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 June 30, 2024

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

* On August 7, 2024, the registrant's common stock was suspended from trading on The Nasdaq Global Select Market and trades in the registrant's common stock began being quoted on the OTC Pink Market under the symbol "TWOUQ." The Nasdaq Stock Market LLC will file a Form 25-NSE to delist the registrant's common stock and to remove it from registration under Section 12(b) of the Securities Exchange Act of 1934, as amended.

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 August 7, 2024, there were 2,858,478 shares of the registrant's common stock, par value $0.001 per share, outstanding. The foregoing reflects the reverse stock split of the registrant's common stock that became effective on June 13, 2024 and began trading on a post-split adjusted basis on June 14, 2024.

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CAUTIONARY STATEMENT

On July 24, 2024, 2U, Inc. (“2U”) and certain of its subsidiaries (such subsidiaries, together with 2U, the “Debtors”) entered into a Restructuring Support Agreement (the “RSA”) with certain creditors, including (i) an ad hoc group (the “Ad Hoc Noteholder Group”) and certain other holders (together, the “Consenting 2025 Noteholders”) of 2U’s 2.25% convertible senior notes due May 1, 2025 (the “2025 Notes”), issued under that certain Indenture, dated as of April 23, 2020, between 2U and Wilmington Trust, National Association, as trustee, (ii) certain members of the Ad Hoc Noteholder Group and certain other holders (together with the Consenting 2025 Noteholders, the “Consenting Noteholders”) of 2U’s 4.50% senior unsecured convertible notes due February 1, 2030 (the “2030 Notes” and, together with the 2025 Notes, the “Convertible Notes”), issued under that certain Indenture, dated as of January 11, 2023, between 2U and Wilmington Trust, National Association, as trustee (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time, the “2030 Notes Indenture”), and (iii) an ad hoc group of certain lenders (the “Consenting Lenders” and, together with the Consenting Noteholders, the “Consenting Creditors”) under the Second Amended Credit Agreement (as defined below).

As set forth in the RSA, including in the term sheet attached thereto (the “Restructuring Term Sheet”), the parties to the RSA have agreed to the principal terms of a proposed financial restructuring of the Debtors (the “Transaction”). Pursuant to the RSA, on July 24, 2024, the Debtors commenced solicitation of votes on its prepackaged joint plan of reorganization (the “Plan”) and on July 25, 2024 (the “Petition Date”), the Debtors commenced voluntary cases (collectively, the “Chapter 11 Cases”) under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) providing for a court-administered reorganization pursuant to the Plan.

The RSA contemplates a comprehensive restructuring of the Debtors’ debt obligations and capital structure and a recapitalization of the Debtors. Specifically, the RSA and the Restructuring Term Sheet provide, in pertinent part, as follows:

- The unsecured notes claims held by the holders of the Convertible Notes will be deemed satisfied by the issuance of 100% of the new common equity interests (“New Common Interests”) of the reorganized 2U (the “Reorganized Company”), subject to dilution by the Equity Rights Offering (as defined below) and the Management Incentive Plan (as defined below).
- The Company will offer to all holders of the Convertible Notes rights to purchase their pro rata share of New Common Interests for an aggregate amount of not less than $46.5 million (the “Equity Rights Offering”), subject to dilution by the Management Incentive Plan, which will be used to fund certain obligations under the Plan (including a partial paydown of the loans under the Second Amended Credit Agreement).
- The Consenting Noteholders have committed to provide the DIP Facility (as defined below).
- The Consenting Noteholders have committed to provide a secured second lien exit term loan facility pursuant to an exit credit agreement (the “Junior Exit Credit Agreement”).
- The Consenting Lenders have committed to amend and restate the Second Amended Credit Agreement to provide for, among other things, a new maturity date for the borrowings thereunder of the date that is 27 months following the effective date of the Plan (the “Amended and Restated Credit Agreement”).
- The adoption, effective as of emergence from bankruptcy, of a management incentive plan (the “Management Incentive Plan”) on the terms set forth in the RSA under which up to 10% of the New Common Interests outstanding on a fully diluted basis upon emergence may be issued to certain officers and directors of the Reorganized Company.
- Under the Plan, certain classes of claims will receive the following treatment:
  - administrative expense claims, priority tax claims, other priority claims, and other secured claims will be paid in full (or receive such other treatment rendering such claims unimpaired);
  - each holder of claims under the DIP Facility will receive either (i) its pro rata share of loans under the Junior Exit Credit Agreement or (ii) such other treatment agreed upon in writing;
  - each holder of first lien claims will receive its pro rata share of loans under the Amended and Restated Credit Agreement;
  - each holder of unsecured notes claims will receive its pro rata share of 100% of the New Common Interests (subject to dilution by the Equity Rights Offering and the Management Incentive Plan) and the right to participate pro rata in the Equity Rights Offering;

- intercompany claims and intercompany interests will be reinstated or set off, settled, distributed, contributed, merged, canceled, or released; and
- existing equity interests and subordinated claims will be cancelled, released, extinguished, and of no further force or effect.

Following the effective date of the Plan and consummation of the transactions contemplated thereby, 2U has agreed to terminate its reporting obligations under the Securities Exchange Act of 1934, as amended, and intends to continue as a private company.

Additional information about the Chapter 11 Cases may be found at no charge by visiting the website maintained by the Debtors' claims and noticing Agent, Epiq Corporate Restructuring, LLC, at https://dm.epiq11.com/2U.

Substantial doubt about 2U’s ability to continue as a going concern exists in light of its Chapter 11 Cases. 2U’s ability to continue as a going concern is contingent upon, among other things, its ability to, subject to approval by the Bankruptcy Court, consummate the Transaction, successfully emerge from the Chapter 11 Cases and generate sufficient liquidity following the Transaction to meet its obligations and operating needs.

There are a number of risks and uncertainties associated with bankruptcy proceedings in general, including the Debtors’ bankruptcy proceedings. These include, among other things that (a) the Plan may never be confirmed or become effective, (b) the RSA may be terminated by one or more of the parties thereto, (c) the Bankruptcy Court may grant or deny motions in a manner that is adverse to 2U and its subsidiaries, and (d) in certain circumstances the Chapter 11 Cases may be converted into cases under chapter 7 of the Bankruptcy Code.

The Transaction is subject to approval by the Bankruptcy Court, among other conditions. Accordingly, no assurance can be given that the Transaction will be consummated on the expected terms, if at all. As a result, 2U has concluded that management’s plans at this stage do not alleviate substantial doubt about 2U’s ability to continue as a going concern.

2U expects that its stockholders will not receive any recovery from the bankruptcy proceedings. 2U also cannot assure that any recovery will be made available to its creditors as a result of the bankruptcy process. As a result, 2U expects that its securities, including its currently outstanding shares of common stock, will be highly speculative during the pendency of the Chapter 11 Cases and will pose substantial risks. 2U expects that holders of shares of 2U’s common stock could experience a significant or complete loss on their investment, depending on the outcome of the Chapter 11 Cases. Additionally, while 2U has recently regained compliance with the minimum bid price requirements of The Nasdaq Stock Market LLC (“Nasdaq”), on July 29, 2024, 2U was notified by Nasdaq that it had determined to delist 2U’s common stock pursuant to Nasdaq Listing Rules 5101, 5110(b), and IM-5101-1 as a result of the commencement of the Chapter 11 Cases. 2U does not intend to appeal this determination. Trading of 2U’s common stock was suspended at the opening of business on August 7, 2024, and a Form 25-NSE will be filed with the U.S. Securities and Exchange Commission (the “SEC”), which will remove 2U’s common stock from listing and registration on Nasdaq. Effective August 7, 2024, 2U’s common stock began being quoted on the OTC Pink Market operated by OTC Markets Group Company under the symbol “TWOUQ.” Accordingly, 2U urges extreme caution with respect to existing and future investments in its common stock.

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. All statements, other than statements of historical fact, are forward-looking statements. 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:

- the effects of the Chapter 11 Cases on our company and our company's relationship with its various constituents, including colleges and universities, faculty, students, regulatory agencies, employees and other third parties;
- our ability to develop and implement the Plan and whether that Plan will be approved by the Bankruptcy Court and the ultimate outcome of the Chapter 11 Cases in general;
- the length of time we will operate under the Chapter 11 Cases;
- the effectiveness of the overall restructuring activities pursuant to the Chapter 11 Cases and any additional strategies that we may employ to address our liquidity and capital resources, achieve our stated goals, and continue as a going concern;
- 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, artificial intelligence, 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 offerings;
- our ability to acquire new clients and expand our offerings with existing university clients;
- our ability to successfully integrate the operations of our acquisitions, including the edX Acquisition (as defined below), 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 and address impending maturities;
- the impact of our common stock being delisted from the Nasdaq Global Select Market;
- our ability to service our substantial indebtedness and comply with any events of default as a result of the Chapter 11 Cases, including the event of default that occurred under the Debt Instruments (as defined below);
- our ability to implement our platform strategy and achieve the expected benefits;
- 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 including expansion internationally and growing our enterprise business;

- 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 senior management and other key personnel;
- our expectations about the scalability of our platform;
- potential changes in laws, regulations or guidance 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 potential negative impact of the significant decline in the market price of our common stock, including the impairment of goodwill and indefinite-lived intangible assets;
- the expected impact of our 2022 Strategic Realignment Plan and similar performance improvement initiatives and the estimated savings and amounts expected to be incurred in connection therewith;
- the impact of any natural disasters or public health emergencies, such as the coronavirus disease 2019 ("COVID-19") pandemic; and
- other factors beyond our control.

You should refer to the risks described in Part II, 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, 2023, and our other filings with the SEC 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)

	June 30, 2024	December 31, 2023
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 22,621	$ 60,689
Restricted cash	12,268	12,710
Accounts receivable, net	71,338	115,944
Other receivables, net	23,819	28,293
Prepaid expenses and other assets	34,812	33,828
Total current assets	164,858	251,464
Other receivables, net, non-current	15,347	12,507
Property and equipment, net	33,800	40,233
Right-of-use assets	55,324	63,986
Goodwill	311,884	651,498
Intangible assets, net	293,653	371,198
Other assets, non-current	49,448	68,797
Total assets	$ 924,314	$ 1,459,683
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable and accrued expenses	$ 73,186	$ 103,378
Deferred revenue	83,781	81,949
Lease liability	13,765	15,158
Accrued restructuring liability	6,926	14,506
Long-term debt, current	908,298	8,215
Other current liabilities	36,891	36,133
Total current liabilities	1,122,847	259,339
Long-term debt	—	896,514
Deferred tax liabilities, net	314	323
Lease liability, non-current	77,248	83,297
Other liabilities, non-current	1,116	1,165
Total liabilities	1,201,525	1,240,638
Commitments and contingencies (Note 5)		
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, 2,805,301 shares issued and outstanding as of June 30, 2024; 2,741,980 shares issued and outstanding as of December 31, 2023	3	3
Additional paid-in capital	1,752,110	1,741,737
Accumulated deficit	(2,004,668)	(1,497,579)
Accumulated other comprehensive loss	(24,656)	(25,116)
Total stockholders' equity	(277,211)	219,045
Total liabilities and stockholders' equity	$ 924,314	$ 1,459,683

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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue	$ 180,683	$ 222,089	$ 379,060	$ 460,593
Costs and expenses				
Curriculum and teaching	29,634	34,102	60,686	66,942
Servicing and support	22,719	33,585	48,230	69,694
Technology and content development	32,062	44,250	67,057	89,734
Marketing and sales	81,768	95,882	171,480	196,057
General and administrative	41,985	32,657	81,687	71,907
Restructuring charges	8,406	3,622	13,133	8,497
Impairment charges	396,149	134,117	396,149	134,117
Total costs and expenses	612,723	378,215	838,422	636,948
Loss from operations	(432,040)	(156,126)	(459,362)	(176,355)
Interest income	364	371	941	736
Interest expense	(19,376)	(17,916)	(38,643)	(35,873)
Debt modification expense and loss on debt extinguishment	—	—	—	(16,735)
Other (expense) income, net	(1,428)	227	(9,832)	834
Loss before income taxes	(452,480)	(173,444)	(506,896)	(227,393)
Income tax benefit (expense)	40	(210)	(193)	(323)
Net loss	$ (452,440)	$ (173,654)	$ (507,089)	$ (227,716)
Net loss per share, basic and diluted [(1)]	$ (161.30)	$ (64.66)	$ (181.54)	$ (85.45)
Weighted-average shares of common stock outstanding, basic and diluted [(1)]	2,804,924	2,685,645	2,793,262	2,664,889
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of tax of $0 for all periods presented	2,151	(4,001)	460	(7,304)
Comprehensive loss	$ (450,289)	$ (177,655)	$ (506,629)	$ (235,020)

(1) Amounts have been adjusted to reflect the Reverse Stock Split that became effective on June 13, 2024. Refer to Note 2 for further information about the Reverse Stock Split.

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(1)		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2023	2,741,980	$ 3	$ 1,741,737	$ (1,497,579)	$ (25,116)	$ 219,045
Issuance of common stock in connection with employee stock purchase plan	20,756	—	661	—	—	661
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	25,404	—	(112)	—	—	(112)
Stock-based compensation expense	—	—	5,324	—	—	5,324
Net loss	—	—	—	(54,649)	—	(54,649)
Foreign currency translation adjustment	—	—	—	—	(1,691)	(1,691)
Balance, March 31, 2024	2,788,140	3	1,747,610	(1,552,228)	(26,807)	168,578
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	17,161	—	(11)	—	—	(11)
Stock-based compensation expense	—	—	4,511	—	—	4,511
Net loss	—	—	—	(452,440)	—	(452,440)
Foreign currency translation adjustment	—	—	—	—	2,151	2,151
Balance, June 30, 2024	2,805,301	$ 3	$ 1,752,110	$ (2,004,668)	$ (24,656)	$ (277,211)

(1) Amounts have been adjusted to reflect the Reverse Stock Split that became effective on June 13, 2024. Refer to Note 2 for further information about the Reverse Stock Split.

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[1]		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2022	2,611,753	$ 3	$ 1,700,930	$ (1,179,972)	$ (19,445)	$ 501,516
Issuance of common stock in connection with employee stock purchase plan	6,697	—	1,177	—	—	1,177
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	34,701	—	(361)	—	—	(361)
Exercise of stock options	570	—	110	—	—	110
Stock-based compensation expense	—	—	14,563	—	—	14,563
Net loss	—	—	—	(54,062)	—	(54,062)
Foreign currency translation adjustment	—	—	—	—	(3,303)	(3,303)
Balance, March 31, 2023	2,653,721	3	1,716,419	(1,234,034)	(22,748)	459,640
Issuance of common stock in connection with employee stock purchase plan	8,304	—	925	—	—	925
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	36,659	—	(375)	—	—	(375)
Stock-based compensation expense	—	—	10,983	—	—	10,983
Net loss	—	—	—	(173,654)	—	(173,654)
Foreign currency translation adjustment	—	—	—	—	(4,001)	(4,001)
Balance, June 30, 2023	2,698,684	$ 3	$ 1,727,952	$ (1,407,688)	$ (26,749)	$ 293,518

(1) Amounts have been adjusted to reflect the Reverse Stock Split that became effective on June 13, 2024. Refer to Note 2 for further information about the Reverse Stock Split.

