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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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	**26-2335939**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7900 Harkins Road Lanham, MD	**20706**
(Address of Principal Executive Offices)	(Zip Code)

(301) 892-4350
(Registrant’s telephone number, including area code)

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

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

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of October 23, 2020, there were 72,068,858 shares of the registrant’s common stock, par value $0.001 per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, 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 Quarterly Report on Form 10-Q, 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 our Annual Report on Form 10-K for the year ended December 31, 2019, as amended and supplemented by Part II, Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q, 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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. In this Quarterly Report on Form 10-Q, the terms “2U,” “our company,” “we,” “us,” and “our” refer to 2U, Inc. and its subsidiaries, unless the context indicates otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2020	December 31, 2019
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 481,329	$ 170,593
Restricted cash	18,235	19,276
Accounts receivable, net	95,756	33,655
Prepaid expenses and other assets	40,270	37,424
Total current assets	635,590	260,948
Property and equipment, net	53,603	57,643
Right-of-use assets	53,453	43,401
Goodwill	407,860	418,350
Amortizable intangible assets, net	316,405	333,075
Other assets, non-current	85,867	73,413
Total assets	$ 1,552,778	$ 1,186,830
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable and accrued expenses	$ 84,404	$ 65,381
Accrued compensation and related benefits	44,484	21,885
Deferred revenue	91,783	48,833
Lease liability	9,185	7,320
Other current liabilities	17,100	12,535
Total current liabilities	246,956	155,954
Long-term debt	268,224	246,620
Deferred tax liabilities, net	2,134	5,133
Lease liability, non-current	75,621	66,974
Other liabilities, non-current	8,270	899
Total liabilities	601,205	475,580
Commitments and contingencies (Note 6)		
Stockholders' equity		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, none issued	—	—
Common stock, $0.001 par value, 200,000,000 shares authorized, 71,294,706 shares issued and outstanding as of September 30, 2020; 63,569,109 shares issued and outstanding as of December 31, 2019	71	63
Additional paid-in capital	1,629,565	1,197,379
Accumulated deficit	(658,215)	(479,388)
Accumulated other comprehensive loss	(19,848)	(6,804)
Total stockholders' equity	951,573	711,250
Total liabilities and stockholders' equity	$ 1,552,778	$ 1,186,830

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenue	$ 201,073	$ 153,798	$ 559,239	$ 411,493
Costs and expenses				
Curriculum and teaching	30,153	21,336	76,887	41,345
Servicing and support	32,536	27,351	93,363	71,518
Technology and content development	40,223	34,132	113,040	79,969
Marketing and sales	100,068	93,521	297,624	260,231
General and administrative	44,000	42,040	127,207	93,471
Impairment charge	—	70,379	—	70,379
Total costs and expenses	246,980	288,759	708,121	616,913
Loss from operations	(45,907)	(134,961)	(148,882)	(205,420)
Interest income	713	924	1,380	5,087
Interest expense	(7,564)	(5,651)	(19,575)	(8,130)
Loss on debt extinguishment	—	—	(11,671)	—
Other income (expense), net	42	(710)	(1,659)	(1,093)
Loss before income taxes	(52,716)	(140,398)	(180,407)	(209,556)
Income tax benefit (expense)	162	(714)	1,580	18,918
Net loss	$ (52,554)	$ (141,112)	$ (178,827)	$ (190,638)
Net loss per share, basic and diluted	$ (0.77)	$ (2.23)	$ (2.69)	$ (3.14)
Weighted-average shares of common stock outstanding, basic and diluted	68,580,439	63,358,890	66,368,686	60,690,536
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of tax of $0 for all periods presented	1,667	(5,856)	(13,044)	(3,985)
Comprehensive loss	$ (50,887)	$ (146,968)	$ (191,871)	$ (194,623)

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2019	63,569,109	$ 63	$ 1,197,379	$ (479,388)	$ (6,804)	$ 711,250
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	96,683	1	(1)	—	—	—
Exercise of stock options	37,275	—	384	—	—	384
Stock-based compensation expense	—	—	20,870	—	—	20,870
Net loss	—	—	—	(60,106)	—	(60,106)
Foreign currency translation adjustment	—	—	—	—	(16,115)	(16,115)
Balance, March 31, 2020	63,703,067	$ 64	$ 1,218,632	$ (539,494)	$ (22,919)	$ 656,283
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	355,506	—	(463)	—	—	(463)
Exercise of stock options	158,453	—	1,441	—	—	1,441
Issuance of common stock in connection with employee stock purchase plan	83,573	—	1,771	—	—	1,771
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)
Stock-based compensation expense	—	—	21,091	—	—	21,091
Net loss	—	—	—	(66,167)	—	(66,167)
Foreign currency translation adjustment	—	—	—	—	1,404	1,404
Balance, June 30, 2020	64,300,599	$ 64	$ 1,306,483	$ (605,661)	$ (21,515)	$ 679,371
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
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	112,460	—	(6)	—	—	(6)
Exercise of stock options	81,647	—	1,298	—	—	1,298
Stock-based compensation expense	—	—	22,001	—	—	22,001
Net loss	—	—	—	(52,554)	—	(52,554)
Foreign currency translation adjustment	—	—	—	—	1,667	1,667
Balance, September 30, 2020	71,294,706	$ 71	$ 1,629,565	$ (658,215)	$ (19,848)	$ 951,573

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2018	57,968,493	$ 58	$ 957,631	$ (244,166)	$ (8,514)	$ 705,009
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	9,319	—	—	—	—	—
Exercise of stock options	211,506	—	1,928	—	—	1,928
Stock-based compensation expense	—	—	9,584	—	—	9,584
Net loss	—	—	—	(21,554)	—	(21,554)
Foreign currency translation adjustment	—	—	—	—	(372)	(372)
Balance, March 31, 2019	58,189,318	$ 58	$ 969,143	$ (265,720)	$ (8,886)	$ 694,595
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	348,418	—	(2,558)	—	—	(2,558)
Exercise of stock options	85,539	—	452	—	—	452
Stock-based compensation expense	—	—	9,967	—	—	9,967
Net loss	—	—	—	(27,972)	—	(27,972)
Foreign currency translation adjustment	—	—	—	—	2,243	2,243
Balance, June 30, 2019	63,231,376	$ 63	$ 1,161,321	$ (293,692)	$ (6,643)	$ 861,049
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	61,016	—	(15)	—	—	(15)
Exercise of stock options	41,828	—	562	—	—	562
Issuance of common stock in connection with employee stock purchase plan	54,485	—	1,895	—	—	1,895
Stock-based compensation expense	—	—	16,535	—	—	16,535
Net loss	—	—	—	(141,112)	—	(141,112)
Foreign currency translation adjustment	—	—	—	—	(5,856)	(5,856)
Balance, September 30, 2019	63,388,705	$ 63	$ 1,180,298	$ (434,804)	$ (12,499)	$ 733,058

