceeds 130% of the

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**9. Debt (Continued)**

conversion price for each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter;

- during the five consecutive business days immediately after any 10 consecutive trading day period (such 10 consecutive trading day period, the “measurement period”) in which the trading price per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price per share of the Company’s common stock on such trading day and the conversion rate on such trading day;
- upon the occurrence of certain corporate events or distributions on the Company’s common stock, as provided in the Indenture;
- if the Company calls such Notes for redemption; and
- at any time from, and including, November 1, 2024 until the close of business on the second scheduled trading day immediately before the maturity date.

The initial conversion rate for the Notes is 35.3773 shares of the Company’s common stock per \$1,000 principal amount of Notes, which represents an initial conversion price of approximately \$28.27 per share of the Company’s common stock, and is subject to adjustment upon the occurrence of certain specified events as set forth in the Indenture. Upon conversion, the Company will pay or deliver, as applicable, cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s election. It is our intent to settle conversions of the Notes through combination settlement, which contemplates repayment in cash of the principal amount and repayment in shares of the Company’s common stock of any excess of the conversion value over the principal amount. Upon the occurrence of a “make-whole fundamental change” (as defined in the Indenture), the Company will in certain circumstances increase the conversion rate for a specified period of time.

In addition, upon the occurrence of a “fundamental change” (as defined in the Indenture), holders of the Notes may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any.

The Notes will be redeemable, in whole or in part, at the Company’s option at any time, and from time to time, on or after May 5, 2023 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, but only if the last reported sale price per share of the Company’s common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice, and (ii) the trading day immediately before the date the Company sends such notice. In addition, calling any Note for redemption will constitute a “make-whole fundamental change” with respect to that Note, in which case the conversion rate applicable to the conversion of that Note will be increased in certain circumstances if such Note is converted after it is called for redemption. No sinking fund is provided for the Notes.

In connection with the Notes, the Company entered into privately negotiated capped call transactions (the “Capped Call Transactions”) with certain counterparties. The Capped Call Transactions are generally expected to reduce potential dilution to the Company’s common stock upon any conversion of Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap, based on the cap price of the Capped Call Transactions. The cap price of the Capped Call Transactions is initially \$44.34 per share. The cost of the Capped Call Transactions was approximately \$50.5 million.

In April 2020, the Company used a portion of the proceeds from the sale of the Notes to repay in full all amounts outstanding, and discharge all obligations in respect of, the Term Loan (as defined below). The Company intends to use the remaining net proceeds from the sale of the Notes for working capital or other general corporate purposes, which may include capital expenditures, potential acquisitions and strategic transactions.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**9. Debt (Continued)*****Credit Agreement***

On June 25, 2020, the Company entered into a credit agreement (the “Credit Agreement”) with Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent, and certain other lenders party thereto that provides for \$50 million in revolving loans (the “Loans”). The Credit Agreement allows for incremental borrowings from time to time in an aggregate amount for all such incremental amounts not to exceed (i) the lesser of (x) \$50 million and (y) an amount such that the aggregate principal amount of the lenders’ commitments under the revolving credit facility does not exceed \$100 million, plus (ii) certain specified prepayments of indebtedness, plus (iii) an unlimited amount subject to satisfaction of a leverage ratio based compliance test.

The Loans mature on December 26, 2023 and bear interest, at the Company’s option, at variable rates based on (i) a customary base rate plus an applicable margin of 2.75% or (ii) an adjusted LIBOR rate (with a floor of 0.00%) for the interest period relevant to such borrowing plus an applicable margin of 3.75%.

The Credit Agreement contains customary conditions to borrowing, events of default and covenants, including covenants that restrict the Company’s ability to incur indebtedness, grant liens, make investments and acquisitions, pay dividends, repurchase equity interests in the Company and enter into affiliate transactions and asset sales. The Credit Agreement also contains financial covenants that require the Company to (i) maintain minimum liquidity and minimum consolidated EBITDA (as defined in the Credit Agreement) through the Company’s fiscal quarter ending on December 31, 2021 and (ii) not exceed certain maximum leverage and fixed charge ratios for any period of four consecutive fiscal quarters ending after (but not including) December 31, 2021 through the maturity date. As of December 31, 2020, no amounts were outstanding under the Credit Agreement.

***Senior Secured Term Loan Facility***

The Company had a credit agreement with Owl Rock Capital Corporation, as administrative agent and collateral agent, and certain other lenders party thereto that provided for a \$250 million senior secured term loan facility (the “Term Loan”). On April 23, 2020, the Company repaid its \$250 million Term Loan in full, plus accrued interest of \$1.3 million, and terminated the credit agreement with Owl Rock Capital Corporation. In addition, the Company recognized a loss on debt extinguishment of \$11.7 million, consisting of a write-off of previously capitalized deferred financing costs of \$9.2 million and a prepayment premium of \$2.5 million.

***Deferred Government Grant Obligations***

Government grants awarded to the Company in the form of forgivable loans are recorded within long-term debt on the Company’s consolidated balance sheets until all contingencies are resolved and the grants are determined to be realized. The Company has a total of two outstanding conditional loan agreements with Prince George’s County, Maryland and the State of Maryland for an aggregate amount of \$3.5 million, each bearing an interest rate of 3% per annum. These agreements are conditional loan obligations that may be forgiven, provided that the Company attains certain conditions related to employment levels at 2U’s Lanham, Maryland headquarters.

In July 2020, the Company amended its conditional loan agreement with Prince George’s County to modify the terms of the employment level thresholds. The conditional loan with Prince George’s County has a maturity date of June 22, 2027.

In January 2021, the Company amended its conditional loan agreement with the State of Maryland to modify the terms of the employment level thresholds and extend the maturity date to June 30, 2028.

The interest expense related to these loans for the years ended December 31, 2020 and 2019 was immaterial. As of December 31, 2020 and 2019, the Company’s combined accrued interest balance associated with the deferred government grant obligations was \$0.4 million and \$0.3 million, respectively.

***Letters of Credit***

Certain of the Company’s operating lease agreements entered into require security deposits in the form of cash or an unconditional, irrevocable letter of credit. As of December 31, 2020, the Company has entered into standby letters of credit totaling \$17.4 million as security deposits for the applicable leased facilities and in connection with the deferred government grant obligations.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**9. Debt (Continued)**

The Company maintains restricted cash as collateral for standby letters of credit for the Company's leased facilities and in connection with the deferred government grant obligations.

**10. Income Taxes**

The following table presents the components of loss before income taxes on the Company's consolidated statements of operations and comprehensive loss for each of the periods indicated.

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Loss before income taxes:			
United States	\$ (204,522)	\$ (239,629)	\$ (33,339)
Foreign	(13,476)	(15,453)	(9,858)
Total	<u>\$ (217,998)</u>	<u>\$ (255,082)</u>	<u>\$ (43,197)</u>

The following table presents the components of the income tax benefit (provision) on the Company's consolidated statements of operations and comprehensive loss for each of the periods indicated.