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Cash flows from operating activities		
Net loss	$ (507,089)	$ (227,716)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Non-cash interest expense	6,159	6,818
Depreciation and amortization expense	49,572	57,348
Stock-based compensation expense	9,835	25,546
Non-cash lease expense	8,313	8,804
Restructuring	—	(13)
Impairment charges	396,149	134,117
Provision for credit losses	2,368	4,245
Loss on debt extinguishment	—	12,123
Loss on sale of receivables	8,120	—
Other	1,713	(787)
Changes in operating assets and liabilities:		
Accounts receivable, net	34,510	(26,968)
Other receivables, net	577	723
Prepaid expenses and other assets	17,977	4,358
Accounts payable and accrued expenses	(38,659)	5,014
Deferred revenue	1,986	16,736
Other liabilities, net	(11,456)	(19,166)
Net cash (used in) provided by operating activities	(19,925)	1,182
Cash flows from investing activities		
Additions of amortizable intangible assets	(15,243)	(23,027)
Purchases of property and equipment	(465)	(2,105)
Advances repaid by university clients	—	100
Net cash used in investing activities	(15,708)	(25,032)
Cash flows from financing activities		
Proceeds from debt	—	269,223
Payments on debt	(2,488)	(352,533)
Prepayment premium on extinguishment of senior secured term loan facility	—	(5,666)
Payment of debt issuance costs	—	(4,411)
Tax withholding payments associated with settlement of restricted stock units	(123)	(736)
Proceeds from exercise of stock options	—	110
Proceeds from employee stock purchase plan share purchases	661	2,102
Net cash used in financing activities	(1,950)	(91,911)
Effect of exchange rate changes on cash	(927)	(118)
Net decrease in cash, cash equivalents and restricted cash	(38,510)	(115,879)
Cash, cash equivalents and restricted cash, beginning of period	73,399	182,578
Cash, cash equivalents and restricted cash, end of period	$ 34,889	$ 66,699

See accompanying notes to condensed consolidated financial statements.

1. Organization

2U, Inc. (together with its subsidiaries, the “Company”) is a leading online education platform company. The Company’s mission is to expand access to high-quality education and unlock human potential. As a trusted partner to top-ranked nonprofit universities and other leading organizations, the Company delivers technology and services that enable its clients to bring their educational offerings online at scale.

The Company provides 89 million people worldwide with access to world-class education in partnership with 260 top-ranked global universities and other leading organizations. Through edX, its education consumer marketplace, the Company offers more than 4,700 high-quality online learning opportunities, including open courses, executive education offerings, boot camps, professional certificates as well as undergraduate and graduate degree programs.

The Company’s offerings cover a wide range of topics including artificial intelligence, business, healthcare, education, and social work, and provide learners with an affordable pathway to achieve both short-term and long-term professional and educational goals. The Company’s platform provides its clients with the digital infrastructure to launch world-class online education offerings and allow students to easily access high-quality, job-relevant education without the barriers of cost or location.

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

The Company’s Degree Program Segment provides the technology and services to nonprofit colleges and universities to enable the online delivery of degree programs. Students enrolled in these programs are generally seeking an undergraduate or graduate degree of the same quality they would receive on campus.

The Company’s Alternative Credential Segment provides premium online open courses, executive education programs, technical, and skills-based boot camps through relationships with nonprofit colleges and universities and other leading organizations. Students enrolled in these offerings are generally seeking to reskill or upskill for career advancement or personal development through shorter duration, lower-priced offerings. In addition to selling these offerings directly to individuals, the Company also sells to organizations and institutions, including employers, non-profits, governments and governmental entities to enable upskilling and reskilling of their workforces.

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 six months ended June 30, 2024 and 2023 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, 2023. All significant intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet data as of December 31, 2023 was derived from the audited financial statements, but does not include all disclosures required by U.S. GAAP on an annual reporting basis. As further discussed in the Reverse Stock Split section below, all per share amounts and common share amounts have been adjusted on a retrospective basis to reflect the Reverse Stock Split (as defined below).

Going Concern

At each annual and interim period, the Company evaluates whether there are conditions or events, considered in the aggregate, that raise substantial doubt about its ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. The evaluation is based on relevant conditions or events that are known or reasonably knowable at the date that the consolidated financial statements are issued.

Pursuant to the Second Amended Credit Agreement, as defined in Note 8, if more than $40 million of the Company's 2025 Notes, as defined below, remain outstanding on January 30, 2025, the maturity date of the outstanding term loan balance of $372.4 million springs forward to January 30, 2025.

As disclosed in Note 15, on July 24, 2024, the Debtors entered into the RSA with certain creditors, including (i) the Consenting Noteholders comprising certain holders of the 2025 Notes, (ii) the Consenting Noteholders comprising certain holders of the 2030 Notes, and (iii) the Consenting Lenders comprising certain lenders under the Second Amended Credit Agreement. As set forth in the RSA, including in the Restructuring Term Sheet, the parties to the RSA have agreed to the principal terms of a proposed financial restructuring of the Debtors. Pursuant to the RSA, on July 24, 2024, the Debtors commenced solicitation of votes on its Plan, and on July 25, 2024, the Debtors commenced voluntary cases under the Bankruptcy Code in the Bankruptcy Court providing for a court-administered reorganization pursuant to the Plan. The Debtors expect to continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

The filing of the Chapter 11 Cases constituted an event of default under the 2025 Notes Indenture, the 2030 Notes Indenture, and the Second Amended Credit Agreement (the "Debt Instruments") that accelerated obligations under the Debt Instruments. The amount outstanding under each Debt Instrument as of the Petition Date was: approximately $380.0 million of borrowings (plus any accrued but unpaid interest in respect thereof) under the 2025 Notes Indenture; approximately $147.0 million of borrowings (plus any accrued but unpaid interest in respect thereof) under the 2030 Notes Indenture; and approximately $414.3 million of borrowings (plus any accrued but unpaid interest in respect thereof) under the Second Amended Credit Agreement. The Debt Instruments provide that, as a result of the Chapter 11 Cases, the principal and interest due thereunder shall be immediately due and payable. Any efforts to enforce such payment obligations under the Debt Instruments are automatically stayed as a result of the Chapter 11 Cases and the holders' rights of enforcement in respect of the Debt Instruments are subject to the applicable provisions of the Bankruptcy Code. Pursuant to the RSA, the Consenting Lenders have committed to amend and restate the Second Amended Credit Agreement to provide for, among other things, (i) a revised covenant package that does not require that the Company achieve a minimum level of Recurring Revenue and (ii) an extended maturity date for the borrowings thereunder that is 27 months following the effective date of the Plan.

In addition, the Second Amended Credit Agreement also contains a financial covenant that requires the Company to maintain at least $900 million of Recurring Revenues (as defined by the Second Amended Credit Agreement) as of the last day of any period of four consecutive fiscal quarters. The Recurring Revenue for the four consecutive quarters ending June 30, 2024 was less than $900 million and accordingly the Company was not in compliance with this covenant under the Second Amended Credit Agreement. Although failure to comply with this financial covenant without being able to cure or otherwise obtain a waiver could cause the obligations under the Second Amended Credit Agreement to accelerate, any efforts to enforce such acceleration under the Second Amended Credit Agreement is automatically stayed as a result of the Chapter 11 Cases and the lenders' rights of enforcement in respect of the Second Amended Credit Agreement are subject to the applicable provisions of the Bankruptcy Code.

In light of the foregoing, substantial doubt exists about the Company's ability to continue as a going concern within one year from the date that the condensed consolidated financial statements are issued. The Company's ability to continue as a going concern is contingent upon, among other things, its ability to, subject to approval by the Bankruptcy Court, implement the Transaction, successfully emerge from the Chapter 11 Cases and generate sufficient liquidity following the Transaction to meet its obligations and operating needs. The Transaction contemplated by the RSA, including the Restructuring Term Sheet, is subject to approval by the Bankruptcy Court, among other conditions. Accordingly, no assurance can be given that the transactions described therein will be consummated on the expected terms, if at all.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to continue as a going concern and contemplates the realization of assets and satisfaction of liabilities in the normal course of business. These condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty, nor do they include adjustments to reflect the possible future effects of the recoverability and classification of recorded asset amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Nasdaq Listing Status

On March 14, 2024, the Company received a written notification from Nasdaq that it had failed to comply with Nasdaq's minimum bid price requirement. In accordance with Nasdaq rules, the Company had a period of 180 calendar days, or until September 10, 2024 to regain compliance with the minimum bid price requirement. As part of the Company's efforts to regain compliance with Nasdaq's minimum bid price requirement, the Company effected a 1-for-30 reverse stock split on June 13, 2024 and the Company's common stock began trading on a post-split adjusted basis on June 14, 2024. See below for a discussion of the Reverse Stock Split.

On July 1, 2024, the Company received a written notification from Nasdaq that for the prior 10 consecutive business days, the closing bid price of the Company's common stock had been at $1.00 per share or greater. Accordingly, the Company regained compliance with the minimum bid price requirement.

On July 29, 2024, the Company was notified by Nasdaq that it had determined to delist the Company's common stock pursuant to Nasdaq Listing Rules 5101, 5110(b), and IM-5101-1 as a result of the commencement of the Chapter 11 Cases. The Company does not intend to appeal this determination. Trading of the Company's common stock was suspended at the opening of business on August 7, 2024, and a Form 25-NSE will be filed with the SEC, which will remove the Company's common stock from listing and registration on Nasdaq. Effective August 7, 2024, the Company's common stock began being quoted on the OTC Pink Market operated by OTC Markets Group Company under the symbol "TWOUQ".

Reverse Stock Split

On May 20, 2024, the Company's stockholders voted to approve amendments to the Company's Eighth Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"), to effect a reverse stock split of all of the outstanding shares of the Company's common stock, par value $0.001 per share, at a ratio ranging from any whole number between 1-for-10 and 1-for-40, with the exact ratio within such range to be determined by the Company's Board of Directors (the "Board") in its discretion, subject to the Board's authority to abandon such amendments.

On June 5, 2024, the Board approved the amendment to the Certificate of Incorporation effecting the reverse stock split at a ratio of 1-for-30 (the "Reverse Stock Split"). On June 13, 2024, the Company filed a Certificate of Amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware to effect the Reverse Stock Split. The Reverse Stock Split became effective on June 13, 2024 and trading on the Nasdaq Global Select Market on a post-split basis began on June 14, 2024. Following the Reverse Stock Split, the number of authorized shares of the Company's common stock remained at 200,000,000. The Reverse Stock Split reduced the total number of issued and outstanding shares of common stock from 82,260,619 to 2,741,980 as of December 31, 2023. The par value of the Company's common stock remained at $0.001.

The Company's stockholders' equity, in the aggregate, remained unchanged following the Reverse Stock Split. Per share net loss increased because there were fewer shares of the Company's common stock outstanding. There were no other accounting consequences, including changes to the amount of stock-based compensation expense to be recognized in any period, that arose as a result of the Reverse Stock Split. No fractional shares were issued in conjunction with the Reverse Stock Split. Instead, stockholders who would otherwise have been entitled to receive fractional shares as a result of the Reverse Stock Split received a cash payment in lieu thereof at a price equal to the fraction to which the stockholder would otherwise be entitled multiplied by the closing sales price per share of the common stock (as adjusted for the Reverse Stock Split) on the Nasdaq Global Select Market on June 13, 2024. These cash payments were immaterial to the Company's condensed consolidated financial statements. The Reverse Stock Split impacted all stockholders uniformly and did not affect any stockholder's percentage of ownership or proportionate voting power other than very minor impacts from the treatment of fractional shares.

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 items subject to such estimates include, but are not limited to, the measurement of provisions for credit losses, implied price concessions, acquired intangible assets, the recoverability of goodwill, indefinite-lived intangible assets and long-lived assets, deferred tax assets, and the fair value of the convertible senior notes. Due to the inherent uncertainty involved in making estimates, 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.

Fair Value Measurements

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

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

U.S. GAAP provides for a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. The Company remeasures non-financial assets such as goodwill, intangible assets and other long-lived assets at fair value when there is an indicator of impairment, and records them at fair value only when recognizing an impairment loss. The fair value hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs when determining fair value. Refer to Note 3 for further discussion of assets measured at fair value on a nonrecurring basis. The three tiers are defined as follows:

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

The Company has financial instruments, including cash deposits, receivables, accounts payable and debt. The carrying values for such financial instruments, other than the Company's convertible senior notes, each approximated their fair values as of June 30, 2024 and December 31, 2023. Refer to Note 8 for more information regarding the Company's convertible senior notes.

Long-lived Assets

The Company reviews long-lived assets, which consist of property and equipment, capitalized technology, capitalized content development 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, the amounts are grouped by the lowest level of independent cash flows. Recoverability of a long-lived asset is measured by a comparison of the carrying value of an asset or asset group to the future undiscounted net cash flows expected to be generated by that asset or asset group. If such assets are not recoverable, the impairment to be recognized is measured by the amount by which the carrying value of an asset exceeds the estimated fair value (discounted cash flow) of the asset or asset group. The Company's impairment analysis is based upon cumulative results and forecasted performance. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of asset groups, estimates of future cash flows, and discount rates and royalty rates used to determine fair values.

During the three and six months ended June 30, 2024, the Company recorded impairment charges of $56.2 million related to intangible and other long-lived assets within the Alternative Credential Segment, of which $32.2 million related to university client relationships, $10.3 million related to capitalized technology, $5.2 million related to right-of-use assets, $4.4 million related to trade names and domain names, $2.4 million related to capitalized content development, and $1.7 million related to fixed assets. During the three and six months ended June 30, 2023, the Company did not record impairment charges related to its long-lived assets.

Goodwill and Other Indefinite-lived Intangible Assets

The Company reviews goodwill and other indefinite-lived intangible assets for impairment annually, as of October 1, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of goodwill or an indefinite-lived asset below its carrying value.

Goodwill

Goodwill is the excess of purchase price over the fair value of identified net assets of businesses acquired. The Company's goodwill balance relates to its acquisitions of GetSmarter in July 2017, Trilogy in May 2019 and edX in November 2021. The Company tests goodwill at the reporting unit level, which is an operating segment or one level below an operating segment. The Company initially assesses qualitative factors to determine if it is necessary to perform a quantitative goodwill impairment review. The Company reviews goodwill for impairment using a quantitative approach if it decides to bypass the qualitative assessment or determines that it is more likely than not that the fair value of a reporting unit is less than its carrying value based on a qualitative assessment. Upon completion of a quantitative assessment, the Company may be required to recognize an impairment based on the difference between the carrying value and the fair value of the reporting unit.

During the second quarter of 2023, the Company completed the update of its internal financial reporting structure to better align with the executive structure following the 2022 Strategic Realignment. As a result of this update, the Company's three reporting units within the Alternative Credential Segment (Executive Education, Boot Camp, and Open Courses) were combined into a single reporting unit (Alternative Credential). The Degree Program Segment continues to have one reporting unit (Degree Program). The Company performed impairment assessments before and after the change in reporting units. Refer to the Interim Impairment Assessments section below for further information regarding the results of these assessments.

The Company determines 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 the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, discount rates, terminal growth rates, and forecasts of revenue and margins. When determining these assumptions and preparing these estimates, the Company considers each reporting unit's historical results and current operating trends, revenue, profitability, cash flow results and forecasts, and industry trends. These estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, market capitalization, the continued efforts of competitors to gain market share and prospective student enrollment patterns.

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

Other Indefinite-lived Intangible Assets

In November 2021, the Company acquired an indefinite-lived intangible asset, which represented the established edX trade name. The Company concluded that due to changes in facts and circumstances, effective July 1, 2023, the edX trade name should no longer have an indefinite useful life. The Company began amortizing the edX trade name on a straight-line basis over its estimated remaining useful life of 25 years.

The Company determined the fair value of its indefinite-lived asset utilizing the income-based approach. The income-based approach requires the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, discount rates, terminal growth rates, forecasts of revenue and margins, and royalty rates. When determining these assumptions and preparing these estimates, the Company considers 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, the continued efforts of competitors to gain market share and prospective student enrollment patterns.

Interim Impairment Assessments

During the second quarter of 2023, the Company experienced a significant decline in its market capitalization, which management deemed to be a triggering event related to the Company's goodwill and indefinite-lived intangible asset. In addition, as a result of the change in the Company's reporting units in the second quarter of 2023, the Company performed interim impairment assessments before and after the change in reporting units. The Company performed these interim impairment assessments as of May 1, 2023.

For the quantitative interim impairment assessment performed as of May 1, 2023, before the change in reporting units, management determined the carrying value of the Open Courses reporting unit and the carrying value of an indefinite-lived intangible asset, both within the Alternative Credential Segment, exceeded their respective estimated fair value. As a result, during the three months ended June 30, 2023, the Company recorded impairment charges of $16.7 million to goodwill, all of which related to the Open Courses reporting unit, and $117.4 million to the indefinite-lived intangible asset. These charges are included within operating expense on the Company's condensed consolidated statements of operations. The estimated fair value of each of the remaining reporting units exceeded their respective carrying value by approximately 10% or more.