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities		
Net loss	$ (178,827)	$ (190,638)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash interest expense	13,161	883
Depreciation and amortization expense	71,406	46,639
Stock-based compensation expense	63,962	36,086
Non-cash lease expense	11,181	8,407
Provision for credit losses	2,703	1,785
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	(65,095)	(39,743)
Payments to university clients	2,171	(22,257)
Prepaid expenses and other assets	(17,153)	(6,760)
Accounts payable and accrued expenses	15,281	12,712
Accrued compensation and related benefits	22,737	(109)
Deferred revenue	43,138	20,162
Other liabilities, net	(5,680)	(24,263)
Other	2,486	1,056
Net cash used in operating activities	(6,858)	(85,661)
Cash flows from investing activities		
Purchase of a business, net of cash acquired	(949)	(388,004)
Additions of amortizable intangible assets	(46,750)	(50,950)
Purchases of property and equipment	(5,516)	(11,306)
Purchase of investments	—	(10,000)
Proceeds from maturities of investments	—	25,000
Advances made to university clients	—	(100)
Advances repaid by university clients	925	350
Net cash used in investing activities	(52,290)	(435,010)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of offering costs	299,796	—
Proceeds from debt	371,681	243,726
Payments on debt	(250,479)	—
Payment of debt issuance costs	(3,419)	(1,953)
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)	—
Proceeds from exercise of stock options	3,123	2,942
Tax withholding payments associated with settlement of restricted stock units	(470)	(2,573)
Proceeds from employee stock purchase plan share purchases	1,771	1,895
Payments for acquisition of amortizable intangible assets	—	(1,283)
Net cash provided by financing activities	368,935	242,754
Effect of exchange rate changes on cash	(92)	(1,025)
Net increase (decrease) in cash, cash equivalents and restricted cash	309,695	(278,942)
Cash, cash equivalents and restricted cash, beginning of period	189,869	449,772
Cash, cash equivalents and restricted cash, end of period	$ 499,564	$ 170,830

See accompanying notes to condensed consolidated financial statements.

1. Organization

2U, Inc. (together with its subsidiaries, the "Company") is a leading provider of education technology for nonprofit colleges and universities. The Company builds, delivers, and supports more than 475 digital and in-person educational offerings, including graduate and undergraduate degrees, professional certificates, boot camps, and short courses, across the Career Curriculum Continuum.

The Company has two reportable segments: the Graduate Program Segment and the Alternative Credential Segment. The Company's Graduate Program Segment includes the technology and services provided 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. 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. Students enrolled in these offerings are generally working professionals seeking career advancement through skills attainment.

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements, which include the assets, liabilities, results of operations and cash flows of the Company have been prepared in accordance with: (i) generally accepted accounting principles in the United States ("U.S. GAAP") for interim financial information; (ii) the instructions to Form 10-Q; and (iii) the guidance of Rule 10-01 of Regulation S-X under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for financial statements required to be filed with the Securities and Exchange Commission (the "SEC"). As permitted under such rules, certain notes and other financial information normally required by U.S. GAAP have been condensed or omitted. The Company believes the condensed consolidated financial statements reflect all normal and recurring adjustments necessary for a fair statement of the Company's financial position, results of operations, and cash flows as of and for the periods presented herein. The Company's results of operations for the three and nine months ended September 30, 2020 and 2019 may not be indicative of the Company's future results. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. All significant intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet data as of December 31, 2019 was derived from the audited financial statements, but does not include all disclosures required by U.S. GAAP on an annual reporting basis.

Use of Estimates

The preparation of condensed 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.

Accounts Receivable, Contract Assets and Liabilities

Balance sheet items related to contracts consist of accounts receivable, net and deferred revenue on the Company's condensed consolidated balance sheets. Accounts receivable, net includes trade accounts receivable, which are comprised of billed and unbilled revenue. 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.

2. Significant Accounting Policies (Continued)

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. The Company recognizes unbilled revenue when revenue recognition occurs in advance of billings. Unbilled revenue is recognized in the Graduate 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 condensed consolidated balance sheets for the period indicated:

	Provision for Credit Losses
	(in thousands)
Balance as of January 1, 2020	$ 1,330
Current period provision	2,703
Amounts written off	(351)
Other	(42)
Balance as of September 30, 2020	$ 3,640

Deferred revenue balances are contract liabilities that represent the excess of amounts billed or received as compared to amounts recognized in revenue on the Company's condensed 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 condensed consolidated balance sheets. The Company generally receives payments from Graduate 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.

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 8 for more information regarding the Notes.

The Notes are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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.

Recent Accounting Pronouncements

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

2. Significant Accounting Policies (Continued)

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 condensed 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 condensed consolidated financial statements or 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 is evaluating the impact that this ASU will have on its condensed 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 is evaluating the impact that this ASU will have on its condensed consolidated financial statements and related disclosures.

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 condensed 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

2. Significant Accounting Policies (Continued)

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 vest 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 condensed consolidated financial statements within the Alternative Credential Segment as of May 22, 2019.

The unaudited pro forma combined financial information below 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 date indicated or what the results would be for any future periods. The following table presents the Company’s unaudited pro forma combined revenue, pro forma combined net loss and pro forma combined net loss per share for the nine months ended September 30, 2019, as if the acquisition of Trilogy had occurred on January 1, 2019:

	Nine Months Ended September 30, 2019
	(in thousands, except per share amount)
Pro forma revenue	$ 459,756
Pro forma net loss	(226,901)
Pro forma net loss per share, basic and diluted	$ (3.74)

4. Goodwill and Amortizable Intangible Assets

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

	Graduate Program Segment	Alternative Credential Segment	Total
		(in thousands)	
Balance as of December 31, 2019	$ —	$ 418,350	$ 418,350
Foreign currency translation adjustments	—	(10,490)	(10,490)
Balance as of September 30, 2020	$ —	$ 407,860	$ 407,860

The carrying amount of goodwill in the Alternative Credential Segment included accumulated impairment charges of $70.4 million as of both September 30, 2020 and December 31, 2019.

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

4. Goodwill and Amortizable Intangible Assets (Continued)

		September 30, 2020			December 31, 2019		
	Estimated Average Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)					
Capitalized technology	3-5	$ 159,164	$ (66,861)	$ 92,303	$ 142,712	$ (41,106)	$ 101,606
Capitalized content development	4-5	198,568	(78,729)	119,839	167,758	(54,736)	113,022
University client relationships	9-10	106,384	(19,483)	86,901	110,344	(12,419)	97,925
Trade names and domain names	5-10	25,613	(8,251)	17,362	26,462	(5,940)	20,522
Total amortizable intangible assets, net		$ 489,729	$ (173,324)	$ 316,405	$ 447,276	$ (114,201)	$ 333,075

The amounts presented in the table above include $37.3 million and $30.7 million of in-process capitalized technology and content development as of September 30, 2020 and December 31, 2019, respectively.

The Company recorded amortization expense related to amortizable intangible assets of $20.8 million and $19.2 million for the three months ended September 30, 2020 and 2019, respectively. The Company recorded amortization expense related to amortizable intangible assets of $61.8 million and $38.1 million for the nine months ended September 30, 2020 and 2019, respectively.

The following table presents the estimated future amortization expense of the Company's amortizable intangible assets placed in service as of September 30, 2020.

	Future Amortization Expense
	(in thousands)
Remainder of 2020	$ 20,577
2021	78,471
2022	62,124
2023	44,691
2024	27,366
Thereafter	47,351
Total	$ 280,580

5. Accrued Expenses

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

	September 30, 2020	December 31, 2019
	(in thousands)	
Accrued university and instructional staff compensation	$ 23,506	$ 23,419
Accrued marketing costs	31,400	22,055
Accrued transaction, integration and restructuring-related costs*	2,058	4,459
Accounts payable and other accrued expenses	27,440	15,448
Total accounts payable and accrued expenses	$ 84,404	$ 65,381

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

5. Accrued Expenses (Continued)

* As of September 30, 2020 and December 31, 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.

For the three and nine months ended September 30, 2020 and 2019, expense related to the Company's marketing and advertising efforts of its own brand were not material.

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 Company currently estimates the amount of payroll taxes subject to deferred payment, net of employee retention tax credits that have been claimed, is approximately $6.6 million, and has been reflected within other liabilities, non-current on the Company's condensed consolidated balance sheet as of September 30, 2020. This total deferred amount is payable during the years ending December 31, 2021 and December 31, 2022.