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Current income tax (provision) benefit:			
United States federal and state	\$ (347)	\$ (97)	\$ —
Foreign	(249)	3	—
Total current income tax provision	<u>\$ (596)</u>	<u>\$ (94)</u>	<u>\$ —</u>
Deferred income tax benefit:			
United States federal and state	\$ —	\$ 17,459	\$ 2,774
Foreign	2,110	2,495	2,093
Total deferred income tax benefit	<u>\$ 2,110</u>	<u>\$ 19,954</u>	<u>\$ 4,867</u>
Total income tax benefit	<u>\$ 1,514</u>	<u>\$ 19,860</u>	<u>\$ 4,867</u>

The following table presents a reconciliation between the Company's statutory federal income tax rate and the effective tax rate for each of the periods indicated.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**10. Income Taxes (Continued)**

	Year Ended December 31,		
	2020	2019	2018
U.S. statutory federal income tax rate	21.0 %	21.0 %	21.0 %
Increase (decrease) resulting from:			
U.S. state income taxes, net of federal benefits	5.0	4.2	0.9
Foreign tax rate differential	0.3	0.2	1.1
Non-deductible expenses	(0.4)	(0.7)	(2.4)
Non-deductible compensation	(2.0)	(0.4)	(0.2)
Stock-based compensation	0.7	0.5	30.0
Change in valuation allowance	(23.9)	(10.9)	(39.3)
Change in tax rate	0.1	—	(0.1)
Non-deductible impairment	—	(5.8)	—
Other	(0.1)	(0.3)	0.3
Effective tax rate	<u>0.7 %</u>	<u>7.8 %</u>	<u>11.3 %</u>

The following table presents the significant components of deferred tax assets and liabilities on the Company's consolidated balance sheets as of each of the dates indicated.

	As of December 31,	
	2020	2019
	(in thousands)	
Deferred tax assets:		
Accrued expenses and other	\$ 8,772	\$ 3,037
Accrued compensation and related benefits	12,552	2,779
Stock-based compensation	18,811	14,546
Deferred income	1,113	345
Lease liability	24,775	19,538
Interest expense carryforwards	5,393	2,059
Foreign net operating loss carryforwards	3,499	3,171
U.S. net operating loss carryforwards	186,089	164,854
Valuation allowance	(137,767)	(116,244)
Total deferred tax assets	<u>\$ 123,237</u>	<u>\$ 94,085</u>
Deferred tax liabilities:		
Prepaid expenses and other	\$ (197)	\$ (142)
Property and equipment	(1,684)	(3,056)
Right-of-use assets	(16,116)	(11,321)
Intangibles	(79,164)	(84,025)
Deferred rent	(912)	(674)
Nondeductible interest on debt discount	(27,974)	—
Total deferred tax liabilities	<u>(126,047)</u>	<u>(99,218)</u>
Net deferred tax liabilities	<u>\$ (2,810)</u>	<u>\$ (5,133)</u>

As of December 31, 2020, the Company had a U.S. net operating loss ("NOL") carryforward of approximately \$706.0 million, of which \$265.0 million expires between 2029 and 2037. In accordance with the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), U.S. NOLs arising in a tax year ending after 2017 will not expire. The Company has generated \$441.0 million of U.S. NOLs in tax years ending after 2017. The gross amount of the state NOL carryforwards is equal to or less than the federal NOL carryforwards and expires over various periods based on individual state tax laws. The Company also had an NOL carryforward of \$15.2 million in its foreign jurisdictions, which does not expire. A full valuation allowance has been

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**10. Income Taxes (Continued)**

established to offset its net deferred tax assets in the U.S., and certain foreign jurisdictions as the Company has not generated taxable income since inception and does not have sufficient deferred tax liabilities to recover the deferred tax assets in these jurisdictions. The total increase in the valuation allowance was \$21.5 million for the year ended December 31, 2020. The utilization of the NOL carryforwards to reduce future income taxes will depend on the Company's ability to generate sufficient taxable income prior to the expiration of the NOL carryforwards. Under the provisions of Internal Revenue Code Section 382, certain substantial changes in the Company's ownership may result in a limitation on the amount of U.S. net operating loss carryforwards that could be utilized annually to offset future taxable income and taxes payable. The Company does not expect such limitation, if any, to impact the use of the net operating losses prior to their expiration.

A one-time tax benefit of approximately \$17.5 million related to the acquisition of Trilogy was included in the Company's income tax benefit for the year ended December 31, 2019. This one-time benefit relates to the release of the Company's tax valuation allowance that was no longer needed as a result of recognizing an additional net deferred tax liability, due to the acquisition of Trilogy.

As of December 31, 2020 and 2019, the Company has not recognized any amounts for uncertain tax positions.

The Company has analyzed its filing positions in all significant federal, state and foreign jurisdictions where it is required to file income tax returns, as well as open tax years in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for the years prior to 2017, though the NOL carryforwards can be adjusted upon audit and could impact taxes owed in open tax years. No income tax returns are currently under examination by the taxing authorities.

The Tax Act includes Global Intangible Low-Taxed Income ("GILTI") provisions that require a company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. Due to foreign subsidiary losses, this provision did not apply to the Company in 2020. Another significant section of the Tax Act, the Base Erosion Anti-Abuse Tax ("BEAT"), did not apply to the Company's 2020 tax year as the Company did not meet the minimum revenue requirements under the BEAT. As these taxes may become applicable in the future, the Company will continue to monitor the potential impact.

**11. Stockholders' Equity*****Common Stock***

As of December 31, 2020, the Company was authorized to issue 205,000,000 total shares of capital stock, consisting of 200,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of December 31, 2020, there were 72,451,521 shares of common stock outstanding, and the Company had reserved a total of 25,422,424 of its authorized shares of common stock for future issuance as follows:

	<b>Shares Reserved for Future Issuance</b>
Outstanding restricted stock units	3,010,019
Outstanding performance restricted stock units	1,355,296
Outstanding stock options	3,916,867
Reserved for convertible senior notes	17,140,242
<b>Total shares of common stock reserved for future issuance</b>	<b>25,422,424</b>

On August 6, 2020, the Company sold 6,800,000 shares of the Company's common stock to the public. The Company received net proceeds of \$299.8 million, which the Company intends to use for working capital and other general corporate purposes, which may include capital expenditures, potential acquisitions, growth opportunities and strategic transactions. On May 22, 2019, the Company issued 4,608,101 shares of common stock in connection with its acquisition of Trilogy. On May 22, 2018, the Company sold 3,833,334 shares of its common stock to the public, including 500,000 shares sold pursuant to the underwriters' over-allotment option, and received net proceeds of \$330.9 million.

***Stock-Based Compensation***

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**11. Stockholders' Equity (Continued)**

The Company maintains two stock-based compensation plans: the Amended and Restated 2014 Equity Incentive Plan (the "2014 Plan") and the 2008 Stock Incentive Plan (the "2008 Plan" and together with the 2014 Plan, the "Stock Plans"). Upon the effective date of the 2014 Plan in January 2014, the Company ceased using the 2008 Plan to grant new equity awards.