For the interim impairment assessment performed as of May 1, 2023, after the change in reporting units, management determined it was not more likely than not that the fair values of the Degree Program reporting unit and the Alternative Credential reporting unit were less than their respective carrying amounts. As such, the Company concluded that the goodwill relating to those reporting units was not impaired and further quantitative impairment assessment was not necessary.

During the third quarter of 2023, the Company experienced a significant decline in its market capitalization, which management deemed to be a triggering event related to the Company's goodwill. The Company performed a quantitative interim impairment assessment as of September 30, 2023. The estimated fair value of each of the Company's reporting units exceeded their respective carrying value by more than 10%. Based on the qualitative assessment performed as of October 1, 2023, the date of the annual goodwill impairment assessment, the Company had no reporting units whose estimated fair value exceeded their carrying value by less than 10%.

During the fourth quarter of 2023, the Company experienced a significant decline in its market capitalization. In addition, the Company made updates to certain long-term financial projections. Management deemed these factors to be triggering events related to the Company's goodwill. The Company performed a quantitative interim impairment assessment as of December 31, 2023 and determined the carrying value of its Alternative Credential reporting unit exceeded its estimated fair value. As a result, during the three months ended December 31, 2023, the Company recorded impairment charges of $62.8 million to goodwill. This charge is included within operating expense on the Company's consolidated statements of operations. The estimated fair value of the Degree Program reporting unit exceeded its carrying value by more than 10%.

During the second quarter of 2024, the Company experienced a significant decline in its market capitalization. In addition, the Company updated its long-term financial projections in connection with contingency planning related to the Chapter 11 Cases. Management deemed these factors to be triggering events related to the Company's goodwill. The Company performed a quantitative interim impairment assessment as of May 31, 2024 and determined the carrying value of its Alternative Credential reporting unit exceeded its estimated fair value. As a result, during the three and six months ended June 30, 2024, the Company recorded impairment charges of $339.9 million to goodwill. This charge is included within operating expense on the Company's condensed consolidated statements of operations. The estimated fair value of the Degree Program reporting unit exceeded its carrying value by more than 10%.

It is possible that future changes in circumstances 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.

For each of the interim impairment assessments, the Company utilized a weighted combination of an income-based approach and market-based approach to determine the fair value of each reporting unit and an income-based approach to determine the fair value of its indefinite-lived intangible asset. Key assumptions used in the income-based approach included discount rates based upon each respective reporting unit's or indefinite-lived intangible asset's weighted-average cost of capital adjusted for the risk associated with the operations at the time of the assessment, terminal growth rates, forecasts of revenue and margins, and royalty rates. The income-based approach largely relied on inputs that were not observable to active markets, which would be deemed "Level 3" fair value measurements, as defined in the Fair Value Measurements section above. Key assumptions used in the market-based approach included the selection of appropriate peer group companies. Changes in the estimates and assumptions used to estimate fair value could materially affect the determination of fair value and the impairment test result.

Convertible Senior Notes

In April 2020, the Company issued the 2025 Notes in an aggregate principal amount of $380 million, including the exercise by the initial purchasers of an option to purchase additional 2025 Notes, in a private offering. Refer to Note 8 for more information regarding the 2025 Notes.

In January 2023, the Company issued the 2030 Notes in an aggregate principal amount of $147.0 million in a private offering. Refer to Note 8 for more information regarding the 2030 Notes.

Pursuant to 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*, the Company's convertible senior notes are accounted for as a single instrument.

Debt Issuance Costs

Debt issuance costs are incurred as a result of entering into certain borrowing transactions and are presented as a reduction from the carrying amount of the debt liability on the Company's condensed consolidated balance sheets. Debt issuance costs are amortized over the term of the associated debt instrument. The amortization of debt issuance costs is included as a component of interest expense on the Company's condensed consolidated statements of operations and comprehensive loss. If the Company extinguishes debt prior to the end of the underlying instrument's full term, some or all of the unamortized debt issuance costs may need to be written off, and a loss on extinguishment may need to be recognized. Refer to Note 8 for further information about the Company's debt.

Recent Accounting Pronouncements

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. On December 21, 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. This ASU defers the sunset date from December 31, 2022 to December 31, 2024 and is effective immediately. The

Company will adopt the standard when LIBOR is discontinued and does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In November 2023, the FASB issued ASU No 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. This ASU requires annual and interim disclosures that are expected to improve reportable segment disclosures, primarily through enhanced disclosures about significant segment expenses. This ASU is effective for fiscal years beginning after December 15, 2023 and should be adopted on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this standard on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU No 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* This ASU requires new disclosures about income taxes, primarily focused on the disclosure of income taxes paid and the rate reconciliation table. The ASU is effective for annual periods beginning after December 15, 2024 and should be applied on a prospective basis, with the option to apply the standard retrospectively. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this standard on its consolidated financial statements and related disclosures.

3. Goodwill and Intangible Assets

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

	Balance as of December 31, 2023	Impairment Charges*	Foreign Currency Translation Adjustments	Balance as of June 30, 2024
		(in thousands)		
Degree Program Segment				
Gross goodwill	$ 192,459	$ —	$ —	$ 192,459
Accumulated impairments	—	—	—	—
Net goodwill	192,459	—	—	192,459
Alternative Credential Segment				
Gross goodwill	$ 687,880	$ —	$ 314	$ 688,194
Accumulated impairments	(228,841)	(339,928)	—	(568,769)
Net goodwill	459,039	(339,928)	314	119,425
Total				
Gross goodwill	$ 880,339	$ —	$ 314	$ 880,653
Accumulated impairments	(228,841)	(339,928)	—	(568,769)
Net goodwill	$ 651,498	$ (339,928)	$ 314	$ 311,884

* Refer to Note 2 for further information about the goodwill impairment charges.

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

		June 30, 2024			December 31, 2023		
	Estimated Average Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization and Impairments*	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization and Impairments	Net Carrying Amount
		(in thousands)					
Capitalized technology	3-5	$ 244,002	$ (173,765)	$ 70,237	$ 245,867	$ (159,155)	$ 86,712
Capitalized content development	4-5	228,337	(182,199)	46,138	233,592	(176,374)	57,218
University client relationships	9-10	176,677	(86,036)	90,641	208,823	(75,849)	132,974
Enterprise client relationships	10	14,300	(3,754)	10,546	14,300	(3,039)	11,261
Trade names and domain names*	5-25	278,072	(201,981)	76,091	284,810	(201,777)	83,033
Total intangible assets		$ 941,388	$ (647,735)	$ 293,653	$ 987,392	$ (616,194)	$ 371,198

* During the three and six months ended June 30, 2024, the Company recorded impairment charges of $10.3 million to capitalized technology, $2.4 million to capitalized content development, $32.2 million to university client relationships, and $4.4 million to trade names and domain names.

** The Company concluded that due to changes in facts and circumstances, the edX trade name, which was classified as indefinite-lived as of June 30, 2023, is now finite-lived. In the third quarter of 2023, the Company began amortizing the trade name on a straight-line basis over its estimated useful life. The gross carrying amount of the edX trade name was $255.0 million as of both June 30, 2024 and December 31, 2023. Accumulated amortization and impairments include $181.1 million and $176.7 million of impairment charges related to the edX trade name as June 30, 2024 and December 31, 2023, respectively. Refer to Note 2 for further information about these impairment charges.

The amounts presented in the table above include $39.4 million and $43.4 million of in-process capitalized technology and content development as of June 30, 2024 and December 31, 2023, respectively.

The Company recorded amortization expense related to amortizable intangible assets of $22.3 million and $24.7 million for the three months ended June 30, 2024 and 2023, respectively, and $44.4 million and $51.9 million for the six months ended June 30, 2024 and 2023, respectively.

The following table presents the estimated future amortization expense of the Company’s amortizable intangible assets placed in service as of June 30, 2024.

	Future Amortization Expense
	(in thousands)
Remainder of 2024	$ 30,641
2025	52,452
2026	38,076
2027	26,542
2028	19,766
Thereafter	86,813
Total	$ 254,290

4. Other Balance Sheet Details

Prepaid Expenses and Other Assets

As of June 30, 2024 and December 31, 2023, the Company had balances of $23.1 million and $19.8 million, respectively, of prepaid assets within prepaid expenses and other assets on the condensed consolidated balance sheets.

Other Assets, Non-current

As of June 30, 2024 and December 31, 2023, the Company had balances of $13.8 million and $13.6 million, respectively, of deferred expenses incurred to integrate the software associated with its cloud computing arrangements, within other assets, non-current on the condensed consolidated balance sheets. Such expenses are subject to amortization over the remaining contractual term of the associated cloud computing arrangement, with a useful life of between three to five years. The Company incurred such amortization expense of $1.3 million and $1.0 million for the three months ended June 30, 2024 and 2023, respectively, and $2.4 million and $1.8 million for the six months ended June 30, 2024 and 2023, respectively.

Accounts Payable and 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.

	June 30, 2024	December 31, 2023
	(in thousands)	
Accrued university and instructional staff compensation	$ 23,769	$ 28,339
Accrued marketing expenses	9,212	19,652
Accrued compensation and related benefits	6,835	9,870
Accounts payable and other accrued expenses	33,370	45,517
Total accounts payable and accrued expenses	$ 73,186	$ 103,378

Other Current Liabilities

As of June 30, 2024 and December 31, 2023, the Company had balances of $12.6 million and $10.5 million, respectively, within other current liabilities on the condensed consolidated balance sheets, which represent proceeds received from students enrolled in certain of the Company's alternative credential offerings that are payable to an associated university client. As of June 30, 2024 and December 31, 2023, the Company had accrued interest balances of $13.5 million and $13.6 million, respectively, within other current liabilities on the condensed consolidated balance sheets.

5. 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 matters 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.

2U, Inc., et al. v. Cardona, et al.

On April 4, 2023, the Company filed a lawsuit on behalf of itself and its South African subsidiary, Get Educated International Proprietary Ltd., against the Department of Education (the "Department") and Secretary of Education Miguel Cardona. The suit challenges a Dear Colleague Letter issued by the Department that would treat the Company and other Online

Program Managers (OPMs) as highly regulated “Third-Party Servicers” for purposes of the Higher Education Act (“HEA”). The Company contends that the Department has exceeded its authority by seeking to expand the definition of “Third-Party Servicer” contained in the HEA, 20 U.S.C. § 1088(c), as well as in the Department’s regulations and longstanding guidance documents. The Company also argues that the Department violated both the HEA and the Administrative Procedure Act in issuing its new understanding of Third-Party Servicer without following required rulemaking procedures. The case is now pending in the District of D.C., under case number 1:23-cv-00925. On April 7, 2023, the Company filed a motion for a stay and preliminary injunction to block the new Dear Colleague Letter to take effect as planned on September 1, 2023. On April 11, 2023, the Department announced that it would suspend the September 1, 2023 effective date and consider changes to the Dear Colleague Letter. The Department indicated that when it finalizes an updated version of the Dear Colleague Letter, the updated version will not go into effect for at least six months, to give regulated entities sufficient time to comply. Given these developments, the Company withdrew its motion for a stay and preliminary injunction and the court stayed the litigation pending the release of the finalized Dear Colleague Letter. On June 17, 2024, the parties filed a joint status report to the court, in which the government indicated that it was still in the process of developing an updated guidance, and that it did not anticipate issuing an updated guidance in the next 90 days. The Company believes that it has a meritorious claim and intends to vigorously pursue its challenge against the Department if the Department continues seeking to treat the Company as a Third-Party Servicer. Due to the complex nature of the legal issues involved, the outcome of this matter is not presently determinable.

Francis v. 2U, Inc. et al; Privacy Class Action

On October 10, 2023, plaintiff Chad Francis filed a putative class action against the Company and edX LLC in the United States District Court for the District of Massachusetts, alleging violations of the federal Video Privacy Protection Act. The plaintiff, who seeks to represent a class of individuals who viewed a video on edX while they had a Facebook account, alleges that 2U and edX disclosed his personal viewing information to Facebook without his consent. Plaintiff seeks damages of $2,500 for each violation, punitive damages, injunctive relief and attorney fees. On December 15, 2023, the Company and edX filed a motion to dismiss the complaint for failure to state a claim. The plaintiff filed a response on February 12, 2024, and the Company and edX filed a reply on March 13, 2024. While the motion to dismiss was pending before the Court, the Company and edX filed a Suggestion of Bankruptcy notifying the court of the recently filed Chapter 11 Cases. Upon the filing of the Suggestion of Bankruptcy notice, the court dismissed the action without prejudice. The court’s order further states that either party may bring a motion to restore the case docket, following final determination of the Chapter 11 Cases.

In re: 2U, Inc., et al. Case No. 24-11279 (MEW) (Bankr. S.D.N.Y.)

On July 25, 2024, the Debtors commenced voluntary cases under the Bankruptcy Code in the Bankruptcy Court providing for a court-administered reorganization pursuant to its prepackaged joint plan of reorganization. The Chapter 11 Cases are being jointly administered under the caption “In re: 2U, Inc., et al Case No. 24-11279 (MEW) (Bankr. S.D.N.Y.).”

Beaumont v. 2U, Inc., et al; Securities Class Action

On June 13, 2024, the Company, Christoper Paucek, Paul Lalljie, and Matt Norden were named as defendants in a putative securities class action filed in the United States District Court for the District of Maryland. The plaintiff Michael Beaumont, who seeks to represent a class of persons and entities that purchased or otherwise acquired 2U securities between February 9, 2022 and February 12, 2024, alleges that defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts about the Company’s business, operations, and prospects, and, therefore, violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10b-5 promulgated thereunder. In addition, the plaintiff alleges that Messrs. Paucek, Lallije and Norden violated Section 20(a) of the Exchange Act. The plaintiff is seeking compensatory damages against the defendants, reasonable costs and expenses incurred in the action, and further relief as the Court may deem just and proper. On July 30, 2024, 2U filed a Suggestion of Bankruptcy and Imposition of Automatic Stay pursuant to Section 362(A) of the Bankruptcy Code. 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.

De La Paz v. 2U, Inc., et al; Privacy Class Action

On April 19, 2024, plaintiff Henry De la Paz filed a putative class action against the Company and edX LLC in the United States District Court for the District of Massachusetts, alleging violations of the federal Video Privacy Protection Act. The plaintiff, who seeks to represent a class of individuals who viewed a video on the edX mobile application, alleges that 2U and edX disclosed his personal viewing information to third parties. Plaintiff seeks damages of $2,500 for each violation, punitive damages, injunctive relief and attorney fees. On July 26, 2024, the Company and edX filed a Suggestion of Bankruptcy notifying the court of the recently filed voluntary petitions. Upon the filing of the Suggestion of Bankruptcy notice, the court dismissed the action without prejudice. The court's order further states that either party may bring a motion to restore the case docket, following final determination of all bankruptcy proceedings.

Marketing and Sales Commitments

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

Other Vendor Commitments

In September 2023, as part of an effort to consolidate vendors to reduce the cost of launching programs, the Company entered into an agreement with an existing vendor to purchase content development and other services at more favorable pricing, with a total minimum commitment of $30.0 million through December 31, 2026.

Future Minimum Payments to University Clients

Pursuant to certain of the Company's contracts in the Degree Program Segment, the Company has made, or is obligated to make, payments to university clients in exchange for contract extensions and various marketing and other rights. The following table presents the estimated future minimum payments due to university clients as of June 30, 2024.

	Future Minimum Payments
	(in thousands)
Remainder of 2024	$ 1,600
2025	3,500
2026	3,500
2027	3,500
2028	3,500
Thereafter	—
Total future minimum payments to university clients	$ 15,600

Contingent Payments

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

6. Restructuring Charges

During the second quarter of 2022, the Company accelerated its planned transition to a platform company (the "2022 Strategic Realignment Plan"). The plan was designed to reorient the Company around a single platform allowing it to pursue a portfolio-based marketing strategy that drives traffic to the edX marketplace. As part of the plan, the Company simplified its executive structure, reduced employee headcount, rationalized its real estate footprint and implemented steps to optimize marketing spend. During the third quarter of 2022, the Company completed the planned headcount reductions and consolidated its in-person operations to its offices in Lanham, Maryland and Cape Town, South Africa. In furtherance of the 2022 Strategic Realignment Plan, the Company reduced employee headcount during the third quarter of 2023.