6. 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.

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

6. Commitments and Contingencies (Continued)

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, 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.

Marketing and Sales Commitments

Certain agreements entered into between the Company and its university clients in the Graduate 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 Graduate 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 Graduate 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. As of September 30, 2020, the future minimum payments due to university clients have not materially changed relative to the amounts provided in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Contingent Payments

The Company has entered into agreements with certain of its university clients in the Graduate 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 condensed consolidated balance sheets.

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.

7. 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. The Company did not have any subleases as of September 30, 2020.

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

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

7. Leases (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Operating lease expense	$ 3,848	$ 3,053	$ 11,189	$ 8,389
Short-term lease expense	50	188	284	578
Variable lease expense	1,603	1,031	4,274	3,036
Total lease expense	$ 5,501	$ 4,272	$ 15,747	$ 12,003

As of September 30, 2020, for the Company's operating leases, the weighted-average remaining lease term was 7.4 years and the weighted-average discount rate was 11.7%. For the nine months ended September 30, 2020 and 2019, cash paid for amounts included in the measurement of operating lease liabilities was $12.7 million and $9.6 million, respectively.

The following table presents the maturities of the Company's operating lease liabilities as of the date indicated.

	September 30, 2020
	(in thousands)
Remainder of 2020	$ 4,615
2021	18,155
2022	17,322
2023	17,060
2024	16,571
Thereafter	54,752
Total lease payments	128,475
Less: imputed interest	(43,669)
Total lease liability	$ 84,806

As of September 30, 2020, the Company has additional operating leases for facilities that have not yet commenced with future minimum lease payments of approximately $60.2 million. These operating leases will commence during fiscal years 2020 through 2021, with lease terms of between nine to 12 years.

8. Debt

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

	September 30, 2020	December 31, 2019
	(in thousands)	
Convertible senior notes	$ 380,000	$ —
Senior secured term loan facility	—	250,000
Deferred government grant obligations	3,500	3,500
Other borrowings	1,701	998
Less: unamortized debt issuance costs	(116,352)	(7,238)
Total debt	268,849	247,260
Less: current portion of long-term debt	(625)	(640)
Total long-term debt	$ 268,224	$ 246,620

8. Debt (Continued)

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 convertible senior notes, which had an estimated fair value of $547.2 million as of September 30, 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 three- and nine-month periods ended September 30, 2020, including amortization of the debt discount and debt issuance costs, was $7.3 million and $12.3 million, respectively. The associated effective interest rate of the Notes for the three- and nine-month periods ended September 30, 2020 was approximately 11.2% and 10.8%, respectively.

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 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

8. Debt (Continued)

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. 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.

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 September 30, 2020, the Company's borrowing capacity was $50.0 million and no amounts were outstanding under the Credit Agreement.

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

8. Debt (Continued)

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. 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, and terminated the credit agreement with Owl Rock Capital Corporation.

Deferred Government Grant Obligations

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. The conditional loan with the State of Maryland has a maturity date of December 31, 2026, and the conditional loan with Prince George’s County has a maturity date of June 22, 2027. On July 1, 2020, the Company amended its conditional loan agreement with Prince George’s County to extend the date on which the Company must comply with the employment level thresholds. The interest expense related to these loans for the three and nine months ended September 30, 2020 and 2019 was immaterial. As of September 30, 2020 and December 31, 2019, the Company’s combined accrued interest balance associated with the deferred government grant obligations was $0.4 million and $0.3 million, respectively.

9. Income Taxes

The Company's income tax provisions for all periods consist of federal, state and foreign income taxes. The income tax provisions for the three and nine months ended September 30, 2020 and 2019 were based on estimated full-year effective tax rates, including the mix of income for the period between higher-taxed and lower-taxed jurisdictions, after giving effect to significant items related specifically to the interim periods, and loss-making entities for which it is not more likely than not that a tax benefit will be realized.

The Company's effective tax rate was approximately 0% and (1)% for the three months ended September 30, 2020 and 2019, respectively. The Company's effective tax rate was approximately 1% and 9% for the nine months ended September 30, 2020 and 2019, respectively. The Company's income tax benefit of $1.6 million for the nine months ended September 30, 2020 related to losses generated by operations and the amortization of acquired intangibles in the Alternative Credential Segment that are expected to be realized through future reversing taxable temporary differences. The Company's income tax benefit of $18.9 million for the nine months ended September 30, 2019 related to the reversal of its 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. The Company expects to continue to recognize an income tax benefit in the future for the Alternative Credential Segment to the extent that this segment continues to generate pre-tax losses while carrying deferred tax liabilities that are in excess of deferred tax assets. To date, the Company has not been required to pay U.S. federal income taxes because of current and accumulated net operating losses.

10. Stockholders' Equity

Common Stock

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.

As of September 30, 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 September 30, 2020, there were 71,294,706 shares of common stock outstanding, and the Company had reserved a total of 26,355,976 of its authorized shares of common stock for future issuance as follows:

	Shares Reserved for Future Issuance
Outstanding restricted stock units	3,431,829
Outstanding performance restricted stock units	1,760,164
Outstanding stock options	4,023,741
Reserved for convertible senior notes	17,140,242
Total shares of common stock reserved for future issuance	26,355,976

Stock-Based Compensation

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. The shares available for future issuance under the 2014 Plan increased by 3,175,011 and 2,896,365 on January 1, 2020 and 2019, respectively, pursuant to the automatic share reserve increase provision in the 2014 Plan.

The Company also has a 2017 Employee Stock Purchase Plan (the "ESPP"). During the nine months ended September 30, 2020, an aggregate of 83,573 shares of the Company's common stock were purchased in accordance with the ESPP. Net proceeds from the issuance of these shares was $1.8 million. As of September 30, 2020, 729,391 shares remained available for purchase under the ESPP.

10. Stockholders' Equity (Continued)

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 condensed consolidated statements of operations and comprehensive loss for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Curriculum and teaching	$ 21	$ 30	$ 212	$ 38
Servicing and support	3,409	2,626	10,979	6,129
Technology and content development	3,059	2,228	9,164	5,732
Marketing and sales	1,618	2,238	6,704	4,981
General and administrative	13,894	9,413	36,903	19,206
Total stock-based compensation expense	$ 22,001	$ 16,535	$ 63,962	$ 36,086

Restricted Stock Units

The 2014 Plan provides for the issuance of restricted stock units ("RSUs") to employees and certain non-employees. RSUs generally vest over a three- or four-year period. The following table presents a summary of the Company's RSU activity for the period indicated.

	Number of Units	Weighted-Average Grant Date Fair Value per Share
Outstanding balance as of December 31, 2019	2,281,142	$ 40.49
Granted	1,911,308	20.66
Vested	(550,624)	51.84
Forfeited	(209,997)	30.17
Outstanding balance as of September 30, 2020	3,431,829	$ 28.25

Performance Restricted Stock Units

The 2014 Plan provides for the issuance of performance restricted stock units ("PRSUs") to employees and certain non-employees. 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. The following table presents a summary of the Company's PRSU activity for the period indicated.