**2014 Plan**

In February 2014, the Company's stockholders approved the 2014 Plan. The 2014 Plan provides for the grant of incentive stock options to the Company's employees and for the grant of nonstatutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards and other forms of stock compensation to the Company's employees, directors and consultants. The 2014 Plan also provides for the grant of performance-based cash awards to the Company's employees, directors and consultants.

A total of 2,800,000 shares of the Company's common stock were initially reserved for issuance pursuant to the 2014 Plan. In addition, the shares reserved for issuance under the 2014 Plan include (a) those shares reserved but unissued under the 2008 Plan, and (b) shares returned to the 2008 Plan as the result of expiration or termination of awards (provided that the maximum number of shares that may be added to the 2014 Plan pursuant to (a) and (b) is 5,943,348 shares). The number of shares of the Company's common stock that may be issued under the 2014 Plan will automatically increase on January 1st of each year, for a period of ten years, from January 1, 2015 continuing through January 1, 2024, by 5% of the total number of shares of the Company's common stock outstanding on December 31st of the preceding calendar year, or a lesser number of shares as may be determined by the Company's board of directors. The shares available for future issuance under the 2014 Plan increased by 3,619,344 and 3,175,011 on January 1, 2021 and 2020, respectively, pursuant to the automatic share reserve increase provision in the 2014 Plan.

In addition, shares subject to outstanding stock awards granted under the 2008 Plan and 2014 Plan that (i) expire or terminate for any reason prior to exercise or settlement; (ii) are forfeited because of the failure to meet a contingency or condition required to vest such shares or otherwise return to the Company; or (iii) are reacquired or withheld (or not issued) to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a stock award, return to the 2014 Plan's share reserve and become available for future grant under the 2014 Plan, up to the maximum number of shares of 5,943,348.

As of December 31, 2020, the Company had 6,214,809 shares reserved for issuance under the 2014 Plan. Further, as of December 31, 2020, under the 2014 Plan, options to purchase 2,960,275 shares of the Company's common stock were outstanding at a weighted-average exercise price of \$45.21 per share, and 3,010,019 RSUs and 1,355,296 PRSUs were also outstanding.

**2008 Plan**

In October 2008, the Company's stockholders approved the Company's 2008 Plan. The 2008 Plan was most recently amended on May 8, 2013. The 2008 Plan provided for the grant of incentive stock options to the Company's employees and the employees of the Company's subsidiaries, and for the grant of nonstatutory stock options, restricted stock awards and deferred stock awards to the Company's employees, directors and consultants. The Company ceased granting equity awards under the 2008 Plan, and accordingly, as of January 30, 2014, no shares were available for future grant under the 2008 Plan. However, the 2008 Plan will continue to govern the terms and conditions of outstanding awards granted thereunder.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**11. Stockholders' Equity (Continued)**

As of December 31, 2020, options to purchase 956,592 shares of the Company's common stock were outstanding under the 2008 Plan at a weighted-average exercise price of \$6.00 per share.

**Employee Stock Purchase Plan**

The Company also has an ESPP. The Company's ESPP provides (i) for two offering periods each year and (ii) that the purchase price for shares of the Company's common stock purchased under the ESPP will be 90% of the lesser of the fair market value of the Company's common stock on the purchase date or the fair market value of the Company's common stock on the first day of the offering period. Notwithstanding the foregoing, the compensation committee of the Company's board of directors may exercise its discretion, subject to certain conditions, to make changes to certain aspects of the ESPP including, but not limited to, the length of the offering periods and that the purchase price will be 85% of the lesser of the fair market value of the Company's common stock on the purchase date or the fair market value of 2U's common stock on the first day of the offering period. Participating eligible employees select a rate of payroll deduction between 1% and 15% of their salary or wage compensation received from the Company as in effect at the start of the offering period, with the aggregate purchase limited to a maximum fair market value of \$25,000 per employee per year. Participation in the ESPP began on January 1, 2018. The ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. A maximum of 1,000,000 shares of 2U's common stock may be issued under the ESPP, subject to adjustments for certain capital transactions.

During the years ended December 31, 2020 and 2019, an aggregate of 146,570 and 123,365 shares, respectively, of the Company's common stock were purchased in accordance with the ESPP. Net proceeds from the issuance of these shares were \$4.0 million and \$3.4 million for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, 666,394 shares remained available for purchase under the ESPP.

**Stock-Based Compensation Expense**

The following table presents stock-based compensation expense related to the Stock Plans and the ESPP, contained on the following line items on the Company's consolidated statements of operations and comprehensive loss for each of the periods indicated.

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Curriculum and teaching	\$ 230	\$ 45	\$ 14
Servicing and support	14,033	8,915	4,764
Technology and content development	12,014	8,241	4,094
Marketing and sales	8,217	7,021	2,743
General and administrative	47,548	27,282	19,795
Total stock-based compensation expense	<u>\$ 82,042</u>	<u>\$ 51,504</u>	<u>\$ 31,410</u>

**Restricted Stock Units**

The 2014 Plan provides for the issuance of RSUs to employees and consultants. RSUs generally vest over a three- or four-year period. The terms of these grants under the 2014 Plan, including the vesting periods, are determined by the Company's board of directors or the compensation committee, or a subcommittee thereof.

Throughout 2020 and 2019, the Company granted RSUs under the 2014 Plan to the Company's directors and certain of the Company's employees and certain consultants. The terms of the restricted stock unit grants under the 2014 Plan, including the vesting periods, are determined by the Company's board of directors or the compensation committee thereof. Restricted stock units are generally subject to service-based vesting conditions and vest at various times from the date of the grant, with most restricted stock units vesting in equal annual tranches, generally over a period of three to four years.

The following table presents a summary of the Company's RSU activity for the period indicated.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**11. Stockholders' Equity (Continued)**

	Number of Units	Weighted-Average Grant Date Fair Value per Share
Outstanding balance as of December 31, 2019	2,281,142	\$ 40.49
Granted	1,936,788	20.85
Vested	(923,375)	38.97
Forfeited	(284,536)	28.99
Outstanding balance as of December 31, 2020	<u>3,010,019</u>	<u>\$ 29.41</u>

The total compensation cost related to the unvested RSUs not yet recognized as of December 31, 2020 was \$59.3 million and will be recognized over a weighted-average period of approximately 1.9 years.

**Performance Restricted Stock Units**

The 2014 Plan provides for the issuance of PRSUs to employees and consultants. PRSUs generally include both service conditions and market conditions related to total shareholder return targets relative to that of companies comprising the Russell 3000 Index.

During the fourth quarter of 2019, the Company granted 1.3 million PRSUs with a weighted-average grant date fair value per share of \$22.94 to certain of its employees. These PRSU awards are subject to vesting over a period of three years, based on the Company's stock price achieving predetermined total shareholder return targets relative to that of companies comprising the Russell 3000 Index during each of the one, two and three-year vesting periods. The PRSU award agreements provide that the quantity of units subject to vesting may range from 200% to 0% of the granted quantities, depending on the achievement of market-based targets. The expense recognized each period is determined at the time of grant and not subject to fluctuation due to the achievement of market-based targets. In the fourth quarter of 2020, as a result of the achievement of market-based targets for the first performance period of these PRSUs, 200% of the eligible units vested.