Restructuring charges related to the 2022 Strategic Realignment Plan were $2.7 million and $3.2 million for the three months ended June 30, 2024 and 2023, respectively, and $5.5 million and $7.7 million for the six months ended June 30, 2024 and 2023, respectively. As of June 30, 2024, the Company incurred cumulative restructuring charges of $61.2 million related to the 2022 Strategic Realignment Plan. The Company anticipates that it will incur aggregate restructuring charges associated with the 2022 Strategic Realignment Plan of approximately $70 million to $75 million. The majority of the estimated remaining restructuring charges relate to leased facilities and will be recognized as expense over the remaining lease terms, ranging from 1 to 7 years. On July 25, 2024, the Company took steps to reject several operating leases in connection with the Chapter 11 Cases. The Bankruptcy Court will assess these motions at a hearing scheduled for September 6, 2024.

In late 2023, the Company announced leadership changes and commenced a comprehensive performance improvement exercise aimed at, among other things, further improving its profitability and optimizing its operating model and balance sheet. Part of this exercise includes headcount reductions associated with implementing changes to the Company's organizational structure, as management works to align staffing levels with business priorities across functional areas. During the second quarter of 2024, the Company further reduced its occupancy in its Lanham, Maryland office.

The following tables present restructuring charges by reportable segment on the Company's condensed consolidated statements of operations for the periods indicated.

	Three Months Ended June 30, 2024		Three Months Ended June 30, 2023	
	Degree Program Segment	Alternative Credential Segment	Degree Program Segment	Alternative Credential Segment
	(in thousands)			
Leadership and organizational structure changes				
Severance and severance-related costs	$ 3,951	$ —	$ —	$ —
Lease and lease-related charges	1,398	—	—	—
	5,349	—	—	—
2022 Strategic Realignment Plan				
Severance and severance-related costs	—	—	—	—
Lease and lease-related charges	1,956	717	2,129	682
Professional and other fees relating to restructuring activities	—	—	404	—
Other*	—	—	13	—
	1,956	717	2,546	682
Other restructuring charges**	384	—	373	21
Total restructuring charges	$ 7,689	$ 717	$ 2,919	$ 703

	Six Months Ended June 30, 2024		Six Months Ended June 30, 2023	
	Degree Program Segment	Alternative Credential Segment	Degree Program Segment	Alternative Credential Segment
	(in thousands)			
Leadership and organizational structure changes				
Severance and severance-related costs	$ 5,091	$ 308	$ —	$ —
Lease and lease-related charges	1,398	—	—	—
	6,489	308	—	—
2022 Strategic Realignment Plan				
Severance and severance-related costs	—	—	1,231	—
Lease and lease-related charges	3,967	1,459	4,272	1,441
Professional and other fees relating to restructuring activities	—	119	744	—
Other*	—	—	26	—
	3,967	1,578	6,273	1,441
Other restructuring charges**	791	—	753	30
Total restructuring charges	$ 11,247	$ 1,886	$ 7,026	$ 1,471

* Includes the acceleration of certain technology and content development costs.
** Includes severance and severance-related costs and lease-related charges.

Summary of Accrued Restructuring Liability

The following table presents the additions and adjustments to the accrued restructuring liability on the Company's condensed consolidated balance sheets for the periods indicated.

	Balance as of December 31, 2023	Additional Costs	Cash Payments	Balance as of June 30, 2024
	(in thousands)			
Leadership and organizational structure changes				
Severance and severance-related costs	$ 9,779	$ 5,025	$ (8,907)	$ 5,897
2022 Strategic Realignment Plan				
Severance and severance-related costs	4,093	107	(3,595)	605
Professional and other fees relating to restructuring activities	363	191	(558)	(4)
Lease and lease-related charges	28	7,614	(7,214)	428
Other severance and severance-related costs	243	—	(243)	—
Total restructuring	$ 14,506	$ 12,937	$ (20,517)	$ 6,926

7. Leases

The Company leases facilities under non-cancellable operating leases primarily in the United States, South Africa, and the United Kingdom. The Company's operating leases have remaining lease terms of between less than one to 10 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. On July 25, 2024, the Company took steps to reject several operating leases in connection with the Chapter 11 Cases. The Bankruptcy Court will assess these motions at a hearing scheduled for September 6, 2024.

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
Operating lease expense	$ 4,158	$ 4,346	$ 8,326	$ 8,803
Short-term lease expense	39	35	82	69
Variable lease expense	2,242	1,362	4,172	3,269
Sublease income	(611)	(481)	(1,247)	(908)
Total lease expense	$ 5,828	$ 5,262	$ 11,333	$ 11,233

As of June 30, 2024, for the Company's operating leases, the weighted-average remaining lease term was 5.9 years and the weighted-average discount rate was 10.8%. For the six months ended June 30, 2024 and 2023, cash paid for amounts included in the measurement of operating lease liabilities was $12.3 million and $12.1 million, respectively. There were no lease liabilities arising from obtaining right-of-use assets for each of the six months ended June 30, 2024 and 2023.

The following table presents the maturities of the Company's operating lease liabilities as of the date indicated, and excludes the impact of future sublease income totaling $3.6 million in aggregate.

	June 30, 2024
	(in thousands)
Remainder of 2024	$ 12,016
2025	20,549
2026	21,107
2027	21,688
2028	17,214
Thereafter	33,051
Total lease payments	125,625
Less: imputed interest	(34,612)
Total lease liability	$ 91,013

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.

	June 30, 2024	December 31, 2023
	(in thousands)	
Term loan facilities	$ 374,300	$ 376,200
Revolving facility	40,000	40,000
Convertible senior notes	527,000	527,000
Deferred government grant obligations	3,500	3,500
Other borrowings	1,111	1,699
Less: unamortized debt discount and issuance costs	(37,613)	(43,670)
Total debt	908,298	904,729
Less: current portion of long-term debt	(908,298)	(8,215)
Total long-term debt	$ —	$ 896,514

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 2025 Notes, which had an estimated fair value of $205.2 million and $191.7 million as of June 30, 2024 and December 31, 2023, respectively, and the 2030 Notes, which had an estimated fair value of $48.5 million and $55.0 million as of June 30, 2024 and December 31, 2023, respectively. Each of the Company's long-term debt instruments were classified as Level 2 within the fair value hierarchy.

Term Loan Credit and Guaranty Agreement

On January 9, 2023, the Company entered into an Extension Amendment, Second Amendment and First Incremental Agreement to Credit and Guaranty Agreement, dated as of January 9, 2023 (the "Second Amended Credit Agreement"), which amended the Company's existing term loan facilities, previously referred to as the Amended Term Loan Facilities. The provisions of the Second Amended Credit Agreement became effective upon the satisfaction of certain conditions set for therein, including, without limitation, the funding of the 2030 Notes referenced below and the prepayment of certain existing term loans to reduce the outstanding principal amount of term loans outstanding under the Amended Term Loan Facilities from $567 million to $380 million. Pursuant to the Second Amended Credit Agreement, the lenders thereunder agreed to, among other amendments, extend the maturity date of the term loans thereunder from December 28, 2024 to December 28, 2026 (or, if more than $40 million of the Company's 2025 Notes remain outstanding on January 30, 2025, January 30, 2025) and to provide a senior secured first lien revolving loan facility to the Company in the principal amount of $40 million (the "Revolving Loan Facility"). The termination date for such revolving loans will be June 28, 2026 (or, if more than $50 million of the Company's 2025 Notes remain outstanding on January 1, 2025, January 1, 2025). As of June 30, 2024, outstanding borrowings under the Revolving Loan Facility were $40 million. In addition, our Second Amended Credit Agreement includes a financial covenant that requires the Company to maintain $900 million minimum Recurring Revenues (as defined by the Second Amended Credit Agreement) as of the last day of any period of four consecutive fiscal quarters, commencing with the fiscal quarter ending September 30, 2021 through the maturity date. The Recurring Revenue for the four consecutive quarters ending June 30, 2024 was less than $900 million and accordingly the Company was not in compliance with the covenants under the Second Amended Credit Agreement.

Loans under the Second Amended Credit Agreement bear interest at a per annum rate equal to (i) with respect to term loans, a base rate or the Term SOFR (as defined in the Second Amended Credit Agreement) rate, as applicable, plus a margin of 5.50% in the case of the base rate loans and 6.50% in the case of Term SOFR loans and (ii) with respect to revolving loans, a base rate or the Term SOFR rate, as applicable, plus a margin of 4.50% in the case of the base rate loans and 5.50% in the case of Term SOFR loans. If the term loans under the Second Amended Credit Agreement are prepaid or amended prior to the six month anniversary of the Second Amended Credit Agreement in connection with a Repricing Event (as defined in the Second Amended Credit Agreement), the Company shall pay a prepayment premium of 1.0% of the amount of the loans so prepaid.

Prior to the amendment, loans under the Amended Term Loan Facilities bore interest at a per annum rate equal to a base rate or adjusted Eurodollar rate, as applicable, plus the applicable margin of 4.75% in the case of the base rate loans and 5.75% in the case of the Eurodollar loans. The Company is required to make quarterly principal repayments equal to 0.25% of the aggregate principal amount.

The obligations under the Second Amended Credit Agreement are guaranteed by certain of the Company's subsidiaries (the Company and the guarantors, collectively, the "Credit Parties"). The obligations under the Second Amended Credit Agreement are secured, subject to customary permitted liens and other agreed-upon exceptions, by a perfected security interest in all tangible and intangible assets of the Credit Parties, except for certain customary excluded assets.

The Second Amended Credit Agreement contains customary affirmative covenants, including, among others, the provision of annual and quarterly financial statements and compliance certificates, maintenance of property, insurance, compliance with laws and environmental matters. The Second Amended Credit Agreement contains customary negative covenants, including, among others, restrictions on the incurrence of indebtedness, granting of liens, making investments and acquisitions, paying dividends, repurchases of equity interests in the Company and entering into affiliate transactions and asset sales. The Second Amended Credit Agreement contains (i) a financial covenant for the benefit of the lenders that requires the Company to maintain minimum Recurring Revenues (as defined in the Second Amended Credit Agreement) as of the last day of any period of four consecutive fiscal quarters of the Company commencing with fiscal quarter ending September 30, 2021 through the maturity date and (ii) three financial covenants solely for the benefit of the revolving lenders, in respect of a maximum consolidated senior secured net leverage ratio, a maximum consolidated total net leverage ratio, and a minimum consolidated fixed charge coverage ratio. The Second Amended Credit Agreement also provides for customary events of default, including, among others: non-payment of obligations; bankruptcy or insolvency event; failure to comply with covenants; breach of representations or warranties; defaults on other material indebtedness; impairment of any lien on any material portion of the Collateral (as defined in the Second Amended Credit Agreement); failure of any material provision of the Second Amended Credit Agreement or any guaranty to remain in full force and effect; a change of control of the Company; and material judgment defaults.

If an event of default under the Second Amended Credit Agreement occurs and is continuing, then, at the request (or with the consent) of the lenders holding the applicable requisite amount of commitments and loans under the Second Amended Credit Agreement, upon notice by the administrative agent to the borrowers, the obligations under the Second Amended Credit Agreement shall become immediately due and payable. In addition, if the Credit Parties become the subject of voluntary or involuntary proceedings under any bankruptcy, insolvency or similar law, then any outstanding obligations under the Second Amended Credit Agreement will automatically become immediately due and payable. The commencement of the Chapter 11 Cases constitutes an event of default or termination event under all debt agreements of the Company. Refer to Note 15 for further discussion of the Chapter 11 Cases.

As of June 30, 2024 and December 31, 2023, the balance of unamortized debt discount and issuance costs related to the term loan under the Second Amended Credit Agreement was $18.2 million and $21.7 million, respectively. The associated effective interest rate for the term loan under the Second Amended Credit Agreement was approximately 14.5% and 14.4%, for the three months ended June 30, 2024 and 2023, respectively, and approximately 14.5% and 14.1%, for the six months ended June 30, 2024 and 2023, respectively. The associated interest rate for the revolving loan under the Second Amended Credit Agreement was approximately 10.8% and 10.6%, for the three months ended June 30, 2024 and 2023, respectively, and approximately 10.9% and 10.6%, for the six months ended June 30, 2024 and 2023, respectively. The associated interest expense for these facilities was approximately $14.3 million and $13.3 million for the three months ended June 30, 2024 and 2023, respectively, and $28.4 million and $26.5 million for the six months ended June 30, 2024 and 2023, respectively.

Convertible Senior Notes

2025 Notes

In April 2020, the Company issued the 2025 Notes in an aggregate principal amount of $380 million, including the exercise by the initial purchasers of an option to purchase additional 2025 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 2025 Notes were approximately $369.6 million after deducting the initial purchasers' discounts, commissions and offering expenses payable by the Company.

The 2025 Notes are governed by the 2025 Indenture. The 2025 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 2025 Notes will mature on May 1, 2025, unless earlier repurchased, redeemed or converted and contain a cross-acceleration provision tied to the acceleration of other material debt, including the Second Amended Credit Agreement and the 2030 Notes.

The 2025 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 2025 Notes, effectively subordinated to the Company's senior secured indebtedness (including indebtedness under the Second Amended Credit Agreement), 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.

The net carrying amount of the 2025 Notes consists of the following as of each of the dates indicated:

	June 30, 2024	December 31, 2023
	(in thousands)	
Principal	$ 380,000	$ 380,000
Unamortized issuance costs	(1,757)	(2,807)
Net carrying amount	$ 378,243	$ 377,193

Issuance costs are being amortized to interest expense over the contractual term of the 2025 Notes. Subsequent to the adoption of ASU 2020-06 in the first quarter of 2022, the effective interest rate used to amortize the issuance costs was 2.9%. The interest expense related to the 2025 Notes was $2.6 million and $2.6 million for the three months ended June 30, 2024 and 2023, respectively, and $5.3 million and $5.3 million for the six months ended June 30, 2024 and 2023, respectively.

Holders may convert their 2025 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 2025 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 2025 Indenture;
- if the Company calls such 2025 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 2025 Notes is 35.3773 shares of the Company's common stock per $1,000 principal amount of 2025 Notes, which represents an initial conversion price of approximately $28.27 per share of the Company's common stock, and is subject to adjustment upon the occurrence of certain specified events as set forth in the 2025 Indenture. Following the Reverse Stock Split, the conversion rate for the 2025 Notes is 1.1792 shares of the Company's common stock per $1,000 principal amount of 2025 Notes. 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. In the event of the Company calling the 2025 Notes for redemption or the holders of the 2025 Notes electing to convert their 2025 Notes, the Company will determine whether to settle in cash, common stock or a combination thereof. Upon the occurrence of a "make-whole fundamental change" (as defined in the 2025 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 2025 Indenture), holders of the 2025 Notes may require the Company to repurchase their 2025 Notes at a cash repurchase price equal to the principal amount of the 2025 Notes to be repurchased, plus accrued and unpaid interest, if any.

The 2025 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 2025 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 2025 Notes.

As of June 30, 2024, the conditions allowing holders of the 2025 Notes to convert had not been met and the Company has the right under the 2025 Indenture to determine the method of settlement at the time of conversion.

In connection with the 2025 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 2025 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2025 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. On July 25, 2024, the Company was notified by the counterparties that, as a result of the Company’s bankruptcy filing, the counterparties had terminated the Capped Call Transactions.

In April 2020, the Company used a portion of the proceeds from the sale of the 2025 Notes to repay in full all amounts outstanding, and discharge all obligations in respect of, the $250 million senior secured term loan facility. The Company intends to use the remaining net proceeds from the sale of the 2025 Notes for working capital or other general corporate purposes, which may include capital expenditures, potential acquisitions and strategic transactions.