	Number of Units	Weighted-Average Grant Date Fair Value per Share
Outstanding balance as of December 31, 2019	1,413,773	$ 28.12
Granted	657,723	22.45
Vested	(38,748)	22.38
Forfeited	(272,584)	48.87
Outstanding balance as of September 30, 2020	1,760,164	$ 22.91

10. Stockholders' Equity (Continued)

Stock Options

The Stock Plans provide for the issuance of stock options to employees and certain non-employees. Stock options issued under the Stock Plans generally are exercisable for periods not to exceed 10 years and generally vest over four years. 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		
Exercised	(277,375)	11.26		
Forfeited	(46,452)	61.21		
Expired	(34,924)	43.72		
Outstanding balance as of September 30, 2020	4,023,741	35.40	5.26	47,336
Exercisable as of September 30, 2020	3,202,271	$ 27.36	4.56	$ 46,521

The weighted-average grant date fair value of stock options granted during the nine months ended September 30, 2020 and 2019 was $11.48 and $29.38 per share, respectively.

The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2020 and 2019 was $6.8 million and $14.2 million, respectively.

The total unrecognized compensation cost related to the unvested stock options as of September 30, 2020 was $22.9 million and will be recognized over a weighted-average period of approximately 2.42 years.

11. 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 antidilutive, given the Company's net loss. The following table presents a summary of the number of securities that have been excluded from the calculation of weighted-average shares of common stock outstanding because the effect is antidilutive for each of the periods indicated.

	Three and Nine Months Ended September 30,	
	2020	2019
Stock options	4,023,741	4,404,386
Restricted stock units	3,431,829	1,454,169
Performance restricted stock units	1,760,164	202,764
Shares related to convertible senior notes	3,432,837	—
Total antidilutive securities	12,648,571	6,061,319

The following table presents the calculation of the Company's basic and diluted net loss per share for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator (in thousands):				
Net loss	$ (52,554)	$ (141,112)	$ (178,827)	$ (190,638)
Denominator:				
Weighted-average shares of common stock outstanding, basic and diluted	68,580,439	63,358,890	66,368,686	60,690,536
Net loss per share, basic and diluted	$ (0.77)	$ (2.23)	$ (2.69)	$ (3.14)

12. Segment and Geographic Information

The Company has two reportable segments: 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 Graduate 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 three months ended September 30, 2020, one university client in the Graduate Program Segment accounted for 10% or more of the Company's consolidated revenue, contributing $19.3 million, or approximately 10% of the Company's consolidated revenue. For the three months ended September 30, 2019, one university client in the Graduate Program Segment accounted for 10% or more of the Company's consolidated revenue, contributing $20.5 million, or approximately 13% of the Company's consolidated revenue.

For the nine months ended September 30, 2020, one university client in the Graduate Program Segment accounted for 10% or more of the Company's consolidated revenue, contributing $55.5 million, or approximately 10% of the Company's consolidated revenue. For the nine months ended September 30, 2019, one university client in the Graduate Program Segment accounted for 10% or more of the Company's consolidated revenue, contributing $64.3 million, or approximately 16% of the Company's consolidated revenue.

As of September 30, 2020, two university clients in the Graduate Program Segment accounted for 10% or more of the Company's consolidated accounts receivable, net balance, contributing $11.1 million and $11.0 million, or approximately 12% and 11% of the Company's consolidated accounts receivable, net balance, respectively. As of December 31, 2019, two university clients in the Graduate 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.

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

12. Segment and Geographic Information (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Revenue by segment*				
Graduate Program Segment	$ 122,036	$ 103,393	$ 356,178	$ 308,970
Alternative Credential Segment	79,037	50,405	203,061	102,523
Total revenue	$ 201,073	$ 153,798	$ 559,239	$ 411,493
Segment profitability**				
Graduate Program Segment	$ 9,713	$ 1,213	$ 20,876	$ (6,126)
Alternative Credential Segment	(6,001)	(11,936)	(23,555)	(22,778)
Total segment profitability	$ 3,712	$ (10,723)	$ (2,679)	$ (28,904)
Segment profitability margin***				
Graduate Program Segment	8.0 %	1.2 %	5.9 %	(2.0)%
Alternative Credential Segment	(7.6)	(23.7)	(11.6)	(22.2)
Total segment profitability margin	1.8 %	(7.0)%	(0.5)%	(7.0)%

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* The Company has excluded immaterial amounts of intersegment revenues from the three- and nine-month periods ended September 30, 2020 and 2019.

** 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 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.

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

12. Segment and Geographic Information (Continued)

The following table presents a reconciliation of the Company's net loss to total segment profitability for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net loss	$ (52,554)	$ (141,112)	$ (178,827)	$ (190,638)
Adjustments:				
Stock-based compensation expense	22,001	16,535	63,962	36,086
Foreign currency (gain) loss	(42)	710	1,659	1,093
Net interest expense	6,851	4,727	18,195	3,043
Income tax (benefit) expense	(162)	714	(1,580)	(18,918)
Depreciation and amortization expense	23,936	22,288	71,406	46,639
Loss on debt extinguishment	—	—	11,671	—
Impairment charge	—	70,379	—	70,379
Other*	3,682	15,036	10,835	23,412
Total adjustments	56,266	130,389	176,148	161,734
Total segment profitability	$ 3,712	$ (10,723)	$ (2,679)	$ (28,904)

* Includes (i) transaction and integration costs of $0.4 million and $2.5 million in the three months ended September 30, 2020 and 2019, respectively and $1.5 million and $7.0 million in the nine months ended September 30, 2020 and 2019, respectively, (ii) restructuring-related costs of $2.7 million and $6.6 million in the three months ended September 30, 2020 and 2019, respectively and $3.2 million and $7.2 million in the nine months ended September 30, 2020 and 2019, respectively, (iii) stockholder activism costs of $5.6 million in the nine months ended September 30, 2020, (iv) litigation-related costs of $0.6 million in each of the three- and nine-month periods ended September 30, 2020, and (v) deferred revenue fair value adjustments of $5.9 million and $9.3 million in the three and nine months ended September 30, 2019, respectively.

The following table presents the Company's total assets by segment as of each of the dates indicated.

	September 30, 2020	December 31, 2019
	(in thousands)	
Total assets		
Graduate Program Segment	$ 852,350	$ 507,187
Alternative Credential Segment	700,428	679,643
Total assets	$ 1,552,778	$ 1,186,830

12. 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.

	September 30, 2020	December 31, 2019
	(in thousands)	
Trade accounts receivable		
Graduate Program Segment accounts receivable	$ 27,118	$ 3,454
Graduate Program Segment unbilled revenue	35,199	12,123
Alternative Credential Segment accounts receivable	37,035	19,408
Provision for credit losses	(3,640)	(1,330)
Total trade accounts receivable	$ 95,712	$ 33,655
Contract liabilities		
Graduate Program Segment deferred revenue	$ 7,851	$ 2,210
Alternative Credential Segment deferred revenue	83,932	46,623
Total contract liabilities	$ 91,783	$ 48,833

For the Graduate Program Segment, no revenue recognized during each of the three months ended September 30, 2020 and 2019 was included in the deferred revenue balance at the beginning of each respective year. Revenue recognized in this segment during the nine months ended September 30, 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, no revenue recognized during each of the three months ended September 30, 2020 and 2019 was included in the deferred revenue balance at the beginning of each respective year. Revenue recognized in this segment during the nine months ended September 30, 2020 and 2019 that was included in the deferred revenue balance at the beginning of each year was $46.6 million and $5.4 million, respectively.

Contract Acquisition Costs

The Graduate 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 condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019, respectively.

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 $19.7 million and $10.6 million for the three months ended September 30, 2020 and 2019, respectively. The Company's non-U.S. revenue was $49.2 million and $29.4 million for the nine months ended September 30, 2020 and 2019, 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 September 30, 2020 and December 31, 2019 totaled $1.6 million and $2.7 million, respectively.