During the first quarter of 2020, as part of its annual equity awards cycle, the Company awarded 1.9 million PRSUs with an aggregate intrinsic value of \$37.8 million. Of these PRSUs, 0.6 million were granted with a weighted-average grant date fair value per share of \$22.45. These PRSU awards are subject to vesting over a period of one year, based on the Company's stock price achieving predetermined total shareholder return targets relative to that of companies comprising the Russell 3000 Index. The PRSU award agreements provide that the quantity of units subject to vesting may range from 200% to 0% of the granted quantities for the first performance period, depending on the achievement of market-based targets. The expense recognized each period is determined at the time of grant and not subject to fluctuation due to the achievement of market-based targets. In January 2021, as a result of the achievement of market-based targets for the first performance period of these PRSUs, 200% of the granted quantities vested. Achievement percentages applicable to each performance period will be determined prior to the grant date.

The following table summarizes the assumptions used for estimating the fair values of the PRSUs subject to market-based vesting conditions that were granted for the periods presented.

	Year Ended December 31,	
	2020	2019
Risk-free interest rate	1.5%	1.5% - 1.7%
Expected term (years)	1.00	1.00 - 3.00
Expected volatility	75%	74% - 75%
Dividend yield	0%	0%

The following table presents a summary of the Company's PRSU activity for the period indicated.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**11. Stockholders' Equity (Continued)**

	Number of Units	Weighted-Average Grant Date Fair Value per Share
Outstanding balance as of December 31, 2019	1,413,773	\$ 28.12
Granted	1,042,106	21.83
Vested	(807,514)	20.86
Forfeited	(293,069)	47.10
Outstanding balance as of December 31, 2020	1,355,296	\$ 23.51

The total compensation cost related to the unvested PRSUs not yet recognized as of December 31, 2020 was \$8.8 million and will be recognized over a weighted-average period of approximately 1.3 years.

**Stock Options**

The Stock Plans provide for the issuance of stock options to employees and consultants. Stock options issued under the Stock Plans generally are exercisable for periods not to exceed 10 years and generally vest over four years.

The terms of stock option grants, including the exercise price per share and vesting periods, are determined by the Company's board of directors or the compensation committee thereof. Stock options are granted at exercise prices of not less than the estimated fair market value of the Company's common stock at the date of grant. Stock options are generally subject to service-based vesting conditions and vest at various times from the date of the grant, with most options vesting in tranches, generally over a period of four years. Stock options granted under the 2014 Plan and the 2008 Plan are subject to service-based vesting conditions, and generally expire ten years from the grant date.

The Company values stock options using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life of the option, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company's employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the "simplified method." Under the "simplified method," the expected life of an option is presumed to be the mid-point between the vesting date and the end of the contractual term. The Company uses the "simplified method" due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is based on the historical volatility of the Company's common stock over the estimated expected life of the stock options. The Company assumes no dividend yield because dividends are not expected to be paid in the near future, which is consistent with the Company's history of not declaring or paying dividends to date.

The following table summarizes the assumptions used for estimating the fair value of the stock options granted for the periods presented.

	Year Ended December 31,		
	2020	2019	2018
Risk-free interest rate	1.5%	1.6% - 2.6%	2.3% - 3.0%
Expected term (years)	6.04	5.96 - 6.08	5.97 - 6.77
Expected volatility	64%	45% - 64%	44% - 45%
Dividend yield	0%	0%	0%

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**11. Stockholders' Equity (Continued)**

The following table presents a summary of the Company's stock option activity for the period indicated.

	Number of Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding balance as of December 31, 2019	4,373,895	\$ 34.24	5.88	\$ 28,736
Granted	8,597	19.61	9.08	
Exercised	(353,480)	11.82	2.29	
Forfeited	(58,155)	57.42		
Expired	(53,990)	52.95		
Outstanding balance as of December 31, 2020	<u>3,916,867</u>	35.63	5.08	59,906
Exercisable as of December 31, 2020	<u>3,213,131</u>	\$ 28.48	4.47	59,011

The weighted-average grant date fair value of stock options granted during the years ended December 31, 2020, 2019 and 2018 was \$11.48, \$28.49 and \$39.66 per share, respectively.

The aggregate intrinsic value of options exercised during the years ended December 31, 2020, 2019 and 2018 was \$8.7 million, \$15.4 million and \$54.0 million, respectively.

The total unrecognized compensation cost related to the unvested options as of December 31, 2020 was \$19.9 million and will be recognized over a weighted-average period of approximately 2.3 years.

**12. Net Loss per Share**

Diluted net loss per share is the same as basic net loss per share for all periods presented because the effects of potentially dilutive items were anti-dilutive, given the Company's net loss. The following securities have been excluded from the calculation of weighted-average shares of common stock outstanding because the effect is anti-dilutive for each of the periods indicated.

	Year Ended December 31,		
	2020	2019	2018
Stock options	3,916,867	4,373,895	4,057,788
Restricted stock units	3,010,019	2,281,142	1,139,045
Performance restricted stock units	1,355,296	1,413,773	—
Shares related to convertible senior notes	3,432,837	—	—
Total antidilutive securities	<u>11,715,019</u>	<u>8,068,810</u>	<u>5,196,833</u>

The following table presents the calculation of the Company's basic and diluted net loss per share for each of the periods indicated. The calculation of diluted net loss per share reflects the Company's intent to settle conversions of the Notes through a combination settlement, which contemplates repayment in cash of the principal amount and repayment in shares of the Company's common stock of any excess of the conversion value over the principal amount.

	Year Ended December 31,		
	2020	2019	2018
Numerator (in thousands):			
Net loss	\$ (216,484)	\$ (235,222)	\$ (38,330)
Denominator:			
Weighted-average shares of common stock outstanding, basic and diluted	<u>67,142,976</u>	<u>61,393,666</u>	<u>55,833,492</u>
Net loss per share, basic and diluted	<u>\$ (3.22)</u>	<u>\$ (3.83)</u>	<u>\$ (0.69)</u>

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

### 13. Segment and Geographic Information

The Company has two reportable segments: the Degree Program Segment (formerly known as the Graduate Program Segment) and the Alternative Credential Segment. The Company's reportable segments are determined based on (i) financial information reviewed by the chief operating decision maker, the Chief Executive Officer ("CEO"), (ii) internal management and related reporting structure, and (iii) the basis upon which the CEO makes resource allocation decisions. The Company's Degree Program Segment includes the technology and services provided to nonprofit colleges and universities to enable the online delivery of degree programs. The Company's Alternative Credential Segment includes the premium online short courses and technical skills-based boot camps provided through relationships with nonprofit colleges and universities.