2030 Notes

On January 11, 2023, the Company issued the 2030 Notes in an aggregate principal amount of $147.0 million. The 2030 Notes are governed by the 2030 Indenture. The 2030 Notes bear interest at a rate of 4.50% per annum, payable semi-annually in arrears on February 1 and August 1 of each year, beginning on August 1, 2023. The 2030 Notes mature on February 1, 2030, unless earlier redeemed or repurchased by the Company or converted and contain a cross-acceleration provision tied to the acceleration of other material debt, including the Second Amended Credit Agreement and the 2025 Notes. The net proceeds from the issuance of the 2030 Notes was $127.1 million.

The 2030 Notes are the senior, unsecured obligations of the Company and are equal in right of payment with the Company’s senior indebtedness, senior in right of payment to the Company’s indebtedness that is expressly subordinated to the 2030 Notes, effectively subordinated to the Company’s senior secured indebtedness, 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.

The net carrying amount of the 2030 Notes consist of the following as of the date indicated:

	June 30, 2024	December 31, 2023
	(in thousands)	
Principal	$ 147,000	$ 147,000
Unamortized debt discount and issuance costs	(17,662)	(19,136)
Net carrying amount	$ 129,338	$ 127,864

Issuance costs are being amortized to interest expense over the contractual term of the 2030 Notes. The effective interest rate used to amortize the issuance costs was approximately 7.5% for each of the three and six months ended June 30, 2024. The interest expense related to the 2030 Notes was $2.4 million and $2.3 million for the three months ended June 30, 2024 and 2023, respectively, and $4.8 million and $4.3 million for the six months ended June 30, 2024 and 2023, respectively.

Holders may convert their 2030 Notes at their option in the following circumstances:

- at any time from, and after January 11, 2023 until the close of business on the second scheduled trading day immediately before the maturity date;
- upon the occurrence of certain corporate events or distributions on the Common Stock as provided in the Indenture;
- if the Company calls such 2030 Notes for redemption; subject to the right of certain holders to elect a delayed conversion period for any such 2030 Notes called for redemption that would cause such holders to beneficially own shares of Common Stock, in excess of the Ownership Cap (as defined in the 2030 Indenture), over which threshold a settlement of such conversion could be made in cash; and
- upon the occurrence of a default with regard to the Company's financial covenants under the 2030 Indenture.

The initial conversion rate for the 2030 Notes is 111.1111 shares of Common Stock per $1,000 principal amount of 2030 Notes, which represents an initial conversion price of approximately $9.00 per share, and is subject to adjustment upon the occurrence of certain specified events as set forth in the 2030 Indenture. Following the Reverse Stock Split, the conversion rate for the 2030 Notes is 3.7037 shares of the Company's common stock per $1,000 principal amount of 2030 Notes. Upon conversion, the Company will pay or deliver, as applicable, cash, shares of Common Stock or a combination of cash and shares of Common Stock, at the Company's election (subject to aforementioned Ownership Cap). Upon the occurrence of a "Make-Whole Fundamental Change" (as defined in the 2030 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 2030 Indenture), holders of the 2030 Notes may require the Company to repurchase their 2030 Notes at a cash repurchase price equal to the principal amount of the 2030 Notes to be repurchased, plus accrued and unpaid interest, if any.

The 2030 Notes are redeemable, in whole or in part, at the Company's option at any time, and from time to time, subject to limited exceptions with respect to 2030 Notes that cannot be immediately physically settled due to the Ownership Cap, on or after January 11, 2026 and on or before the 30th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the 2030 Notes to be redeemed, plus accrued and unpaid interest, if any, but only if the last reported sale price per share of Common Stock exceeds 130% of the conversion price on 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. 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 2030 Notes. The Company used cash on hand and the proceeds from the offering of the 2030 Notes to repay a portion of the amounts outstanding under the Amended Term Loan Facilities. The Company has the right under the 2030 Indenture to determine the method of settlement at the time of conversion.

The filing of the Chapter 11 Cases constituted an event of default under the Debt Instruments that accelerated obligations under the Debt Instruments. The Debt Instruments provide that, as a result of the Chapter 11 Cases, the principal and interest due thereunder shall be immediately due and payable. Any efforts to enforce such payment obligations under the Debt Instruments are automatically stayed as a result of the Chapter 11 Cases and the holders' rights of enforcement in respect of the Debt Instruments are subject to the applicable provisions of the Bankruptcy Code. Pursuant to the RSA, the Consenting Lenders have committed to amend and restate the Second Amended Credit Agreement to provide for, among other things, a new maturity date for the borrowings thereunder of the date that is 27 months following the effective date of the Plan.

Deferred Government Grant Obligations

The Company has 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. The conditional loan with

Prince George's County has a maturity date of June 22, 2027 and the conditional loan agreement with the State of Maryland has a maturity date of June 30, 2028. The interest expense related to these loans for the three and six months ended June 30, 2024 and 2023 was immaterial.

Letters of Credit

Certain of the Company's operating lease agreements entered into require security deposits in the form of cash or an unconditional, irrevocable letter of credit. As of June 30, 2024, the Company has entered into standby letters of credit totaling $11.7 million as security deposits for the applicable leased facilities and in connection with the deferred government grant obligations.

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

Debt Refinancing Costs

In January 2023, the Company entered into the Second Amended Credit Agreement, which amended the Amended Term Loan Facilities. Certain investors in the Amended Term Loan Facilities participated in the Second Amended Credit Agreement and the change in the present value of future cash flows between the investments was less than 10%. Accordingly, the Company accounted for this refinancing event for these investors as a debt modification. Certain investors in the Amended Term Loan Facilities did not participate in the Second Amended Credit Agreement or the change in the present value of future cash flows between the investments was greater than 10%. Accordingly, the Company accounted for this refinancing event for these investors as a debt extinguishment. In applying debt modification accounting in connection with this refinancing event, during the first quarter of 2023, the Company recorded $12.1 million in loss on debt extinguishment and $4.6 million in debt modification expense.

Impact of the Chapter 11 Cases on Debt

The commencement of the Chapter 11 Cases constitutes an event of default or termination event under all debt agreements of the Company. Accordingly, all long-term debt was classified as current on the condensed consolidated balance sheets as of June 30, 2024. However, any efforts to enforce payment obligations related to the Company's outstanding debt have been automatically stayed as a result of the filing of the Chapter 11 Cases, and the creditors' rights of enforcement are subject to the applicable provisions of the Bankruptcy Code. Refer to Note 15 for further discussion of the Chapter 11 Cases.

9. Income Taxes

The Company's income tax provisions for all periods consist of federal, state and foreign income taxes. The income tax provision for the three and six months ended June 30, 2024 and 2023 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 for each of the three and six months ended June 30, 2024 and 2023 was less than 1%. For the three months ended June 30, 2024, the Company's income tax benefit was insignificant. For the three months ended June 30, 2023, the Company's income tax expense was $0.2 million. For the six months ended June 30, 2024 and 2023, the Company's income tax expense was $0.2 million and $0.3 million, respectively.

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

Reverse Stock Split

On May 20, 2024, the Company's stockholders voted to approve amendments to the Company's Certificate of Incorporation, to effect a reverse stock split of all of the outstanding shares of the Company's common stock, par value $0.001 per share, at a ratio ranging from any whole number between 1-for-10 and 1-for-40, with the exact ratio within such range to be determined by the Company's Board in its discretion, subject to the Board's authority to abandon such amendments.

On June 5, 2024, the Board approved the amendment to the Certificate of Incorporation effecting the Reverse Stock Split at a ratio of 1-for-30 and abandoned all other amendments to the Certificate of Incorporation previously approved by the Board and the Company's stockholders. On June 13, 2024, the Company filed a Certificate of Amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware to effect the Reverse Stock Split. The Reverse Stock Split became effective on June 13, 2024 and trading on the Nasdaq Global Select Market on a post-split basis began on June 14, 2024. Following the Reverse Stock Split, the number of authorized shares of the Company's common stock remained at 200,000,000. The Reverse Stock Split reduced the total number of issued and outstanding shares of common stock from 82,260,619 to 2,741,980 as of December 31, 2023. The par value of the Company's common stock remained at $0.001.

All per share amounts and common shares have been adjusted on a retrospective basis to reflect the Reverse Stock Split for all periods. In addition, common stock decreased by $0.1 million and additional paid-in capital increased by $0.1 million in the condensed consolidated statement of changes in stockholders' equity as of both June 30, 2024 and December 31, 2023. The Company's stockholders' equity, in the aggregate, remained unchanged following the Reverse Stock Split. Per share net loss increased because there were fewer shares of the Company's common stock outstanding. There were no other accounting consequences, including changes to the amount of stock-based compensation expense to be recognized in any period, that arose as a result of the Reverse Stock Split. No fractional shares were issued in conjunction with the Reverse Stock Split. Instead, stockholders who would otherwise have been entitled to receive fractional shares as a result of the Reverse Stock Split received a cash payment in lieu thereof at a price equal to the fraction to which the stockholder would otherwise be entitled multiplied by the closing sales price per share of the common stock (as adjusted for the Reverse Stock Split) on the Nasdaq Global Select Market on June 13, 2024. These cash payments were immaterial to the Company's condensed consolidated financial statements. The Reverse Stock Split impacted all stockholders uniformly and did not affect any stockholder's percentage of ownership or proportionate voting power other than very minor impacts from the treatment of fractional shares.

Common Stock

As of June 30, 2024, 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 June 30, 2024, there were 2,805,301 shares of common stock outstanding, and the Company had reserved a total of 1,502,497 of its authorized shares of common stock for future issuance as follows:

	Shares Reserved for Future Issuance
Outstanding restricted stock units	88,226
Outstanding performance restricted stock units	77,112
Outstanding stock options	100,058
Reserved for convertible senior notes	1,237,101
Total shares of common stock reserved for future issuance	1,502,497

Stock-Based Compensation

The Company maintains a stock-based compensation plan: the Amended and Restated 2014 Equity Incentive Plan (the "2014 Plan"), which became effective in January 2014. The shares available for future issuance under the 2014 Plan increased by 137,101 and 130,557 on January 1, 2024 and 2023, 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 second quarter of 2023, shares available for purchase under the ESPP increased by 66,666 shares, pursuant to an amendment to the Company's ESPP to increase the number of authorized shares available under such plan. With the commencement of the Chapter 11 Cases, the Company does not expect to continue to maintain the ESPP and the operation of the ESPP was suspended in July 2024.

The following table presents stock-based compensation expense related to the 2014 Plan 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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
Curriculum and teaching	$ 95	$ 51	$ 135	$ 91
Servicing and support	1,118	2,239	2,592	5,516
Technology and content development	393	1,960	1,002	3,617
Marketing and sales	695	1,369	1,208	2,523
General and administrative	2,210	5,364	4,898	13,799
Total stock-based compensation expense	$ 4,511	$ 10,983	$ 9,835	$ 25,546

Restricted Stock Units

The 2014 Plan provides for the issuance of restricted stock units ("RSUs") to eligible participants. Restricted stock units are generally subject to service-based vesting conditions and vest at various times from the date of grant, with most RSUs vesting in equal quarterly or annual tranches, generally over a period of three years.

The following table presents a summary of the Company's RSU activity, adjusted on a retroactive basis to reflect the Reverse Stock Split, for the period indicated. No RSUs were granted during the six months ended June 30, 2024.

	Number of Units	Weighted-Average Grant Date Fair Value per Share
Outstanding balance as of December 31, 2023	152,911	$ 244.00
Granted	—	—
Vested	(41,006)	282.01
Forfeited	(23,679)	210.69
Outstanding balance as of June 30, 2024	88,226	$ 235.27

The total fair value of RSUs vested during the three months ended June 30, 2024 and 2023 was $0.2 million and $7.9 million, respectively. The total fair value of RSUs vested during the six months ended June 30, 2024 and 2023 was $0.9 million and $13.1 million, respectively. The total compensation cost related to the unvested RSUs not yet recognized as of June 30, 2024 was $12.2 million, and will be recognized over a weighted-average period of approximately 1.3 years.

Performance Restricted Stock Units

The 2014 Plan provides for the issuance of performance restricted stock units ("PRSUs") to eligible participants. 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 and/or conditions based on the Company's internal financial performance achieving predetermined targets. The terms of the performance restricted stock unit grants under the 2014 Plan, including the vesting periods, are determined by the Company's Board or the compensation committee thereof.

During the first quarter of 2022, as part of its annual equity awards cycle, the Company awarded 56,163 PRSUs with an aggregate intrinsic value of $20.4 million. The PRSU award agreements provide that the quantity of units subject to vesting may range from 200% to 0% of the granted quantities, depending on the achievement of internal financial performance-based targets, which are established annually. Certain of these PRSUs vest at the end of all three one-year performance periods, while others vest at the end of each of three one-year performance periods. Of the PRSUs awarded, 18,721 were granted in March 2022 with a weighted-average grant date fair value per share of $323.10, 18,721 were granted in February 2023 with a weighted-average grant date fair value per share of $334.65, and 11,147 were granted in February 2024 with a weighted-average grant date fair value of $11.97. The expense recognized each period is estimated at the time of grant and is subject to fluctuation due to the achievement of internal financial performance-based targets. For the first and second performance periods, 100% and 27.8% of the eligible PRSUs were earned, respectively.

During the first quarter of 2023, as part of its annual equity award cycle, the Company awarded 46,722 PRSUs with an aggregate intrinsic value of $12.2 million. The PRSU award agreements provide that the quantity of units subject to vesting may range from 150% to 0% of the granted quantities. For the first performance period, which began on January 1, 2023 and ended on December 31, 2023, and the second performance period, which began on January 1, 2024 and ends on December 31, 2024, the quantity of units eligible to be earned ranges from 130% to 0% depending on the achievement of internal financial performance-based targets, which are established annually. Additionally, the actual number of PRSUs earned may be adjusted upward or downward by 20% based upon the Company's total shareholder return ("TSR") performance compared to the Russell 3000 Index's TSR performance over the same period. If the Company's absolute TSR is negative, the TSR multiplier cannot exceed 0% and the achievement percentage based up on the internal financial performance-based targets is capped at 125%. Of the PRSUs awarded, 15,573 were granted in March 2023 with a weighted-average grant date fair value per share of $214.50 and 14,413 were granted in February 2024 with a weighted-average grant date fair value per share of $11.94. These include the fair values per share of the TSR-performance component of the awards, which were determined using a Monte Carlo valuation model, and were $11.70 and $0.00 per share for the first and second performance periods, respectively. For the first performance period, 0% of the eligible PRSUs were earned.

During the first quarter of 2024, as part of a one-time award cycle, the Company granted 24,999 PRSUs with a grant date fair value per share of $14.70. The PRSU award agreements provide that the awards are eligible to vest upon the 30-day average stock price of the Company attaining at least $300.00 on or prior to the two-year anniversary of the grant date.

The following tables present a summary of (i) for the six months ended June 30, 2024 and 2023, the assumptions used for estimating the fair values of the TSR-performance component of the PRSUs, and (ii) for the six months ended June 30, 2024, the assumptions used for estimating the fair value of the PRSUs subject to market-based vesting conditions. As of June 30, 2024 and December 31, 2023, there were 14,036 and 40,910 outstanding PRSUs for which the performance metrics had not been defined as of each respective date. Accordingly, such awards are not considered granted for accounting purposes as of June 30, 2024 and December 31, 2023, and have been excluded from the tables below. No PRSUs were granted during each of the three months ended June 30, 2024 and 2023.

	Six Months Ended June 30,	
	2024	2023
Risk-free interest rate	5.11%	4.68%
Expected term (years)	1.00	1.00
Expected volatility	162%	108%
Dividend yield	0%	0%

	Six Months Ended June 30, 2024
Risk-free interest rate	4.33%
Expected term (years)	1.30
Expected volatility	126%
Dividend yield	0%

The following table presents a summary of the Company’s PRSU activity, adjusted on a retroactive basis to reflect the Reverse Stock Split, for the period indicated.