13. Supplemental Cash Flow Information

The Company’s cash interest payments, net of amounts capitalized, were $6.3 million and $5.3 million for the nine months ended September 30, 2020 and 2019, respectively. The Company’s accrued but unpaid capital expenditures were $3.1 million and zero for the nine months ended September 30, 2020 and 2019, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes to those statements included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2019. Certain statements contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions, or the negative of such words or phrases, are intended to identify "forward-looking statements." We have based these forward-looking statements on our current expectations and projections about future events. Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Many factors could cause or contribute to these differences, including those discussed in Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2019, and our other filings with the Securities and Exchange Commission (the "SEC"). Statements made herein are as of the date of the filing of this Form 10-Q with the SEC and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim, any obligation to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

Unless the context otherwise requires, all references to "we," "us" or "our" refer to 2U, Inc., together with its subsidiaries. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear in Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes for the year ended December 31, 2019, which are included in our Annual Report on Form 10-K, filed with the SEC on February 28, 2020.

Overview

We are a leading provider of education technology for nonprofit colleges and universities. We build, deliver, and support more than 475 digital and in-person educational offerings, including graduate degrees, undergraduate degrees, professional certificates, boot camps, and short courses, across the Career Curriculum Continuum. Together with our university clients, we have positively transformed the lives of more than 275,000 students.

Our comprehensive platform of tightly integrated technology and services provides the digital infrastructure that universities need to attract, enroll, educate and support students at scale. With our platform, students can pursue their education anytime, anywhere, without quitting their jobs or moving; and university clients can provide broader access to their educational offerings, thereby improving outcomes, skills attainment and career prospects for a greater number of students.

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

In our Graduate 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 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 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.

During the third quarter of 2020 we continued to experience increasing demand from prospective and current university clients as universities planned for the Fall 2020 academic term and beyond, which we expect to have an increasing impact on our results of operations moving forward. For example, Amherst College and Simmons University are using our technology platform and services to offer certain of their courses for the Fall 2020 academic term in a high-quality, online format. We believe that COVID-19 will continue to accelerate university adoption of online education and that, over the longer term, online programs will constitute a larger portion of universities' overall offerings.

During the third quarter of 2020 we also continued to experience increasing demand for our offerings from prospective students, which we expect to continue for the foreseeable future. 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 during the third quarter of 2020, we cannot estimate the impact of COVID-19 on these demand trends, our business or economic conditions generally. For a discussion of additional risks related to COVID-19, see Part II, Item 1A. "Risk Factors" below.

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 Graduate 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 Graduate 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 Three Months Ended September 30, 2020 and 2019

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

	Three Months Ended September 30,				Period-to-Period Change	
	2020		2019			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue	$ 201,073	100.0 %	$ 153,798	100.0 %	$ 47,275	30.7 %
Costs and expenses						
Curriculum and teaching	30,153	15.0	21,336	13.9	8,817	41.3
Servicing and support	32,536	16.2	27,351	17.8	5,185	19.0
Technology and content development	40,223	20.0	34,132	22.2	6,091	17.8
Marketing and sales	100,068	49.8	93,521	60.8	6,547	7.0
General and administrative	44,000	21.9	42,040	27.3	1,960	4.7
Impairment charge	—	—	70,379	45.8	(70,379)	*
Total costs and expenses	246,980	122.9	288,759	187.8	(41,779)	(14.5)
Loss from operations	(45,907)	(22.9)	(134,961)	(87.8)	89,054	(66.0)
Interest income	713	0.4	924	0.6	(211)	(22.9)
Interest expense	(7,564)	(3.8)	(5,651)	(3.7)	(1,913)	33.9
Other income (expense), net	42	0.0	(710)	(0.5)	752	(105.9)
Loss before income taxes	(52,716)	(26.3)	(140,398)	(91.4)	87,682	(62.5)
Income tax benefit (expense)	162	0.1	(714)	(0.5)	876	(122.7)
Net loss	$ (52,554)	(26.2) %	$ (141,112)	(91.9) %	$ 88,558	(62.8) %

* Not meaningful for comparative purposes.

Revenue. Revenue for the three months ended September 30, 2020 increased $47.3 million, or 30.7%, to $201.1 million as compared to $153.8 million in 2019. This increase was driven by a 56.8% increase in Alternative Credential Segment revenue and an 18.0% increase in Graduate Program Segment revenue.

Revenue from our Graduate Program Segment increased $18.6 million, or 18.0%, primarily due to growth in full course equivalent ("FCE") enrollments of 6,932, or 16.9%.

Revenue from our Alternative Credential Segment increased $28.6 million, or 56.8%, primarily due to growth in FCE enrollments of 8,338, or 56.6%.

Curriculum and Teaching. Curriculum and teaching expense increased $8.9 million, or 41.3%, to $30.2 million as compared to $21.3 million in 2019. This increase was primarily due to higher university and instructional staff compensation expense in our Alternative Credential Segment from a greater number of short courses and boot camps in operation.

Servicing and Support. Servicing and support expense increased $5.1 million, or 19.0%, to $32.5 million as compared to $27.4 million in 2019. This increase was primarily due to a $6.0 million increase in personnel and personnel-related expense to serve a greater number of students and faculty. This increase was partially offset by a $0.6 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 $6.1 million, or 17.8%, to $40.2 million as compared to $34.1 million in 2019. This increase was primarily due to a $4.5 million increase in personnel and personnel-related expense and a $1.4 million increase in amortization expense.

Marketing and Sales. Marketing and sales expense increased $6.6 million, or 7.0%, to $100.1 million as compared to $93.5 million in 2019. This increase was primarily due to an increase in marketing costs to attract prospective students.

General and Administrative. General and administrative expense increased $2.0 million, or 4.7%, to $44.0 million as compared to $42.0 million in 2019. This increase was primarily due to a $4.6 million increase in other general and administrative expense due to the growth of our business, a $2.8 million increase in personnel and personnel-related expense, a $0.6 million increase in litigation-related expense and a $0.5 million increase in provision for credit losses. These increases were partially offset by a $6.0 million decrease in transaction, integration and restructuring-related expense, and a $0.4 million decrease in travel and related expense due to cost efficiencies and the impact of COVID-19.

Impairment Charge. In the three months ended September 30, 2019, we recorded an impairment charge of $70.4 million.

Net Interest Income (Expense). Net interest expense was $6.9 million and $4.7 million for the three months ended September 30, 2020 and 2019, respectively. The net interest expense for the three months ended September 30, 2020 was primarily due to our $380 million aggregate principal amount of 2.25% convertible senior notes due 2025 (the "Notes"), partially offset by interest earned on our cash balances. The net interest expense for the three months ended September 30, 2019 was primarily due to our Term Loan, partially offset by interest earned on our cash balances.

Other Income (Expense), Net. Other income (expense), net was less than $0.1 million for the three months ended September 30, 2020, as compared to $(0.7) million for the three months ended September 30, 2019. This change was primarily due to fluctuations in foreign currency rates impacting our operations in the Alternative Credential Segment.

Income Tax Benefit (Expense). For the three months ended September 30, 2020, we recognized an income tax benefit of $0.2 million, and our effective tax rate was approximately 0%. This income tax benefit was due to net operating losses and the reversal of taxable temporary differences of the acquired intangibles in our Alternative Credential Segment. 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. For the three months ended September 30, 2019, we recognized income tax expense of $0.7 million, and our effective tax rate was approximately (1)%. To date, we have not been required to pay U.S. federal income taxes because of our current and accumulated net operating losses.