#### *Significant Customers*

For the year ended December 31, 2020, one university client in the Degree Program Segment accounted for 10% or more of the Company's consolidated revenue, contributing \$74.6 million, or approximately 10% of the Company's consolidated revenue. For the year ended December 31, 2019, one university client in the Degree Program Segment accounted for 10% or more of the Company's consolidated revenue, contributing \$83.5 million, or approximately 15% of the Company's consolidated revenue. For the year ended December 31, 2018, three university clients in the Degree Program Segment each accounted for 10% or more of the Company's consolidated revenue, contributing \$86.9 million, \$54.2 million and \$42.7 million, or approximately 21%, 13% and 10% of the Company's consolidated revenue, respectively.

As of December 31, 2020, two university clients each accounted for 10% or more of the Company's consolidated accounts receivable, net balance, as follows: \$5.8 million and \$5.2 million, which equaled 12% and 11% of the Company's consolidated accounts receivable, net balance, respectively. As of December 31, 2019, two university clients in the Degree Program Segment each accounted for 10% or more of the Company's consolidated accounts receivable, net balance, contributing \$6.1 million and \$4.9 million, or approximately 18% and 15% of the Company's consolidated accounts receivable, net balance, respectively.

#### *Segment Performance*

The following table presents financial information regarding each of the Company's reportable segment's results of operations for each of the periods indicated.

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
<b>Revenue by segment*</b>			
Degree Program Segment	\$ 486,676	\$ 417,206	\$ 348,361
Alternative Credential Segment	287,857	157,465	63,408
Total revenue	<u>\$ 774,533</u>	<u>\$ 574,671</u>	<u>\$ 411,769</u>
<b>Segment profitability**</b>			
Degree Program Segment	\$ 49,607	\$ 5,770	\$ 16,839
Alternative Credential Segment	(33,534)	(29,716)	816
Total segment profitability	<u>\$ 16,073</u>	<u>\$ (23,946)</u>	<u>\$ 17,655</u>
<b>Segment profitability margin***</b>			
Degree Program Segment	10.2 %	1.4 %	4.8 %
Alternative Credential Segment	(11.6)	(18.9)	1.3
Total segment profitability margin	2.1 %	(4.2)%	4.3 %

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**13. Segment and Geographic Information (Continued)**

\* The Company has excluded immaterial amounts of intersegment revenues from the years ended December 31, 2020, 2019 and 2018.

\*\* The Company defines segment profitability as net income or net loss, as applicable, before net interest income (expense), foreign currency gains or losses, taxes, depreciation and amortization expense, deferred revenue fair value adjustments, transaction costs, integration costs, restructuring-related costs, stockholder activism costs, certain litigation-related costs, consisting of fees for certain non-ordinary course litigation and other proceedings, impairment charges, losses on debt extinguishment, and stock-based compensation expense. Some or all of these items may not be applicable in any given reporting period.

\*\*\* The Company defines segment profitability margin as segment profitability as a percentage of the respective segment's revenue.

The following table presents a reconciliation of the Company's total segment profitability to net loss for each of the periods indicated.

	Year Ended December 31,		
	2020	2019	2018
	(in thousands)		
Net loss	\$ (216,484)	\$ (235,222)	\$ (38,330)
Adjustments:			
Stock-based compensation expense	82,042	51,504	31,410
Foreign currency loss	1,429	707	1,722
Net interest expense (income)	25,963	7,619	(5,065)
Income tax benefit	(1,514)	(19,860)	(4,867)
Depreciation and amortization expense	96,469	69,843	32,785
Loss on debt extinguishment	11,671	—	—
Impairment charge	—	70,379	—
Other*	16,497	31,084	—
Total adjustments	232,557	211,276	55,985
Total segment profitability	\$ 16,073	\$ (23,946)	\$ 17,655

\* Includes (i) transaction and integration costs of \$2.3 million and \$8.0 million for the years ended December 31, 2020 and 2019, respectively, (ii) restructuring-related costs of \$6.8 million and \$10.8 million for the years ended December 31, 2020 and 2019, respectively, (iii) stockholder activism and litigation-related costs of \$7.4 million and \$1.0 million for the years ended December 31, 2020 and 2019, respectively, and (iv) deferred revenue fair value adjustments of \$11.2 million for the year ended December 31, 2019.

The following table presents the Company's total assets by segment as of each of the dates indicated.

	December 31, 2020	December 31, 2019
		(in thousands)
<b>Total assets</b>		
Degree Program Segment	\$ 830,706	\$ 507,187
Alternative Credential Segment	713,558	679,643
Total assets	\$ 1,544,264	\$ 1,186,830

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**13. Segment and Geographic Information (Continued)****Trade Accounts Receivable and Contract Liabilities**

The following table presents the Company's trade accounts receivable and contract liabilities in each segment as of each of the dates indicated.

	December 31, 2020	December 31, 2019
	(in thousands)	
<b>Trade accounts receivable</b>		
Degree Program Segment accounts receivable	\$ 16,424	\$ 3,454
Degree Program Segment unbilled revenue	6,072	12,123
Alternative Credential Segment accounts receivable	29,717	19,408
Provision for credit losses	(5,936)	(1,330)
Total trade accounts receivable	<u>\$ 46,277</u>	<u>\$ 33,655</u>
<b>Contract liabilities</b>		
Degree Program Segment deferred revenue	\$ 1,714	\$ 2,210
Alternative Credential Segment deferred revenue	73,779	46,623
Total contract liabilities	<u>\$ 75,493</u>	<u>\$ 48,833</u>

For the Degree Program Segment, revenue recognized during the years ended December 31, 2020 and 2019 that was included in the deferred revenue balance at the beginning of each year was \$2.2 million and \$2.4 million, respectively.

For the Alternative Credential Segment, revenue recognized during the years ended December 31, 2020 and 2019 that was included in the deferred revenue balance at the beginning of the year was \$46.6 million and \$5.4 million, respectively.

**Contract Acquisition Costs**

The Degree Program Segment had \$0.5 million and \$0.5 million of net capitalized contract acquisition costs recorded primarily within other assets, non-current on the consolidated balance sheets as of December 31, 2020 and 2019, respectively. For the year ended December 31, 2020, the Company did not capitalize any amounts and recorded an immaterial amount of amortization expense in the Degree Program Segment.

**Geographical Information**

The Company's non-U.S. revenue is based on the currency of the country in which the university client primarily operates. The Company's non-U.S. revenue was \$73.0 million, \$40.8 million and \$33.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. Substantially all of the Company's non-U.S. revenue for each of the aforementioned periods was sourced from the Alternative Credential Segment's operations outside of the U.S. The Company's long-lived tangible assets in non-U.S. countries as of December 31, 2020 and 2019 totaled approximately \$1.6 million and \$2.7 million, respectively.

**14. Retirement Plan**

The Company has established a 401(k) plan for eligible employees to contribute up to 100% of their compensation, limited by the IRS-imposed maximum contribution amount. The Company matches 33% of each employee's contribution up to 6% of the employee's salary deferral each plan year. For the years ended December 31, 2020, 2019 and 2018, the Company made employer contributions of \$3.6 million, \$3.0 million and \$2.1 million, respectively.