	Number of Units	Weighted-Average Grant Date Fair Value per Share
Outstanding balance as of December 31, 2023	27,695	$ 403.04
Granted	59,293	13.12
Vested	—	—
Forfeited	(9,876)	11.98
Outstanding balance as of June 30, 2024	77,112	$ 153.31

The total compensation expense related to the unvested PRSUs not yet recognized as of June 30, 2024 was $1.2 million, and will be recognized over a weighted-average period of approximately 1.0 years.

Stock Options

The 2014 Plan provides for the issuance of stock options to eligible participants. Stock options issued under the 2014 Plan generally are exercisable for periods not to exceed 10 years and generally vest over a three-year period.

The following table summarizes the assumptions used for estimating the fair value of the stock options granted for the period presented. No stock options were granted during the six months ended June 30, 2024 or the three months ended June 30, 2023.

	Six Months Ended June 30, 2023
Risk-free interest rate	3.6%
Expected term (years)	5.69
Expected volatility	87%
Dividend yield	0%
Weighted-average grant date fair value per share	$147.90

The following table presents a summary of the Company's stock option activity, adjusted on a retroactive basis to reflect the Reverse Stock Split, 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, 2023	135,176	$ 838.34	4.63	$ —
Granted	—	—	0.00	
Exercised	—	—	0.00	
Forfeited	(4,787)	305.40		
Expired	(30,331)	592.77		
Outstanding balance as of June 30, 2024	100,058	938.27	4.62	—
Exercisable as of June 30, 2024	85,523	$ 1,025.12	4.16	$ —

The aggregate intrinsic value of options exercised during the six months ended June 30, 2023 was $0.1 million.

The total unrecognized compensation cost related to the unvested options as of June 30, 2024 was $2.0 million, and will be recognized over a weighted-average period of approximately 0.6 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 anti-dilutive, given the Company's net loss. The following securities have been excluded from the calculation of weighted-average shares of common stock outstanding because the effect is anti-dilutive for each of the periods indicated.

	Three and Six Months Ended June 30,	
	2024	2023
Stock options	100,058	161,760
Restricted stock units	88,226	212,283
Performance restricted stock units	77,112	87,485
Shares related to convertible senior notes	992,556	992,556
Total antidilutive securities [1]	1,257,952	1,454,084

[1] Amounts have been adjusted to reflect the Reverse Stock Split that became effective on June 13, 2024. Refer to Note 2 for further information about the Reverse Stock Split.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Numerator (in thousands):				
Net loss	$ (452,440)	$ (173,654)	$ (507,089)	$ (227,716)
Denominator:				
Weighted-average shares of common stock outstanding, basic and diluted [1]	2,804,924	2,685,645	2,793,262	2,664,889
Net loss per share, basic and diluted [1]	$ (161.30)	$ (64.66)	$ (181.54)	$ (85.45)

(1) Amounts have been adjusted to reflect the Reverse Stock Split that became effective on June 13, 2024. Refer to Note 2 for further information about the Reverse Stock Split.

12. Segment and Geographic Information

The Company has two reportable segments: the Degree Program Segment and the Alternative Credential Segment. The Company's reportable segments are determined based on (i) financial information reviewed by the chief operating decision maker, the Chief Executive Officer ("CEO"), (ii) internal management and related reporting structure, and (iii) the basis upon which the CEO makes resource allocation decisions. The Company's Degree Program Segment includes the technology and services provided to nonprofit colleges and universities to enable the online delivery of degree programs. The Company's Alternative Credential Segment includes the premium online executive education programs and technical skills-based boot camps provided through relationships with nonprofit colleges, universities, and other leading organizations.

Significant Customers

For each of the three and six months ended June 30, 2024 and 2023, no university client accounted for 10% or more of the Company's consolidated revenue.

As of June 30, 2024, no university client accounted for 10% or more of the Company's consolidated accounts receivable, net balance. As of December 31, 2023, two university clients in the Degree Program Segment accounted for 10% or more of the Company's consolidated accounts receivable, net balance, as follows: $36.4 million and $14.3 million, which equaled 31% and 12% 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(dollars in thousands)			
Revenue by segment*				
Degree Program Segment	$ 101,978	$ 119,494	$ 213,524	$ 259,974
Alternative Credential Segment	78,705	102,595	165,536	200,619
Total revenue	$ 180,683	$ 222,089	$ 379,060	$ 460,593
Segment profitability**				
Degree Program Segment	$ 28,655	$ 33,111	$ 60,640	$ 80,315
Alternative Credential Segment	(9,260)	(11,319)	(23,950)	(28,332)
Total segment profitability	$ 19,395	$ 21,792	$ 36,690	$ 51,983
Segment profitability margin***				
Degree Program Segment	28.1 %	27.7 %	28.4 %	30.9 %
Alternative Credential Segment	(11.8)	(11.0)	(14.5)	(14.1)
Total segment profitability margin	10.7 %	9.8 %	9.7 %	11.3 %

* The Company has excluded immaterial amounts of intersegment revenues from each of the three and six months ended June 30, 2024 and 2023.

** The Company defines segment profitability as net income or net loss, as applicable, before net interest income (expense), other income (expense), net, taxes, depreciation and amortization expense, transaction costs, integration costs, professional fees associated with the Chapter 11 Cases, performance improvement initiative implementation expense, restructuring-related costs, stockholder activism costs, certain litigation-related costs, consisting of fees for certain non-ordinary course litigation and other proceedings, impairment charges, debt modification expense and losses on debt extinguishment, and stock-based compensation expense. Some or all of these items may not be applicable in any given reporting period.

*** The Company defines segment profitability margin as segment profitability as a percentage of the respective segment's revenue.

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

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
	(in thousands)			
Net loss	$ (452,440)	$ (173,654)	$ (507,089)	$ (227,716)
Adjustments:				
Stock-based compensation expense	4,511	10,983	9,835	25,546
Other expense (income), net	1,428	(227)	9,832	(834)
Net interest expense	19,012	17,545	37,702	35,137
Income tax (benefit) expense	(40)	210	193	323
Depreciation and amortization expense	24,886	27,328	49,572	57,348
Impairment charges	396,149	134,117	396,149	134,117
Debt modification expense and loss on debt extinguishment	—	—	—	16,735
Restructuring charges	8,406	3,622	13,133	8,497
Other*	17,483	1,868	27,363	2,830
Total adjustments	471,835	195,446	543,779	279,699
Total segment profitability	$ 19,395	$ 21,792	$ 36,690	$ 51,983

* Includes (i) transaction and integration costs of $0.0 million and $0.1 million for the three months ended June 30, 2024 and 2023, respectively, and $0.3 million and $0.2 million for the six months ended June 30, 2024 and 2023, respectively, (ii) litigation-related costs of $1.6 million and $1.8 million for the three months ended June 30, 2024 and 2023, respectively, and $4.2 million and $2.6 million for the six months ended June 30, 2024 and 2023, respectively, and (iii) professional fees associated with the Chapter 11 Cases and performance improvement initiative implementation expense of $15.9 million and $0.0 million for the three months ended June 30, 2024 and 2023, respectively, and $22.9 million and $0.0 million for the six months ended June 30, 2024 and 2023, respectively.

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

	June 30, 2024	December 31, 2023
	(in thousands)	
Total assets		
Degree Program Segment	$ 283,664	$ 377,395
Alternative Credential Segment	640,650	1,082,288
Total assets	$ 924,314	$ 1,459,683

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 $25.1 million and $28.8 million for the three months ended June 30, 2024 and 2023, respectively, and $53.5 million and $59.5 million for the six months ended June 30, 2024 and 2023, 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 June 30, 2024 and December 31, 2023 totaled approximately $3.1 million and $3.5 million, respectively.

13. Receivables and Contract Liabilities

Trade Accounts Receivable

The Company's trade accounts receivable balances relate to amounts due from students or customers occurring in the normal course of business. Trade accounts receivable balances have a term of less than one year and are included in accounts receivable, net on the Company's condensed consolidated balance sheets. The following table presents the Company's trade accounts receivable in each segment as of each of the dates indicated.

	June 30, 2024	December 31, 2023
	(in thousands)	
Degree Program Segment accounts receivable	$ 16,912	$ 3,207
Degree Program Segment unbilled revenue	26,372	72,525
Alternative Credential Segment accounts receivable	34,092	47,455
Total	77,376	123,187
Less: Provision for credit losses	(6,038)	(7,243)
Trade accounts receivable, net	$ 71,338	$ 115,944

The Company regularly reviews its portfolio of offerings for alignment with its business objectives, including cost to operate, expected enrollments, and other factors, and from time to time, the Company has entered into, and may in the future enter into, agreements to strategically exit certain programs. As of June 30, 2024 and December 31, 2023, the Company had balances of $9.9 million and $68.2 million, respectively, of unbilled revenue associated with portfolio management activities within accounts receivable, net on the condensed consolidated balance sheets. In addition, as of June 30, 2024 and December 31, 2023, the Company had balances of $0.5 million and $16.9 million, respectively, of non-current accounts receivable associated with portfolio management activities within other assets, non-current on the condensed consolidated balance sheets. These non-current accounts receivable are typically due within 12 to 24 months.

In January 2024, the Company entered into a receivables factoring transaction whereby a counterparty committed to purchase certain receivables owing to the company related to portfolio management activities at a purchase rate of 88% (the "Factoring Agreement"). Under the Factoring Agreement, the Company could sell eligible receivables without recourse in exchange for cash. In accordance with ASC 860 *Transfers and Servicing of Financial Assets*, the sold receivables were derecognized from the Company's balance sheet. The fair value of the sold receivables approximated their book value due to their short-term nature. Proceeds from the sale of receivables are reflected as cash flows from operating activities on the condensed consolidated statement of cash flows.

In the first quarter of 2024, the Company sold, without recourse, $82.1 million of receivables under the Factoring Agreement, with net proceeds of $74.0 million. The loss on the sale of these receivables of $8.1 million is included within other income (expense), net on the Company's condensed consolidated statements of operations.

The following table presents the change in provision for credit losses for trade accounts receivable on the Company's condensed consolidated balance sheets for the period indicated.

	Provision for Credit Losses
	(in thousands)
Balance as of December 31, 2023	$ 7,243
Current period provision	1,450
Amounts written off	(2,651)
Foreign currency translation adjustments	(4)
Balance as of June 30, 2024	$ 6,038

Other Receivables

The Company’s other receivables are comprised of amounts due under tuition payment plans with extended payment terms from students enrolled in certain of the Company’s alternative credential offerings. These payment plans, which are managed and serviced by third-party providers, are designed to assist students with paying tuition costs after all other student financial assistance and scholarships have been applied. The associated receivables generally have payment terms that range from 12 to 42 months and are recorded net of any implied pricing concessions, which are determined based on collections history, market data and any time value of money component. There are no fees or origination costs included in these receivables. The carrying value of these receivable balances approximate their fair value. The following table presents the components of the Company’s other receivables, net, as of each of the dates indicated.

	June 30, 2024	December 31, 2023
	(in thousands)	
Other receivables, amortized cost	$ 48,642	$ 49,358
Less: Provision for credit losses	(9,476)	(8,558)
Other receivables, net	$ 39,166	$ 40,800
Other receivables, net, current	$ 23,819	$ 28,293
Other receivables, net, non-current	$ 15,347	$ 12,507

The following table presents the change in provision for credit losses for other receivables on the Company’s condensed consolidated balance sheets for the period indicated.

	Provision for Credit Losses
	(in thousands)
Balance as of December 31, 2023	$ 8,558
Current period provision	918
Balance as of June 30, 2024	$ 9,476

The Company considers receivables to be past due when amounts contractually due under the extended payment plans have not been paid. As of June 30, 2024, 68% of other receivables, net due under extended payment plans were current.

At the time of origination, the Company categorizes its other receivables using a credit quality indicator based on the credit tier rankings obtained from the third-party providers that manage and service the payment plans. The third-party providers utilize credit rating agency data to determine the credit tier rankings. The Company monitors the collectability of its other receivables on an ongoing basis. The adequacy of the allowance for credit losses is determined through analysis of multiple factors, including industry trends, portfolio performance, and delinquency rates. The following tables present other receivables, at amortized cost including interest accretion, by credit quality indicator and year of origination, as of the dates indicated.

	June 30, 2024					
	Year of Origination					
	2024	2023	2022	2021	2020 & Prior	Total
	(in thousands)					
Credit Quality Tier						
High	$ 5,216	$ 5,966	$ 1,147	$ 366	$ 1,023	$ 13,718
Mid	6,392	7,237	2,853	1,609	2,538	20,629
Low	4,327	4,224	2,037	1,574	2,133	14,295
Total	$ 15,935	$ 17,427	$ 6,037	$ 3,549	$ 5,694	$ 48,642

	December 31, 2023					
	Year of Origination					
	2023	2022	2021	2020	2019 & Prior	Total
	(in thousands)					
Credit Quality Tier						
High	$ 12,744	$ 1,229	$ 404	$ 311	$ 205	$ 14,893
Mid	13,178	3,067	2,614	735	674	20,268
Low	7,658	2,464	2,684	734	657	14,197
Total	$ 33,580	$ 6,760	$ 5,702	$ 1,780	$ 1,536	$ 49,358

Contract Liabilities

The Company's deferred revenue represents contract liabilities. The Company generally receives payments from Degree Program Segment university clients early in each academic term and from Alternative Credential Segment students, either in full upon registration for the course or in full before the end of the course based on a payment plan, prior to completion of the service period. These payments are recorded as deferred revenue until the services are delivered or until the Company's obligations are otherwise met, at which time revenue is recognized. The following table presents the Company's contract liabilities in each segment as of each of the dates indicated.

	June 30, 2024	December 31, 2023
	(in thousands)	
Degree Program Segment deferred revenue	$ 14,482	$ 1,735
Alternative Credential Segment deferred revenue	69,299	80,214
Total contract liabilities	$ 83,781	$ 81,949

For the Degree Program Segment, during each of the three months ended June 30, 2024 and 2023 revenue related to deferred revenue balances that existed at the end of each preceding year was insignificant. During the six months ended June 30, 2024 and 2023 the Company recognized $1.7 million and $1.2 million, respectively, of revenue related to deferred revenue balances that existed at the end of each preceding year.

For the Alternative Credential Segment, during the three months ended June 30, 2024 and 2023 the Company recognized $4.6 million and $16.1 million, respectively, of revenue related to deferred revenue balances that existed at the end of each preceding year. During the six months ended June 30, 2024 and 2023 the Company recognized $59.5 million and $71.0 million, respectively, of revenue related to deferred revenue balances that existed at the end of each preceding year.

Contract Acquisition Costs

The Degree Program Segment had $1.0 million and $1.0 million of net capitalized contract acquisition costs recorded primarily within other assets, non-current on the condensed consolidated balance sheets as of June 30, 2024 and December 31, 2023, respectively. For each of the six months ended June 30, 2024 and 2023, the Company capitalized an immaterial amount of contract acquisition costs and recorded an immaterial amount of associated amortization expense in the Degree Program Segment.

14. Supplemental Cash Flow Information

The Company's cash interest payments, net of amounts capitalized, were $32.5 million and $28.4 million for the six months ended June 30, 2024 and 2023, respectively. The Company's accrued but unpaid capital expenditures were $1.1 million and $2.4 million for the six months ended June 30, 2024 and 2023, respectively.

15. Subsequent Events

Chapter 11 Filing

On the Petition Date, the Company commenced the Chapter 11 Cases in the Bankruptcy Court in accordance with the terms of the RSA. The Company has requested that the Chapter 11 Cases be jointly administered under the caption "In re: 2U, Inc., et al. Case No. 24-11279 (MEW) (Bankr. S.D.N.Y.)."

The Debtors will continue to manage their business and properties as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. On the Petition Date, the Debtors filed certain motions with the Bankruptcy Court generally designed to facilitate the Debtor's transition into Chapter 11. These motions sought authority from the Bankruptcy Court for the Debtors to obtain debtor-in-possession financing and make payments upon, or otherwise honor, certain obligations that arose prior to the Petition Date, including obligations related to employee wages, salaries and benefits, taxes, and certain vendors and other providers of goods and services that were, and in some cases continue to be, essential to the Debtors' businesses. On July 26, 2024, the Bankruptcy Court approved the relief sought in these motions on an interim basis.