Comparison of Nine Months Ended September 30, 2020 and 2019

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

	Nine Months Ended September 30,					
	2020		2019		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue	$ 559,239	100.0 %	$ 411,493	100.0 %	$ 147,746	35.9 %
Costs and expenses						
Curriculum and teaching	76,887	13.7	41,345	10.0	35,542	86.0
Servicing and support	93,363	16.7	71,518	17.4	21,845	30.5
Technology and content development	113,040	20.2	79,969	19.4	33,071	41.4
Marketing and sales	297,624	53.2	260,231	63.2	37,393	14.4
General and administrative	127,207	22.7	93,471	22.7	33,736	36.1
Impairment charge	—	—	70,379	17.1	(70,379)	*
Total costs and expenses	708,121	126.5	616,913	149.8	91,208	14.8
Loss from operations	(148,882)	(26.5)	(205,420)	(49.8)	56,538	(27.5)
Interest income	1,380	0.2	5,087	1.2	(3,707)	(72.9)
Interest expense	(19,575)	(3.5)	(8,130)	(2.0)	(11,445)	140.8
Loss on debt extinguishment	(11,671)	(2.1)	—	—	(11,671)	*
Other expense, net	(1,659)	(0.3)	(1,093)	(0.3)	(566)	51.9
Loss before income taxes	(180,407)	(32.2)	(209,556)	(50.9)	29,149	(13.9)
Income tax benefit	1,580	0.3	18,918	4.6	(17,338)	(91.6)
Net loss	$ (178,827)	(31.9) %	$ (190,638)	(46.3) %	$ 11,811	(6.2) %

* Not meaningful for comparative purposes.

Revenue. Revenue for the nine months ended September 30, 2020 increased $147.7 million, or 35.9%, to $559.2 million as compared to $411.5 million in 2019. This increase was driven by a 98.1% increase in Alternative Credential Segment revenue and a 15.3% increase in Graduate Program Segment revenue. The increase in revenue from the Alternative Credential Segment includes incremental revenue of $75.9 million from Trilogy, which we acquired in May 2019.

Revenue from our Graduate Program Segment increased $47.2 million, or 15.3%, primarily due to growth in FCE enrollments of 20,116, or 16.8%.

Revenue from our Alternative Credential Segment increased $100.5 million, or 98.1%, primarily due to growth in FCE enrollments of 22,124, or 60.6%. This increase was primarily due to the addition of 6,793 incremental FCE enrollments from Trilogy.

Curriculum and Teaching. Curriculum and teaching expense increased $35.6 million, or 86.0%, to $76.9 million as compared to $41.3 million in 2019. This increase was primarily due to a $26.0 million increase in university and instructional staff compensation expense from the addition of Trilogy boot camps. The remaining increase was primarily due to a $9.5 million increase in university and instructional staff compensation expense from short courses.

Servicing and Support. Servicing and support expense increased $21.9 million, or 30.5%, to $93.4 million as compared to $71.5 million in 2019. This increase was primarily due to a $14.5 million increase in personnel and personnel-related expense to serve a greater number of students and faculty. The remaining increase was primarily due to a $10.4 million addition of servicing and support expense from Trilogy boot camps. These increases were partially offset by a $2.7 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 $33.0 million, or 41.4%, to $113.0 million as compared to $80.0 million in 2019. This increase was primarily due to a $17.6 million addition of technology and content development expense from Trilogy boot camps. The remaining increase was primarily due to a $9.0 million increase in personnel and personnel-related expense and an $8.2 million increase in amortization expense. These increases were partially offset by a $1.9 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 $37.4 million, or 14.4%, to $297.6 million as compared to $260.2 million in 2019. This increase was primarily due to a $35.2 million increase in marketing and sales expense from the addition of Trilogy boot camps. The remaining increase was primarily due to a $6.2 million increase in marketing costs to attract prospective students. These increases were partially offset by a $4.0 million decrease in travel and related expense due to cost efficiencies and the impact of COVID-19, and a $1.6 million decrease in personnel and personnel-related expense.

General and Administrative. General and administrative expense increased $33.7 million, or 36.1%, to $127.2 million as compared to $93.5 million in 2019. This increase was primarily due to a $29.7 million increase in personnel and personnel-related expense, a $5.6 million increase in stockholder activism expense and a $0.6 million increase in litigation-related expense. The remaining increase was primarily due to an $8.0 million addition of general and administrative expense from Trilogy boot camps. These increases were partially offset by a $9.5 million decrease in transaction, integration and restructuring-related expense, and a $2.9 million decrease in travel and related expense due to cost efficiencies and the impact of COVID-19.

Net Interest Income (Expense). Net interest expense was $18.2 million and $3.0 million for the nine months ended September 30, 2020 and 2019, respectively. The net interest expense for the nine months ended September 30, 2020 was primarily due to our Term Loan and our Notes, partially offset by interest earned on our cash balances. The net interest expense for the nine months ended September 30, 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 for the nine months ended September 30, 2020. 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 $1.7 million and $1.1 million for the nine months ended September 30, 2020 and 2019, respectively. This increase was primarily due to fluctuations in foreign currency rates impacting our operations in the Alternative Credential Segment.

Income Tax Benefit. For the nine months ended September 30, 2020, we recognized an income tax benefit of $1.6 million, and our effective tax rate was approximately 1%. This income tax benefit was due to net operating losses and the reversal of taxable temporary differences of the acquired intangibles in our Alternative Credential Segment. For the nine months ended September 30, 2019, we recognized an income tax benefit of $18.9 million, and our effective tax rate was approximately 9%. This income tax benefit primarily relates 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 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. For example, in this quarter, we are excluding certain litigation-related costs, consisting of fees for certain litigation and other proceedings. 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 net loss to total segment profitability for each of the periods indicated. This quarter we consolidated various adjustments into a single line item in our reconciliation table below for the purposes of streamlining our presentation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net loss	$ (52,554)	$ (141,112)	$ (178,827)	$ (190,638)
Adjustments:				
Stock-based compensation expense	22,001	16,535	63,962	36,086
Foreign currency (gain) loss	(42)	710	1,659	1,093
Net interest expense	6,851	4,727	18,195	3,043
Income tax (benefit) expense	(162)	714	(1,580)	(18,918)
Depreciation and amortization expense	23,936	22,288	71,406	46,639
Loss on debt extinguishment	—	—	11,671	—
Impairment charge	—	70,379	—	70,379
Other*	3,682	15,036	10,835	23,412
Total adjustments	56,266	130,389	176,148	161,734
Total segment profitability	$ 3,712	$ (10,723)	$ (2,679)	$ (28,904)

* Includes (i) transaction and integration costs of $0.4 million and $2.5 million in the three months ended September 30, 2020 and 2019, respectively and $1.5 million and $7.0 million in the nine months ended September 30, 2020 and 2019, respectively, (ii) restructuring-related costs of $2.7 million and $6.6 million in

the three months ended September 30, 2020 and 2019, respectively and $3.2 million and $7.2 million in the nine months ended September 30, 2020 and 2019, respectively, (iii) stockholder activism costs of $5.6 million in the nine months ended September 30, 2020, (iv) litigation-related costs of $0.6 million in each of the three- and nine-month periods ended September 30, 2020, and (v) deferred revenue fair value adjustments of $5.9 million and $9.3 million in the three and nine months ended September 30, 2019, respectively.

Three Months Ended September 30, 2020 and 2019

The following table presents revenue by segment and segment profitability for each of the periods indicated.