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**15. Quarterly Financial Information (Unaudited)**

The following tables presents certain unaudited quarterly financial data for 2020 and 2019. This unaudited information has been prepared on the same basis as the audited information included elsewhere in this Annual Report and includes all adjustments necessary to present fairly the information set forth therein. The operating results are not necessarily indicative of results for any future period.

	<b>Three Months Ended</b>			
	<b>March 31, 2020</b>	<b>June 30, 2020</b>	<b>September 30, 2020</b>	<b>December 31, 2020</b>
	(in thousands, except share and per share amounts)			
<b>Revenue</b>	\$ 175,479	\$ 182,687	\$ 201,073	\$ 215,294
<b>Costs and expenses</b>				
Curriculum and teaching	20,478	26,256	30,153	31,081
Servicing and support	30,533	30,294	32,536	32,488
Technology and content development	35,510	37,307	40,223	42,909
Marketing and sales	99,215	98,341	100,068	92,550
General and administrative	43,653	39,554	44,000	46,319
<b>Total costs and expenses</b>	<u>229,389</u>	<u>231,752</u>	<u>246,980</u>	<u>245,347</u>
<b>Loss from operations</b>	(53,910)	(49,065)	(45,907)	(30,053)
Interest income	513	154	713	(26)
Interest expense	(5,493)	(6,518)	(7,564)	(7,742)
Loss on debt extinguishment	—	(11,671)	—	—
Other (expense) income, net	(2,271)	570	42	230
<b>Loss before income taxes</b>	(61,161)	(66,530)	(52,716)	(37,591)
<b>Income tax benefit (expense)</b>	1,055	363	162	(66)
<b>Net loss</b>	<u>\$ (60,106)</u>	<u>\$ (66,167)</u>	<u>\$ (52,554)</u>	<u>\$ (37,657)</u>
<b>Net loss per share, basic and diluted</b>	<u>\$ (0.94)</u>	<u>\$ (1.03)</u>	<u>\$ (0.77)</u>	<u>\$ (0.52)</u>
<b>Weighted-average shares used in computing net loss per share, basic and diluted</b>	<u>63,626,333</u>	<u>64,075,405</u>	<u>68,580,439</u>	<u>72,228,308</u>

**2U, Inc.**  
**Notes to Consolidated Financial Statements (Continued)**

**15. Quarterly Financial Information (Unaudited, Continued)**

	Three Months Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
	(in thousands, except share and per share amounts)			
<b>Revenue</b>	\$ 122,234	\$ 135,461	\$ 153,798	\$ 163,178
<b>Costs and expenses</b>				
Curriculum and teaching	6,701	13,308	21,336	21,925
Servicing and support	20,174	23,993	27,351	27,372
Technology and content development	19,794	26,043	34,132	35,504
Marketing and sales	76,961	89,749	93,521	82,164
General and administrative	23,023	28,408	42,040	37,549
Impairment charge	—	—	70,379	—
<b>Total costs and expenses</b>	146,653	181,501	288,759	204,514
<b>Loss from operations</b>	(24,419)	(46,040)	(134,961)	(41,336)
Interest income	2,349	1,814	924	713
Interest expense	(55)	(2,424)	(5,651)	(5,289)
Other (expense) income, net	(370)	(13)	(710)	386
<b>Loss before income taxes</b>	(22,495)	(46,663)	(140,398)	(45,526)
<b>Income tax benefit (expense)</b>	941	18,691	(714)	942
<b>Net loss</b>	\$ (21,554)	\$ (27,972)	\$ (141,112)	\$ (44,584)
<b>Net loss per share, basic and diluted</b>	\$ (0.37)	\$ (0.46)	\$ (2.23)	\$ (0.70)
<b>Weighted-average shares used in computing net loss per share, basic and diluted</b>	58,138,692	60,516,662	63,358,890	63,481,130

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15 as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

**Management’s Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. With the participation of our Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Our independent registered public accounting firm, KPMG LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

**Changes in Internal Control Over Financial Reporting**

We made no changes in our internal control over financial reporting during the three months ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than changes in controls to integrate the business we acquired in the Trilogy acquisition.

**Item 9B. Other Information**

Not applicable.

### PART III

We will file a definitive Proxy Statement for our 2021 Annual Meeting of Stockholders or our 2021 Proxy Statement with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2021 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by Item 10 will be contained in our 2021 Proxy Statement under the captions “Board of Directors and Committees,” “Election of Directors,” “Management,” “Code of Business Conduct and Ethics for Employees, Executive Officers and Directors” and, if applicable, “Delinquent Section 16(a) Reports” or in an amendment on Form 10-K/A and is incorporated herein by reference.

#### **Item 11. Executive Compensation**

The information required by Item 11 will be contained in our 2021 Proxy Statement under the captions “Executive Compensation,” “Director Compensation” and “Compensation Committee Interlocks and Insider Participation” or in an amendment on Form 10-K/A and is incorporated herein by reference.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by Item 12 will be contained in our 2021 Proxy Statement under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance under Equity Compensation Plans” or in an amendment on Form 10-K/A and is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 will be contained in our 2021 Proxy Statement under the captions “Transactions with Related Parties” and “Director Independence” or in an amendment on Form 10-K/A and is incorporated herein by reference.

#### **Item 14. Principal Accounting Fees and Services**

The information required by Item 14 will be contained in our 2021 Proxy Statement under the caption “Independent Registered Public Accounting Firm Fees” and is incorporated herein by reference.

**PART IV****Item 15. Exhibits, Financial Statement Schedules****(a) Exhibits**

See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

**(b) Financial Statement Schedules****Schedule II—Valuation and Qualifying Accounts (in thousands)**

	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Expense/Against Revenue</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
<b>Allowance for doubtful accounts:</b>				
Year ended December 31, 2020	\$ 1,331	\$ 4,642	\$ (37)	\$ 5,936
Year ended December 31, 2019	257	1,425	(351)	1,331
Year ended December 31, 2018	\$ 287	\$ 571	\$ (601)	\$ 257
	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
<b>Income tax valuation allowance:</b>				
Year ended December 31, 2020	\$ 116,244	\$ 21,523	\$ —	\$ 137,767
Year ended December 31, 2019	88,061	45,642	(17,459)	116,244
Year ended December 31, 2018	\$ 71,101	\$ 16,960	\$ —	\$ 88,061

**Item 16. Form 10-K Summary**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

2U, Inc.