Debtor-in-Possession Facility

On July 29, 2024, the Company entered into that certain Debtor-In-Possession Credit and Guaranty Agreement, by and among the Company, the Consenting Noteholders party thereto (in such capacity, the "DIP Lenders"), and Wilmington Savings Fund Society, FSB, as administrative agent and collateral agent (the "DIP Credit Agreement"). Pursuant to the DIP Credit Agreement, the DIP Lenders will provide a secured, multi-draw, junior lien debtor-in-possession financing facility in an aggregate principal amount of up to $64 million (the "DIP Facility"), with an initial draw of $60 million that occurred following entry of the interim order related to the DIP Facility and a subsequent draw not to exceed $4 million permitted following entry of the final order related to the DIP Facility (in the case of the second draw, subject to the consent of the Required Lenders (as defined in the DIP Credit Agreement)) and the satisfaction of certain other draw conditions as set forth in the DIP Credit Agreement.

Borrowings under the DIP Facility are secured obligations of the Company, secured by a junior lien on the collateral securing borrowings under the Second Amended Credit Agreement, and a first priority lien on the DIP Account (as defined in the DIP Credit Agreement) and the proceeds therein. The DIP Credit Agreement contains conditions precedent, representations and warranties, affirmative and negative covenants, events of default, and other provisions customary for financings of this type and size. During the continuance of an event of default, all overdue amounts of principal and interest under the DIP Facility will bear interest at the applicable rate, plus an additional 2.00% per annum.

The DIP Facility matures on the earlier of (i) January 24, 2025 and (ii) acceleration as a result of an event of default under the DIP Credit Agreement that has occurred and is continuing.

The loans under the DIP Facility will accrue interest at a rate of either, at the Company's election, a base rate (subject to a floor of 1.75%) plus 7.50% per annum or Term SOFR (subject to a floor of 0.75%) plus 8.50% per annum, in each case, payable in kind.

Effect of Chapter 11 Cases & Automatic Stay on Pre-Petition Debt Obligations

The filing of the Chapter 11 Cases constituted an event of default under the Debt Instruments that accelerated the obligations thereunder. The amount outstanding under each Debt Instrument as of the Petition Date is as follows: approximately $380.0 million of borrowings (plus any accrued but unpaid interest in respect thereof) under the 2025 Notes Indenture; approximately $147.0 million of borrowings (plus any accrued but unpaid interest in respect thereof) under the 2030 Notes Indenture; and approximately $414.3 million of borrowings (plus any accrued but unpaid interest in respect thereof) under the Second Amended Credit Agreement. The Debt Documents provide that, as a result of the Chapter 11 Cases, the principal and interest due thereunder shall be immediately due and payable. Any efforts to enforce such payment obligations under the Debt Instruments are automatically stayed as a result of the Chapter 11 Cases and the holders' rights of enforcement in respect of the Debt Instruments are subject to the applicable provisions of the Bankruptcy Code. In addition, if the Plan is approved by the Bankruptcy Court, obligations under the Indentures will be extinguished, and any defaults or events of default outstanding under the Second Amended Credit Agreement will cease to exist in connection with the Company entering into the Amended and Restated Credit Agreement.

Delisting of Common Stock from Nasdaq

On July 29, 2024, the Company received a letter from Nasdaq indicating that as a result of the Debtors filing the Chapter 11 Cases on the Petition Date, and in accordance with Nasdaq Listing Rules 5101, 5110(b), and IM-5101-1, Nasdaq determined that the Company's securities will be delisted from The Nasdaq Global Select Market. Trading of the Company's common stock was suspended at the opening of business on August 7, 2024, and a Form 25-NSE will be filed with the SEC, which will remove the Company's common stock from listing and registration on Nasdaq. The Company does not intend to appeal Nasdaq's decision.

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, 2023. 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, 2023, 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, 2023, which are included in our Annual Report on Form 10-K, filed with the SEC on March 6, 2024.

Overview

We are a leading online education platform company. Our mission is to expand access to high-quality education and unlock human potential. As a trusted partner to top-ranked nonprofit universities and other leading organizations, we deliver technology and services that enable our clients to bring their educational offerings online at scale. We provide 89 million people worldwide with access to world-class education in partnership with 260 top-ranked global universities and other leading organizations. Through edX, our education consumer marketplace, we offer more than 4,700 high-quality online learning opportunities, including open courses, executive education offerings, boot camps, professional certificates as well as undergraduate and graduate degree programs.

Our offerings cover a wide range of topics including artificial intelligence, business, healthcare, education, and social work, and provide learners with an affordable pathway to achieve both short-term and long-term professional and educational goals. Our platform provides our clients with the digital infrastructure to launch world-class online education offerings and allows students to easily access high-quality, job-relevant education without the barriers of cost or location.

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

In our Degree Program Segment, we provide 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 open courses, executive education programs, technical, and skills-based boot camps through relationships with nonprofit colleges and universities and other leading organizations. Students enrolled in these offerings are generally seeking to reskill or upskill for career advancement or personal development through shorter duration, lower-priced offerings. In addition to selling these offerings directly to individuals, we also sell to organizations and institutions, including employers, non-profits, governments and governmental entities to enable upskilling and reskilling of their workforces.

Chapter 11 Filing

On July 25, 2024, the Debtors commenced the Chapter 11 Cases under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York providing for a court-administered reorganization pursuant to the Plan all in accordance with the terms of the RSA. As set forth in the Restructuring Term Sheet, the parties to the RSA have agreed to the principal terms of a proposed financial restructuring of the Debtors. The Debtors have requested that the Chapter 11 Cases be jointly administered under the caption "In re: 2U, Inc., et al. Case No. 24-11279 (MEW) (Bankr. S.D.N.Y.)."

The Debtors will continue to manage its business and properties as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. On the Petition Date, the Debtors filed certain motions with the Bankruptcy Court generally designed to facilitate the Debtors' transition into Chapter 11. These motions sought authority from the Bankruptcy Court for the Debtors to obtain debtor-in-possession financing and make payments upon, or otherwise honor, certain obligations that arose prior to the Petition Date, including obligations related to employee wages, salaries and benefits, taxes, and certain vendors and other providers of goods and services that were, and in some cases continue to be, essential to the Debtors' businesses. On July 26, 2024, the Bankruptcy Court approved the relief sought in these motions on an interim basis. See "Cautionary Statement" at the beginning of this Quarterly Report on Form 10-Q.

Reverse Stock Split

On May 20, 2024, our stockholders voted to approve amendments to our Certificate of Incorporation, to effect a reverse stock split of all of the outstanding shares of our common stock, par value $0.001 per share, at a ratio ranging from any whole number between 1-for-10 and 1-for-40, with the exact ratio within such range to be determined by our Board in its discretion, subject to the Board's authority to abandon such amendments.

On June 5, 2024, the Board approved the amendment to the Certificate of Incorporation effecting the Reverse Stock Split at a ratio of 1-for-30 and abandoned all other amendments to the Certificate of Incorporation previously approved by the Board and our stockholders. On June 13, 2024, we filed a Certificate of Amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware to effect the Reverse Stock Split. The Reverse Stock Split became effective on June 13, 2024 and trading on the Nasdaq Global Select Market on a post-split basis began on June 14, 2024. Following the Reverse Stock Split, the number of authorized shares of our common stock remained at 200,000,000. The Reverse Stock Split reduced the total number of issued and outstanding shares of common stock from 82,260,619 to 2,741,980 as of December 31, 2023. The par value of our common stock remained at $0.001.

Accordingly, all share and per share amounts for all periods presented in the accompanying condensed consolidated financial statements and notes thereto have been retroactively adjusted, where applicable, to reflect the Reverse Stock Split. Shares of common stock underlying stock options, restricted stock units, and performance restricted stock units were proportionately decreased and the respective per share value and exercise prices, if applicable, were proportionately adjusted.

Delisting of Common Stock from Nasdaq

On July 29, 2024, the Company received a letter from Nasdaq indicating that as a result of the Debtors filing the Chapter 11 Cases on the Petition Date, and in accordance with Nasdaq Listing Rules 5101, 5110(b), and IM-5101-1, Nasdaq determined that the Company's securities will be delisted from The Nasdaq Global Select Market. Trading of the Company's common stock was suspended at the opening of business on August 7, 2024, and a Form 25-NSE will be filed with the U.S. Securities and Exchange Commission, which will remove the Company's common stock from listing and registration on Nasdaq. The Company does not intend to appeal Nasdaq's decision. Effective August 7, 2024, the Company's common stock began being quoted on the OTC Pink Market operated by OTC Markets Group Company under the symbol "TWOUQ."

Our Business Model and Components of Operating Results

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

Revenue Drivers

In our Degree Program Segment, we derive substantially all of our revenue from revenue-share arrangements with our university clients under which we receive a contractually specified percentage of the amounts students pay them to enroll in degree programs. Our contracts to provide our entire bundle of services generally have 10 to 15 year terms and do not include termination rights for convenience. Our contracts to provide services under our flexible degree model generally have terms of five years or more and do not include termination rights for convenience. From time to time, we enter into agreements to strategically exit certain programs. These portfolio management agreements may provide for compensation related to the transfer of these programs and make-whole fees. In our Alternative Credential Segment, we derive substantially all of our revenue from tuition and fees from students taking our executive education programs, boot camps, and premium online open courses. Revenue in each segment is primarily driven by the number of student enrollments in our offerings.

Operating Expense

Marketing and Sales

Our most significant expense relates to marketing and sales activities to attract students to our offerings across both of our segments. This includes the cost of search engine optimization, search engine marketing and social media optimization, as well as personnel and personnel-related expense for our marketing and recruiting teams.

In our Degree Program Segment, our marketing and sales expense in any period generates student enrollments seven to twelve 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.

In our Alternative Credential Segment, our marketing and sales expense in any period generates student enrollments as much as 24 weeks later. 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 executive education 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 executive education 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 expenses 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 expenses. 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 certain professional fees and other corporate expenses.

Restructuring charges

Restructuring charges consist of severance and severance-related costs, costs associated with the exit of facilities, and costs associated with professional services.

Impairment charges

Impairment charges consist 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.

Debt modification expense and loss on debt extinguishment

Debt modification expense and loss on debt extinguishment consists of amounts recorded related to the refinancing of certain of our debt obligations.

Other Income (Expense), Net

Other income (expense), net consists primarily of foreign currency gains and losses, gains and losses related to the sale of receivables and other non-operating income and expense.

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 June 30, 2024 and 2023

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

	Three Months Ended June 30,					
	2024		2023		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue	$ 180,683	100.0 %	$ 222,089	100.0 %	$ (41,406)	(18.6)%
Costs and expenses						
Curriculum and teaching	29,634	16.4	34,102	15.4	(4,468)	(13.1)
Servicing and support	22,719	12.6	33,585	15.1	(10,866)	(32.4)
Technology and content development	32,062	17.7	44,250	19.9	(12,188)	(27.5)
Marketing and sales	81,768	45.3	95,882	43.2	(14,114)	(14.7)
General and administrative	41,985	23.2	32,657	14.7	9,328	28.6
Restructuring charges	8,406	4.7	3,622	1.6	4,784	132.1
Impairment charges	396,149	219.3	134,117	60.4	262,032	195.4
Total costs and expenses	612,723	339.2	378,215	170.3	234,508	62.0
Loss from operations	(432,040)	(239.2)	(156,126)	(70.3)	(275,914)	176.7
Interest income	364	0.2	371	0.2	(7)	(1.9)
Interest expense	(19,376)	(10.7)	(17,916)	(8.1)	(1,460)	8.1
Other income (expense), net	(1,428)	(0.8)	227	0.1	(1,655)	*
Loss before income taxes	(452,480)	(250.5)	(173,444)	(78.1)	(279,036)	160.9
Income tax benefit (expense)	40	0.0	(210)	(0.1)	250	(119.0)
Net loss	$ (452,440)	(250.5)%	$ (173,654)	(78.2)%	$ (278,786)	160.5 %

* Not meaningful for comparative purposes.

Revenue. Revenue for the three months ended June 30, 2024 decreased $41.4 million, or 18.6%, to $180.7 million as compared to $222.1 million in 2023.

Revenue from our Degree Program Segment decreased $17.5 million, or 14.7%. This decrease was due to certain programs operating in 2023 that are no longer operating in 2024 due to portfolio management activities and a greater number of students graduating from our programs, who enrolled during the pandemic, than the number of student enrollments in these programs in the period. Full course equivalent (“FCE”) enrollments decreased by 10,878 or 21.5%.

Revenue from our Alternative Credential Segment decreased $23.9 million, or 23.3%. This decrease was primarily due to a $25.6 million decrease in revenue from our boot camp offerings driven by a 40% decrease in FCE enrollments, particularly in coding boot camps. This decrease was partially offset by a $3.4 million increase in revenue from the company’s executive education offerings.

Curriculum and Teaching. Curriculum and teaching expense decreased $4.5 million, or 13.1%, to $29.6 million as compared to $34.1 million in 2023. This decrease was primarily due to a $3.2 million decrease in amounts due to university clients driven by lower revenue in certain offerings in our Alternative Credential Segment and a $1.4 million decrease in personnel and personnel-related expense.

Servicing and Support. Servicing and support expense decreased $10.9 million, or 32.4%, to $22.7 million as compared to $33.6 million in 2023. This decrease was primarily due to an $8.8 million decrease in personnel and personnel-related expense and a $1.6 million decrease in other student support costs.

Technology and Content Development. Technology and content development expense decreased $12.2 million, or 27.5%, to $32.1 million as compared to $44.3 million in 2023. This decrease was primarily due to an $8.6 million decrease in personnel and personnel-related expense and a $3.5 million decrease in depreciation and amortization expense.

Marketing and Sales. Marketing and sales expense decreased $14.1 million, or 14.7%, to $81.8 million as compared to $95.9 million in 2023. This decrease was primarily due to an $8.6 million decrease in marketing expense and a $6.3 million decrease in personnel and personnel-related expense.

General and Administrative. General and administrative expense increased $9.3 million, or 28.6%, to $42.0 million as compared to $32.7 million in 2023. This increase was primarily due to a $15.9 million increase in professional fees associated with the Chapter 11 Cases and other costs to implement the company’s comprehensive performance improvement initiative. This increase was partially offset by a $2.6 million decrease in personnel and personnel-related expense and a $2.1 million decrease in provision for credit losses.

Restructuring Charges. Restructuring charges increased $4.8 million, or 132.1%, to $8.4 million as compared to $3.6 million in 2023. This increase was primarily due to a $4.0 million increase in severance and severance-related expense and a $1.2 million increase in lease and lease-related charges.

Impairment Charges. In the second quarter of 2024, we recorded impairment charges of $339.9 million and $56.2 million to goodwill and intangible and other long-lived assets, respectively. Of the $56.2 million, $32.2 million related to university client relationships, $10.3 million related to capitalized technology, $5.2 million related to right-of-use assets, $4.4 million related to trade names and domain names, $2.4 million related to capitalized content development, and $1.7 million related to fixed assets. In the second quarter of 2023, we recorded impairment charges of $16.7 million and $117.4 million to goodwill and the indefinite-lived intangible asset, respectively.

Net Interest Income (Expense). Net interest expense increased $1.5 million, or 8.4%, to $19.0 million as compared to $17.5 million in 2023. This increase was primarily due a $1.0 million increase in interest expense incurred under our Second Amended Credit Agreement.