	Three Months Ended September 30,		Period-to-Period Change	
	2020	2019	Amount	Percentage
	(dollars in thousands)			
Revenue by segment*				
Graduate Program Segment	$ 122,036	$ 103,393	$ 18,643	18.0 %
Alternative Credential Segment	79,037	50,405	28,632	56.8
Total revenue	$ 201,073	$ 153,798	$ 47,275	30.7 %
Segment profitability				
Graduate Program Segment	$ 9,713	$ 1,213	$ 8,500	**
Alternative Credential Segment	(6,001)	(11,936)	5,935	(49.7)
Total segment profitability	$ 3,712	$ (10,723)	$ 14,435	(134.7) %

* Immaterial amounts of intersegment revenue have been excluded from the above results for the three months ended September 30, 2020 and 2019.

** Not meaningful for comparative purposes.

Graduate Program Segment profitability increased $8.5 million to $9.7 million as compared to $1.2 million in 2019. This increase was primarily due to revenue growth of $18.6 million, a reduced launch schedule, operational and marketing efficiency initiatives and reduced travel and related expense.

Alternative Credential Segment profitability increased $5.9 million, or 49.7%, to $(6.0) million as compared to $(11.9) million in 2019. This increase was primarily due to revenue growth of $28.6 million, improvements in short course operational and marketing efficiency initiatives and benefits following our boot camp integration efforts.

Nine Months Ended September 30, 2020 and 2019

The following table presents revenue by segment and segment profitability for each of the periods indicated.

	Nine Months Ended September 30,		Period-to-Period Change	
	2020	2019	Amount	Percentage
	(dollars in thousands)			
Revenue by segment*				
Graduate Program Segment	$ 356,178	$ 308,970	$ 47,208	15.3 %
Alternative Credential Segment	203,061	102,523	100,538	98.1
Total revenue	$ 559,239	$ 411,493	$ 147,746	35.9 %
Segment profitability				
Graduate Program Segment	$ 20,876	$ (6,126)	$ 27,002	**
Alternative Credential Segment	(23,555)	(22,778)	(777)	3.4 %
Total segment profitability	$ (2,679)	$ (28,904)	$ 26,225	(90.7) %

* Immaterial amounts of intersegment revenue have been excluded from the above results for the nine months ended September 30, 2020 and 2019.

** Not meaningful for comparative purposes.

Graduate Program Segment profitability increased $27.0 million to $20.9 million as compared to $(6.1) million in 2019. This increase was primarily due to revenue growth of $47.2 million, a reduced launch schedule, operational and marketing efficiency initiatives and reduced travel and related expense.

Alternative Credential Segment profitability decreased $0.8 million, or 3%, to $(23.6) million as compared to $(22.8) 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 nine months ended September 30, 2019 included Trilogy's results of operations from May 22, 2019, the date of acquisition.

Liquidity and Capital Resources

As of September 30, 2020, our principal sources of liquidity were cash and cash equivalents totaling $481.3 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. As of September 30, 2020, the Notes are not currently convertible into our common stock and are therefore classified as long-term debt. Refer to Note 8 in the "Notes to Condensed Consolidated Financial Statements" included in Part I, Item 1 of this Quarterly Report on Form 10-Q 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 September 30, 2020, our borrowing capacity was $50.0 million and 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, which may include capital expenditures, potential acquisitions, growth opportunities and strategic transactions.

To date, we have financed our operations primarily through payments from university clients and students for our technology and services, the Term Loan, the Notes, and public and private equity financings. 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.

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 used in operating activities for the nine months ended September 30, 2020 consisted primarily of our net loss of $178.8 million, adjusted for non-cash items including $71.4 million of depreciation and amortization expense, $64.0 million of stock-based compensation expense, $13.2 million of non-cash interest expense, an $11.7 million loss on debt extinguishment, and $11.2 million of reductions in the carrying amounts of our right-of-use assets. The net change in operating assets and liabilities of $2.1 million was unfavorable to cash flows from operations primarily due to an increase in accounts receivable of $65.1 million and an increase in prepaid expenses and other assets of $17.2 million, partially offset by a $43.1 million increase in deferred revenue, a $22.7 million increase in accrued compensation and related benefits, and a $15.3 million increase in accounts payable and accrued expenses.

Net cash used in operating activities for the nine months ended September 30, 2019 consisted primarily of our net loss of $190.6 million, adjusted for non-cash items including a $70.4 million impairment charge, $46.6 million of depreciation and amortization expense, $36.1 million of stock-based compensation expense, and $8.4 million of reductions in the carrying amounts of our right-of-use-assets. The net change in operating assets and liabilities of $59.2 million was unfavorable to cash flows from operations primarily due to a $39.7 million increase in accounts receivable, a $24.3 million decrease in other liabilities, and a $22.3 million change in payments to university clients, partially offset by favorable changes in deferred revenue of $20.2 million and accounts payable and accrued expenses of $12.7 million.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2020 was $52.3 million, consisting primarily of $46.8 million of additions of amortizable intangible assets and $5.5 million of purchases of property, plant and equipment.

Net cash used in investing activities for the nine months ended September 30, 2019 was $435.0 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 $51.0 million, purchases of property and equipment of $11.3 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 nine months ended September 30, 2020 was $368.9 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 a $2.5 million payment of debt issuance costs.

Net cash provided by financing activities for the nine months ended September 30, 2019 was $242.8 million, consisting primarily of $241.8 million of proceeds, net of issuance costs, from our Term Loan and $2.9 million of proceeds received from the exercise of stock options. These inflows were partially offset by tax withholding payments associated with the settlement of restricted stock units of $2.6 million.

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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 Graduate 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 condensed 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 Graduate Program Segment.

We do not disclose the value of unsatisfied performance obligations for our Graduate 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 Graduate 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 Graduate 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 condensed 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.

Accounts Receivable, Contract Assets and Liabilities

Balance sheet items related to contracts consist of accounts receivable, net and deferred revenue on our condensed consolidated balance sheets. Accounts receivable, net includes trade accounts receivable, which are comprised of billed and unbilled revenue. 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. We recognize unbilled revenue when revenue recognition occurs in advance of billings. Unbilled revenue is recognized in our Graduate 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 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.

Deferred revenue represents the excess of amounts billed or received as compared to amounts recognized in revenue on our condensed 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 condensed consolidated balance sheets. Our deferred revenue represents contract liabilities. We generally receive payments from Graduate 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 learning platform, including all expenses associated with this effort. With respect to the Graduate 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 at least 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.

Other than the reporting unit impaired in the third quarter of 2019, we had no reporting units whose estimated fair value exceeded their carrying value by less than 10% as of October 1, 2019, the date of our annual goodwill impairment assessment. 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 Condensed Consolidated Financial Statements” included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of the FASB’s recent accounting pronouncements and their effect on us.

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 Graduate Program Segment and Alternative Credential Segment for each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Graduate Program Segment				
FCE enrollments	47,842	40,910	139,718	119,602
Average revenue per FCE enrollment	$ 2,551	$ 2,527	$ 2,549	$ 2,583
Alternative Credential Segment*				
FCE enrollments	23,067	14,729	58,643	36,519
Average revenue per FCE enrollment**	$ 3,426	$ 3,825	$ 3,463	$ 3,061

* 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 $6.0 million and $9.3 million of revenue that was excluded from the results of operations during the three and nine months ended September 30, 2019, respectively, 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 Graduate Program Segment for the three months ended September 30, 2020 and 2019, 714, or 10.3%, and 1,239, or 15.0%, respectively, were attributable to degree programs launched during the preceding 12 months. Of the increase in FCE enrollments in our Graduate Program Segment for the nine months ended September 30, 2020 and 2019, 2,071, or 10.3%, and 1,772, or 6.7%, respectively, were attributable to degree programs launched during the preceding 12 months.