February 25, 2021

By: /s/ CHRISTOPHER J. PAUCEK

Name: Christopher J. Paucek

Title: *Chief Executive Officer and Director*

**POWER OF ATTORNEY**

**KNOW ALL PERSONS BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Christopher J. Paucek, Paul S. Lalljie and Matthew J. Norden, or each of them, as his or her true and lawful attorneys-in-fact and agents, each with the full power of substitution, for him or her and in his or her name, place or stead, in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ CHRISTOPHER J. PAUCEK</u> Christopher J. Paucek	Chief Executive Officer and Director (Principal Executive Officer)	February 25, 2021
<u>/s/ PAUL S. LALLJIE</u> Paul S. Lalljie	Chief Financial Officer (Principal Financial Officer)	February 25, 2021
<u>/s/ JOHN B. ELLIS</u> John B. Ellis	Chief Accounting Officer (Principal Accounting Officer)	February 25, 2021
<u>/s/ PAUL A. MAEDER</u> Paul A. Maeder	Director and Chairman of the Board	February 25, 2021
<u>/s/ TIMOTHY M. HALEY</u> Timothy M. Haley	Director	February 25, 2021
<u>/s/ JOHN M. LARSON</u> John M. Larson	Director	February 25, 2021
<u>/s/ CORETHA M. RUSHING</u> Coretha M. Rushing	Director	February 25, 2021
<u>/s/ ROBERT M. STAVIS</u> Robert M. Stavis	Director	February 25, 2021
<u>/s/ SALLIE L. KRAWCHECK</u> Sallie L. Krawcheck	Director	February 25, 2021
<u>/s/ EARL LEWIS</u> Earl Lewis	Director	February 25, 2021
<u>/s/ EDWARD S. MACIAS</u> Edward S. Macias	Director	February 25, 2021
<u>/s/ VALERIE B. JARRETT</u> Valerie B. Jarrett	Director	February 25, 2021
<u>/s/ GREGORY PETERS</u> Gregory Peters	Director	February 25, 2021
<u>/s/ ALEXIS MAYBANK</u> Alexis Maybank	Director	February 25, 2021

### **SPECIAL NOTE REGARDING EXHIBITS**

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

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**Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>	<b>Form</b>	<b>File No.</b>	<b>Exhibit Number</b>	<b>Filing Date</b>	<b>Filed/Furnished Herewith</b>
<a href="#">2.1</a>	<a href="#">Agreement and Plan of Merger and Reorganization, dated as of April 7, 2019, by and among 2U, Inc., Skywalker Purchaser, LLC, Skywalker Sub, Inc., Fortis Advisors LLC, as stockholder representative and Trilogy Education Services, Inc.</a>	8-K	001-36376	2.1	April 8, 2019	
<a href="#">3.1</a>	<a href="#">Amended and Restated Certificate of Incorporation of the Registrant.</a>	8-K	001-36376	3.1	April 4, 2014	
<a href="#">3.2</a>	<a href="#">Amended and Restated Bylaws of the Registrant.</a>	8-K	001-36376	3.2	April 4, 2014	
<a href="#">4.1</a>	<a href="#">Specimen stock certificate evidencing shares of Common Stock.</a>	S-1/A	333-194079	4.2	March 17, 2014	
<a href="#">4.2</a>	<a href="#">Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.</a>	10-K	001-36376	4.2	February 28, 2020	
<a href="#">4.3</a>	<a href="#">Indenture, dated as of April 23, 2020, between 2U, Inc. and Wilmington Trust, National Association.</a>	8-K	001-36376	4.1	April 27, 2020	
<a href="#">4.4</a>	<a href="#">Form of 2.25% Convertible Senior Note due May 1, 2025 (included as Exhibit A to Exhibit 4.1).</a>	8-K	001-36376	4.2	April 27, 2020	
<a href="#">10.1*</a>	<a href="#">Services Agreement, by and between the Registrant and University of Southern California, on behalf of the USC Rossier School of Education, dated as of October 29, 2008, as amended to date.</a>	S-1	333-194079	10.1	February 21, 2014	
<a href="#">10.2*</a>	<a href="#">Master Services Agreement, by and between the Registrant and University of Southern California, on behalf of School of Social Work, dated as of April 12, 2010, as amended.</a>	S-1	333-194079	10.2	February 21, 2014	
<a href="#">10.2.1*</a>	<a href="#">Second Addendum to the Master Services Agreement, by and between the Registrant and University of Southern California, on behalf of the School of Social Work, dated as of March 14, 2014.</a>	S-1/A	333-194079	10.2.1	March 17, 2014	
<a href="#">10.2.2*</a>	<a href="#">Amendment to Master Services Agreement, by and between the Registrant and University of Southern California, on behalf of School of Social Work, dated as of November 5, 2015.</a>	10-K	001-36376	10.2.2	March 10, 2016	
<a href="#">10.3†</a>	<a href="#">Fourth Amended and Restated 2008 Stock Incentive Plan, as amended to date.</a>	S-1	333-194079	10.7	February 21, 2014	
<a href="#">10.4†</a>	<a href="#">Form of Incentive Stock Option Agreement under 2008 Stock Incentive Plan.</a>	S-1	333-194079	10.8	February 21, 2014	
<a href="#">10.5†</a>	<a href="#">Form of Non-Qualified Stock Option Agreement under 2008 Stock Incentive Plan.</a>	S-1	333-194079	10.9	February 21, 2014	
<a href="#">10.6†</a>	<a href="#">Amended and Restated 2014 Equity Incentive Plan.</a>	10-Q	001-36376	10.1	August 2, 2018	
<a href="#">10.7†</a>	<a href="#">Form of Stock Option Agreement under Amended and Restated 2014 Equity Incentive Plan.</a>	10-Q	001-36376	10.2	August 2, 2018	

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<b>Exhibit Number</b>	<b>Description</b>	<b>Form</b>	<b>File No.</b>	<b>Exhibit Number</b>	<b>Filing Date</b>	<b>Filed/Furnished Herewith</b>
<a href="#">10.8†</a>	<a href="#">Form of Restricted Stock Unit Award Agreement under Amended and Restated 2014 Equity Incentive Plan.</a>	10-K	001-36376	10.8	February 28, 2020	
<a href="#">10.9†</a>	<a href="#">Form of Performance Stock Unit Award Agreement under Amended and Restated 2014 Equity Incentive Plan.</a>	10-Q	001-36376	10.3	November 12, 2019	
<a href="#">10.10†</a>	<a href="#">Form of Performance Stock Unit Award Agreement under Amended and Restated 2014 Equity Incentive Plan.</a>	10-K	001-36376	10.10	February 28, 2020	
<a href="#">10.11†</a>	<a href="#">Form of Severance Pay and Change in Control Plan.</a>	8-K	001-36376	10.1	February 21, 2020	
<a href="#">10.11.1†</a>	<a href="#">First Amendment to the 2U, Inc. Severance Pay and Change in Control Plan.</a>	10-Q	001-36376	10.4	April 30, 2020	
<a href="#">10.12†</a>	<a href="#">Summary of Non-Employee Director Compensation.</a>	10-Q	001-36376	10.8	July 31, 2020	
<a href="#">10.13†</a>	<a href="#">Confidential Information, Invention Assignment, Work for Hire, Noncompete and No Solicit/No Hire Agreement, dated as of February 28, 2009, by and between the Registrant and Christopher J. Paucek.</a>	S-1/A	333-194079	10.14	March 17, 2014	
<a href="#">10.14†</a>	<a href="#">Form of Indemnification Agreement with directors and executive officers.</a>	S-1	333-194079	10.15	February 21, 2014	
<a href="#">10.15†</a>	<a href="#">Offer letter agreement, dated as of May 20, 2018, between Mark Chernis and 2U, Inc.</a>	10-Q	001-36376	10.4	August 2, 2018	
<a href="#">10.16†</a>	<a href="#">Offer letter agreement, dated as of October 10, 2019, between Paul S. Lalljie and 2U, Inc.</a>	8-K	001-36376	10.1	October 16, 2019	
<a href="#">10.17†</a>	<a href="#">Employee Intellectual Property, Non-Competition, and Non-Solicitation Agreement, dated October 10, 2019, between Paul S. Lalljie and 2U, Inc.</a>	8-K	001-36376	10.2	October 16, 2019	
<a href="#">10.18†</a>	<a href="#">Separation and Transition Agreement, dated October 17, 2019, between Catherine A. Graham and 2U, Inc.</a>	8-K	001-36376	10.1	October 23, 2019	
<a href="#">10.19**</a>	<a href="#">Credit Agreement, dated as of June 25, 2020, between 2U, Inc. and Morgan Stanley Senior Funding, Inc.</a>	10-Q	001-36376	10.7	July 31, 2020	
<a href="#">10.20</a>	<a href="#">Base Call Option Confirmation, dated as of April 20, 2020, between 2U, Inc. and Citibank, N.A.</a>	8-K	001-36376	10.1	April 27, 2020	
<a href="#">10.21</a>	<a href="#">Base Call Option Confirmation, dated as of April 20, 2020, between 2U, Inc. and Morgan Stanley &amp; Co. LLC.</a>	8-K	001-36376	10.2	April 27, 2020	
<a href="#">10.22</a>	<a href="#">Base Call Option Confirmation, dated as of April 20, 2020, between 2U, Inc. and Credit Suisse Capital LLC.</a>	8-K	001-36376	10.3	April 27, 2020	
<a href="#">10.23</a>	<a href="#">Additional Call Option Confirmation, dated as of April 29, 2020, between 2U, Inc. and Citibank, N.A.</a>	8-K	001-36376	10.1	May 1, 2020	
<a href="#">10.24</a>	<a href="#">Additional Call Option Confirmation, dated as of April 29, 2020, between 2U, Inc. and Morgan Stanley &amp; Co. LLC.</a>	8-K	001-36376	10.2	May 1, 2020	

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<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>File No.</u>	<u>Exhibit Number</u>	<u>Filing Date</u>	<u>Filed/Furnished Herewith</u>
<a href="#">10.25</a>	<a href="#">Additional Call Option Confirmation, dated as of April 29, 2020, between 2U, Inc. and Credit Suisse Capital LLC.</a>	8-K	001-36376	10.3	May 1, 2020	
<a href="#">10.26</a>	<a href="#">Office Lease, by and between Lanham Office 2015 LLC and 2U Harkins Road LLC, dated as of December 23, 2015.</a>	10-K	001-36376	10.16	February 24, 2017	
<a href="#">10.27</a>	<a href="#">Agreement of Lease, by and between 55 Prospect Owner LLC and 2U NYC, LLC, dated as of February 13, 2017.</a>	10-K	001-36376	10.17	February 24, 2017	
<a href="#">10.28</a>	<a href="#">Office Lease, by and between SRI Ten DCC LCC and 2U, Inc., dated May 11, 2016.</a>	10-K	001-36376	10.18	February 24, 2017	
<a href="#">21.1</a>	<a href="#">Subsidiaries of the Registrant.</a>					X
<a href="#">23.1</a>	<a href="#">Consent of KPMG LLP, independent registered public accounting firm.</a>					X
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer of 2U, Inc. pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
<a href="#">31.2</a>	<a href="#">Certification of Chief Financial Officer of 2U, Inc. pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
<a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer of 2U, Inc. in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
<a href="#">32.2</a>	<a href="#">Certification of Chief Financial Officer of 2U, Inc. in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).					X

\* Portions of this exhibit, indicated by asterisks, have been omitted pursuant to a request for confidential treatment and have been separately filed with the Securities and Exchange Commission.

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\*\* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant hereby undertakes to supplementally furnish to the Securities and Exchange Commission copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

† Indicates management contract or compensatory plan.

## Subsidiaries of 2U, Inc.

Name of Subsidiary	Jurisdiction of Incorporation or Organization
CritiqueIt, Inc.	California
2U HK LLC	Delaware
2U Harkins Road LLC	Delaware
2U KEIH Holdco, LLC	Delaware
2U NYC, LLC	Delaware
2U GetSmarter, LLC	Delaware
2U GetSmarter (US), LLC	Delaware
TESI Merger Sub, Inc.	Delaware
Trilogy Education Services, LLC	Delaware
TES, Inc.	Delaware
TES, LLC	Delaware
Trilogy Education Services (Australia) Proprietary Limited	Australia
Trilogy Education Services (Canada) ULC	Canada
Trilogy Education Service (Germany) GmbH	Germany
Trilogy Education Services Mexico S. de R.L. de C.V.	Mexico
K2017143886 (South Africa) Proprietary Limited	South Africa
Get Educated International Proprietary Limited	South Africa
Get Educated Proprietary Limited	South Africa
2U GetSmarter (UK) Limited	The United Kingdom
GetSmarter Online Limited	The United Kingdom
2U Group (UK) Limited	The United Kingdom
Trilogy Education Services UK Limited	The United Kingdom

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
2U, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-227546) on Form S-3 and registration statements (Nos. 333-194943 and 333-221964) on Form S-8 of 2U, Inc. of our reports dated February 25, 2021, with respect to the consolidated balance sheets of 2U, Inc. and subsidiaries as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and financial statement Schedule II—Valuation and Qualifying Accounts (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2020, which reports appear in the December 31, 2020 annual report on Form 10-K of 2U, Inc.

Our report dated February 25, 2021 on the consolidated financial statements refers to a change in the method of accounting for leases as of January 1, 2019 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*.

/s/ KPMG LLP

McLean, Virginia  
February 25, 2021

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Christopher J. Paucek, certify that:

1. I have reviewed this Annual Report on Form 10-K of 2U, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

By: /s/ CHRISTOPHER J. PAUCEK  
Name: Christopher J. Paucek  
Title: *Chief Executive Officer*

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Paul S. Lalljie, certify that:

1. I have reviewed this Annual Report on Form 10-K of 2U, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

By: /s/ PAUL S. LALLJIE

Name: Paul S. Lalljie

Title: *Chief Financial Officer*

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

In connection with the Annual Report on Form 10-K of 2U, Inc. (the "Company") for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Paucek, as Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 25, 2021

By: /s/ CHRISTOPHER J. PAUCEK

Name: Christopher J. Paucek

Title: *Chief Executive Officer*

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Annual Report on Form 10-K of 2U, Inc. (the "Company") for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul S. Lalljie, as Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 25, 2021

By: /s/ PAUL S. LALLJIE  
Name: Paul S. Lalljie  
Title: *Chief Financial Officer*

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.