Of the increase in FCE enrollments in our Alternative Credential Segment for the three months ended September 30, 2020 and 2019, 5,671, or 68.0%, and 2,799, or 48.3%, respectively, were attributable to offerings launched during the preceding 12 months. Of the increase in FCE enrollments in our Alternative Credential Segment for the nine months ended September 30, 2020 and 2019, 9,756, or 44.1%, and 7,697, or 57.6%, 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 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. For example, in this quarter, we are excluding certain litigation-related costs, consisting of fees for certain litigation and other proceedings.

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 net loss to adjusted EBITDA (loss) for each of the periods indicated. This quarter we consolidated various adjustments into a single line item in our reconciliation table below for the purposes of streamlining our presentation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net loss	$ (52,554)	$ (141,112)	$ (178,827)	$ (190,638)
Adjustments:				
Stock-based compensation expense	22,001	16,535	63,962	36,086
Foreign currency (gain) loss	(42)	710	1,659	1,093
Net interest expense	6,851	4,727	18,195	3,043
Income tax (benefit) expense	(162)	714	(1,580)	(18,918)
Depreciation and amortization expense	23,936	22,288	71,406	46,639
Loss on debt extinguishment	—	—	11,671	—
Impairment charge	—	70,379	—	70,379
Other*	3,682	15,036	10,835	23,412
Total adjustments	56,266	130,389	176,148	161,734
Adjusted EBITDA (loss)	$ 3,712	$ (10,723)	$ (2,679)	$ (28,904)

* Includes (i) transaction and integration costs of $0.4 million and $2.5 million in the three months ended September 30, 2020 and 2019, respectively and $1.5 million and $7.0 million in the nine months ended September 30, 2020 and 2019, respectively, (ii) restructuring-related costs of $2.7 million and $6.6 million in the three months ended September 30, 2020 and 2019, respectively and $3.2 million and $7.2 million in the nine months ended September 30, 2020 and 2019, respectively, (iii) stockholder activism costs of $5.6 million in the nine months ended September 30, 2020, (iv) litigation-related costs of $0.6 million in each of the three- and nine-month periods ended September 30, 2020, and (v) deferred revenue fair value adjustments of $5.9 million and $9.3 million in the three and nine months ended September 30, 2019, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to market risk from the information provided in Part II, Item 7A of our Annual Report on Form 10-K, filed with the SEC on February 28, 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 three months ended September 30, 2020 and 2019, our foreign currency translation adjustment was a gain of $1.7 million and a loss of $5.9 million, respectively. For the nine months ended September 30, 2020 and 2019, our foreign currency translation adjustment was a loss of $13.0 million and a loss of $4.0 million, respectively.

For the three months ended September 30, 2020 and 2019, we recognized foreign currency exchange gains of less than $0.1 million and losses of $0.7 million, respectively, included on our condensed consolidated statements of operations and comprehensive loss. For the nine months ended September 30, 2020 and 2019, we recognized foreign currency exchange losses of $1.7 million and $1.1 million, respectively, included on our condensed consolidated statements of operations and comprehensive loss.

The foreign exchange rate volatility of the trailing 12 months ended September 30, 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 September 30, 2019 was 11% and 6% 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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as promulgated under the Exchange Act and the rules and regulations thereunder. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, management concluded that our disclosure controls and procedures were effective as of September 30, 2020 at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

We made no changes in internal control over financial reporting during the three months ended September 30, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than changes in our control environment to integrate the business we acquired in the Trilogy acquisition.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and legal proceedings arising in the ordinary course of business. We accrue a liability when a loss is considered probable and the amount can be reasonably estimated. See “Note 6. Commitments and Contingencies—Legal Contingencies” to our unaudited financial statements included elsewhere in this periodic report. While we do 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 our 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 our current understanding of relevant facts and circumstances. As such, our 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 us, Christopher J. Paucek, our CEO, and Catherine A. Graham, our 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 our 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, our former Chief Marketing Officer, as a defendant. The CAC also asserts claims under Sections 11, 12(a)(2), and 15 of the Securities Act, against Mr. Paucek, Ms. Graham, members of our Board of Directors, and our underwriters, based on allegations related to our secondary stock offering on May 23, 2018. The proposed class consists of all persons who acquired our company’s securities between February 26, 2018 and July 30, 2019. On October 27, 2020, defendants filed a motion to dismiss.

We believe that the claims are without merit and we intend 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 our company and against Christopher J. Paucek, our CEO, Catherine A. Graham, our former CFO, and our 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 our 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 our company and against Christopher J. Paucek, our CEO, Catherine A. Graham, our former CFO, and our 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 our 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.

Item 1A. Risk Factors

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results. The risks described in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2019 are amended and supplemented by the risk factors provided below, which supersede and replace any similarly titled risk factors. These risks do not identify all risks that we face. Our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations.

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

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious outbreak, which has continued to spread, and the related adverse public health developments, including orders to shelter-in-place, travel restrictions and mandated business closures, 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.

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

- causing one or more of our 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 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; 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 we expect to face difficulty accurately predicting our internal financial forecasts.

Our continued access to sources of liquidity also depend on multiple factors, including global economic conditions, the condition of global financial markets, the availability of sufficient amounts of financing and our operating performance. There is no guarantee that additional debt financing will be available in the future to fund our obligations, or that it will be available on commercially reasonable terms, in which case we may need to seek other sources of funding. In addition, the terms of future debt agreements could include more restrictive covenants, which could restrict our business operations.

The outbreak also presents challenges as our workforce is currently working remotely and shifting to assisting new and existing customers and their students who are also generally working remotely. We also transitioned our on-campus boot camp offerings to online, which could result in interruptions or disruptions in boot camp delivery. All of this could affect the anticipated launch dates of, and demand for, our degree programs, short courses and boot camps.

The COVID-19 pandemic may also have the effect of heightening many of the other risks identified in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2019, such as those related to disruption to or failures of our platform and the adoption by colleges and universities of online delivery of their educational offerings.

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.

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 September 30, 2020, we had approximately $385.2 million of indebtedness on a consolidated basis. See Note 8 in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 under the revolving credit facility may use the London Interbank Offered Rate ("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, 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 8 in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q 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 in cash upon conversion of 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 sheet 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Public Offerings of Common Stock

None.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description	Form	File No.	Exhibit Number	Filing Date	Filed/Furnished Herewith
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	8-K	001-36376	3.1	April 4, 2014	
3.2	Amended and Restated Bylaws of the Registrant.	8-K	001-36376	3.2	April 4, 2014	
31.1	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.					X
31.2	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.					X
32.1	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.					X
32.2	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.					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 with applicable taxonomy extension information contained in Exhibits 101).					X

SIGNATURES

Pursuant to the requirements 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.
October 27, 2020	By: /s/ Christopher J. Paucek
	Christopher J. Paucek
	Chief Executive Officer
October 27, 2020	By: /s/ Paul S. Lalljie
	Paul S. Lalljie
	Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Christopher J. Paucek, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: October 27, 2020

By: /s/ Christopher J. Paucek

Name: Christopher J. Paucek
Title: *Chief Executive Officer*

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Paul S. Lalljie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date:	October 27, 2020	By:	/s/ Paul S. Lalljie
		Name:	Paul S. Lalljie
		Title:	Chief Financial Officer

EXHIBIT 32.1

**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 Quarterly Report on Form 10-Q of 2U, Inc. (the “Company”) for the quarterly period ended September 30, 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:	October 27, 2020	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.

EXHIBIT 32.2

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 Quarterly Report on Form 10-Q of 2U, Inc. (the “Company”) for the quarterly period ended September 30, 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:	October 27, 2020	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.