Other Income (Expense), Net. Other expense, net was $1.4 million for the three months ended June 30, 2024, as compared to other income, net of $0.2 million for the three months ended June 30, 2023. 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 June 30, 2024, our income tax benefit was insignificant and our effective tax rate was less than 1%. For the three months ended June 30, 2023, we recognized an income tax expense of $0.2 million, and our effective tax rate was less than 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 Six Months Ended June 30, 2024 and 2023

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

	Six Months Ended June 30,				Period-to-Period Change	
	2024		2023			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue	$ 379,060	100.0 %	$ 460,593	100.0 %	$ (81,533)	(17.7)%
Costs and expenses						
Curriculum and teaching	60,686	16.0	66,942	14.5	(6,256)	(9.3)
Servicing and support	48,230	12.7	69,694	15.1	(21,464)	(30.8)
Technology and content development	67,057	17.7	89,734	19.5	(22,677)	(25.3)
Marketing and sales	171,480	45.2	196,057	42.6	(24,577)	(12.5)
General and administrative	81,687	21.5	71,907	15.6	9,780	13.6
Restructuring charges	13,133	3.5	8,497	1.8	4,636	54.6
Impairment charges	396,149	104.5	134,117	29.1	262,032	195.4
Total costs and expenses	838,422	221.1	636,948	138.2	201,474	31.6
Loss from operations	(459,362)	(121.1)	(176,355)	(38.2)	(283,007)	160.5
Interest income	941	0.2	736	0.2	205	27.9
Interest expense	(38,643)	(10.2)	(35,873)	(7.8)	(2,770)	7.7
Debt modification expense and loss on debt extinguishment	—	—	(16,735)	(3.6)	16,735	(100.0)
Other income (expense), net	(9,832)	(2.6)	834	0.2	(10,666)	*
Loss before income taxes	(506,896)	(133.7)	(227,393)	(49.2)	(279,503)	122.9
Income tax expense	(193)	(0.1)	(323)	(0.1)	130	(40.2)
Net loss	$ (507,089)	(133.8)%	$ (227,716)	(49.3)%	$ (279,373)	122.7 %

* Not meaningful for comparative purposes.

Revenue. Revenue for the six months ended June 30, 2024 decreased $81.5 million, or 17.7%, to $379.1 million as compared to $460.6 million in 2023.

Revenue from our Degree Program Segment decreased $46.5 million, or 17.9%. This decrease was due to certain programs operating in 2023 that are no longer operating in 2024 due to portfolio management activities and a greater number of students graduating from our programs, who enrolled during the pandemic, than the number of student enrollments in these programs in the period. Full course equivalent ("FCE") enrollments decreased by 21,676 or 20.5%.

Revenue from our Alternative Credential Segment decreased $35.1 million, or 17.5%. This decrease was primarily due to a $47.5 million decrease in revenue from our boot camp offerings driven by a 35% decrease in FCE enrollments, particularly in coding boot camps. This decrease was partially offset by an $14.4 million increase in revenue from the company's executive education offerings driven by a 14% increase in FCE enrollments.

Curriculum and Teaching. Curriculum and teaching expense decreased $6.3 million, or 9.3%, to $60.7 million as compared to $66.9 million in 2023. This decrease was primarily due to a $4.6 million decrease in amounts due to university clients from lower revenue in certain offerings in our Alternative Credential Segment and a $1.8 million decrease in personnel and personnel-related expense.

Servicing and Support. Servicing and support expense decreased $21.5 million, or 30.8%, to $48.2 million as compared to $69.7 million in 2023. This decrease was primarily due to an $18.7 million decrease in personnel and personnel-related expense and a $2.0 million decrease in other student support costs.

Technology and Content Development. Technology and content development expense decreased $22.7 million, or 25.3%, to $67.1 million as compared to $89.7 million in 2023. This decrease was primarily due to a $15.1 million decrease in personnel and personnel-related expense and a $9.8 million decrease in depreciation and amortization expense. These decreases were partially offset by a $1.2 million increase in expenses to support our platform and software applications.

Marketing and Sales. Marketing and sales expense decreased $24.6 million,or 12.5%, to $171.5 million as compared to $196.1 million in 2023. This decrease was primarily due to a $14.7 million decrease in marketing expense and a $9.3 million decrease in personnel and personnel-related expense.

General and Administrative. General and administrative expense increased $9.8 million, or 13.6%, to $81.7 million as compared to $71.9 million in 2023. This increase was primarily due to a $22.9 million increase in professional fees associated with the Chapter 11 Cases and other costs to implement the company's comprehensive performance improvement initiative, a $1.6 million increase in certain litigation-related expense, and a $1.1 million increase in depreciation and amortization expense. These increases were partially offset by a $12.4 million decrease in personnel and personnel-related expense and a $1.9 million decrease in provision for credit losses.

Restructuring Charges. Restructuring charges increased $4.6 million, or 54.6%, to $13.1 million as compared to $8.5 million in 2023. This increase was primarily due to a $4.2 million increase in severance and severance-related expense and a $1.1 million increase in lease and lease-related charges.

Impairment Charges. In the second quarter of 2024, we recorded impairment charges of $339.9 million and $56.2 million to goodwill and intangible and other long-lived assets, respectively. Of the $56.2 million, $32.2 million related to university client relationships, $10.3 million related to capitalized technology, $5.2 million related to right-of-use assets, $4.4 million related to trade names and domain names, $2.4 million related to capitalized content development, and $1.7 million related to fixed assets. In the second quarter of 2023, we recorded impairment charges of $16.7 million and $117.4 million to goodwill and the indefinite-lived intangible asset, respectively.

Net Interest Income (Expense). Net interest expense increased $2.6 million, or 7.3%, to $37.7 million as compared to $35.1 million in 2023. This increase was primarily due a $1.9 million increase in interest expense incurred under our Second Amended Credit Agreement.

Debt modification expense and loss on debt extinguishment. During the six months ended June 30, 2023, we recorded $12.1 million in loss on debt extinguishment and $4.6 million in debt modification expense related to the refinancing of the Second Amended Credit Agreement.

Other Income (Expense), Net. Other expense, net was $9.8 million for the six months ended June 30, 2024, as compared to other income, net of $0.8 million for the six months ended June 30, 2023. This change was primarily due to an $8.1 million loss on the sale of receivables under the Factoring Agreement during the first quarter of 2024 and fluctuations in foreign currency rates impacting our operations in the Alternative Credential Segment.

Income Tax Expense. For the six months ended June 30, 2024, we recognized income tax expense of $0.2 million, and our effective tax rate was less than 1%. For the six months ended June 30, 2023, we recognized income tax expense of $0.3 million, and our effective tax rate was less than 1%. 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), other income (expense), net, taxes, depreciation and amortization expense, transaction costs, integration costs, professional fees associated with the Chapter 11 Cases, performance improvement initiative implementation expense, restructuring-related costs, stockholder activism costs, certain litigation-related costs, consisting of fees for certain non-ordinary course litigation and other proceedings, impairment charges, debt modification expense and losses on debt extinguishment, and stock-based compensation expense. Some of these items may not be applicable in any given reporting period and they may vary from period to period. Total segment profitability is a non-GAAP measure when presented outside of the financial statement footnotes. Total segment profitability is a key measure used by our management and Board 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
Net loss	$ (452,440)	$ (173,654)	$ (507,089)	$ (227,716)
Adjustments:				
Stock-based compensation expense	4,511	10,983	9,835	25,546
Other expense (income), net	1,428	(227)	9,832	(834)
Net interest expense	19,012	17,545	37,702	35,137
Income tax (benefit) expense	(40)	210	193	323
Depreciation and amortization expense	24,886	27,328	49,572	57,348
Impairment charges	396,149	134,117	396,149	134,117
Debt modification expense and loss on debt extinguishment	—	—	—	16,735
Restructuring charges	8,406	3,622	13,133	8,497
Other*	17,483	1,868	27,363	2,830
Total adjustments	471,835	195,446	543,779	279,699
Total segment profitability	$ 19,395	$ 21,792	$ 36,690	$ 51,983

* Includes (i) transaction and integration costs of $0.0 million and $0.1 million for the three months ended June 30, 2024 and 2023, respectively, and $0.3 million and $0.2 million for the six months ended June 30, 2024 and 2023, respectively, (ii) litigation-related costs of $1.6 million and $1.8 million for the three months ended June 30, 2024 and 2023, respectively, and $4.2 million and $2.6 million for the six months ended June 30, 2024 and 2023, respectively, and (iii) professional fees associated with the Chapter 11 Cases and performance improvement initiative implementation expense of $15.9 million and $0.0 million for the three months ended June 30, 2024 and 2023, respectively, and $22.9 million and $0.0 million for the six months ended June 30, 2024 and 2023, respectively.

Three Months Ended June 30, 2024 and 2023

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

	Three Months Ended June 30,		Period-to-Period Change	
	2024	2023	Amount	Percentage
	(dollars in thousands)			
Revenue by segment*				
Degree Program Segment	$ 101,978	$ 119,494	$ (17,516)	(14.7)%
Alternative Credential Segment	78,705	102,595	(23,890)	(23.3)
Total revenue	$ 180,683	$ 222,089	$ (41,406)	(18.6)%
Segment profitability				
Degree Program Segment	$ 28,655	$ 33,111	$ (4,456)	(13.5)%
Alternative Credential Segment	(9,260)	(11,319)	2,059	18.2
Total segment profitability	$ 19,395	$ 21,792	$ (2,397)	(11.0)%

* Immaterial amounts of intersegment revenue have been excluded from the above results for the three months ended June 30, 2024 and 2023.

Degree Program Segment profitability decreased $4.5 million, or 13.5%, to $28.7 million as compared to $33.1 million in 2023. This decrease was primarily due to a $17.5 million decrease in revenue, partially offset by a $13.1 million decrease in operating expense driven by a decrease in personnel and personnel-related expense.

Alternative Credential Segment profitability increased $2.1 million, or 18.2%, to $(9.3) million as compared to $(11.3) million in 2023. This increase was primarily due a $25.9 million decrease in operating expense driven by a decrease in personnel and personnel-related costs and marketing expense, partially offset by a $23.9 million decrease in revenue.

Six Months Ended June 30, 2024 and 2023

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

	Six Months Ended June 30,		Period-to-Period Change	
	2024	2023	Amount	Percentage
	(dollars in thousands)			
Revenue by segment*				
Degree Program Segment	$ 213,524	$ 259,974	$ (46,450)	(17.9)%
Alternative Credential Segment	165,536	200,619	(35,083)	(17.5)
Total revenue	$ 379,060	$ 460,593	$ (81,533)	(17.7)%
Segment profitability				
Degree Program Segment	$ 60,640	$ 80,315	$ (19,675)	(24.5)%
Alternative Credential Segment	(23,950)	(28,332)	4,382	15.5
Total segment profitability	$ 36,690	$ 51,983	$ (15,293)	(29.4)%

* Immaterial amounts of intersegment revenue have been excluded from the above results for the six months ended June 30, 2024 and 2023.

Degree Program Segment profitability decreased $19.7 million, or 24.5%, to $60.6 million as compared to $80.3 million in 2023. This decrease was primarily due to a $46.5 million decrease in revenue, partially offset by a $26.8 million decrease in operating expense driven by a decrease in personnel and personnel-related expense and marketing expense.

Alternative Credential Segment profitability increased $4.4 million, or 15.5%, to $(24.0) million as compared to $(28.3) million in 2023. This increase was primarily due a $39.5 million decrease in operating expense driven by a decrease in personnel and personnel-related costs and marketing expense, partially offset by a $35.1 million decrease in revenue.

Liquidity and Capital Resources

On July 25, 2024, Debtors commenced the Chapter 11 Cases under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York providing for a court-administered reorganization pursuant to the Plan all in accordance with the terms of the RSA. As set forth in the Restructuring Term Sheet, the parties to the RSA have agreed to the principal terms of a proposed financial restructuring of the Debtors. The Debtors have requested that the Chapter 11 Cases be jointly administered under the caption "In re: 2U, Inc., et al. Case No. 24-11279 (MEW) (Bankr. S.D.N.Y.)."

The Debtors will continue to manage its business and properties as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. On the Petition Date, the Debtors filed certain motions with the Bankruptcy Court generally designed to facilitate the Debtors' transition into Chapter 11. These motions sought authority from the Bankruptcy Court for the Debtors to obtain debtor-in-possession financing and make payments upon, or otherwise honor, certain obligations that arose prior to the Petition Date, including obligations related to employee wages, salaries and benefits, taxes, and certain vendors and other providers of goods and services that were, and in some cases continue to be, essential to the Debtors' businesses. On July 26, 2024, the Bankruptcy Court approved the relief sought in these motions on an interim basis. The commencement of the Chapter 11 Cases constitutes an event of default or termination event under all debt agreements of the Company. See "Cautionary Statement" at the beginning of this Quarterly Report on Form 10-Q.

On July 29, 2024, the Debtors entered into the DIP Credit Agreement, by and among the Debtors, the DIP Lenders, and Wilmington Savings Fund Society, FSB, as administrative agent and collateral agent. Pursuant to the DIP Credit Agreement, the DIP Lenders will provide a secured, multi-draw, junior lien DIP Facility in an aggregate principal amount of up to $64 million, with an initial draw of $60 million that occurred following entry of the interim order related to the DIP Facility and a subsequent draw not to exceed $4 million permitted following entry of the final order related to the DIP Facility (in the case of the second draw, subject to the consent of the Required Lenders (as defined in the DIP Credit Agreement)) and the satisfaction of certain other draw conditions as set forth in the DIP Credit Agreement).

Borrowings under the DIP Facility are secured obligations of the Company, secured by a junior lien on the collateral securing borrowings under the Second Amended Credit Agreement, and a first priority lien on the DIP Account (as defined in the DIP Credit Agreement) and the proceeds therein. The DIP Credit Agreement contains conditions precedent, representations and warranties, affirmative and negative covenants, events of default, and other provisions customary for financings of this type and size. During the continuance of an event of default, all overdue amounts of principal and interest under the DIP Facility will bear interest at the applicable rate, plus an additional 2.00% per annum.

The DIP Facility matures on the earlier of (i) January 24, 2025 and (ii) acceleration as a result of an event of default under the DIP Credit Agreement that has occurred and is continuing. The loans under the DIP Facility will accrue interest at a rate of either, at the Debtor's election, a base rate (subject to a floor of 1.75%) plus 7.50% per annum or Term SOFR (subject to a floor of 0.75%) plus 8.50% per annum, in each case, payable in kind.

As of June 30, 2024, our principal sources of liquidity were cash and cash equivalents totaling $22.6 million, which were held for working capital and general corporate purposes. We have financed our operations primarily through payments from our clients and students for our technology and services, the borrowings under our Second Amended Credit Agreement, the 2025 Notes, the 2030 Notes, and public financings. In January 2024, we entered into a receivables factoring transaction with Morgan Stanley Senior Funding ("Morgan Stanley") whereby Morgan Stanley purchased certain receivables owing to the company related to portfolio management activities at a purchase rate of 88% (the "Factoring Agreement"). In the first quarter of 2024, the Company sold, without recourse, $82.1 million of receivables under the Factoring Agreement, with net proceeds of $74.0 million.

In April 2020, we issued the 2025 Notes in an aggregate principal amount of $380 million, including the exercise by the initial purchasers of an option to purchase additional 2025 Notes, in a private placement to qualified institutional buyers under Rule 144A of the Securities Act. The 2025 Notes are governed by the 2025 Indenture. The 2025 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 2025 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 2025 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 2025 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 2025 Notes and/or to offset any cash payments we are required to make in excess of the principal amount of the converted 2025 Notes, with such reduction and/or offset subject to the cap. On July 25, 2024, we were notified by the counterparties that, as a result of our bankruptcy filing, the counterparties had terminated the Capped Call Transactions. The net proceeds from the issuance of the 2025 Notes were $319.0 million after deducting the initial purchasers' discount, offering expenses and the cost of the Capped Call Transactions. The Capped Call Transactions were terminated pursuant to their terms by the counterparties as of July 25, 2024 in connection with the commencement of the Chapter 11 Cases. As of June 30, 2024, the conditions allowing holders of the 2025 Notes to convert had not been met and we have the right under the 2025 Indenture to determine the method of settlement at the time of conversion. As a result of the Chapter 11 Cases, the ability of holders of the 2025 Notes to convert such 2025 Notes was automatically stayed.

In June 2021, we entered into a Term Loan Credit and Guaranty Agreement, dated June 28, 2021 (the “Term Loan Agreement”), with Alter Domus (US) LLC as administrative agent and collateral agent, to make term loans to us in the aggregate principal amount of $475 million (the “2021 Term Loan Facilities”), which had an initial maturity date of December 28, 2024. Loans under this facility, which was amended in January 2023 as described below, bore interest at a per annum rate equal to a base rate or adjusted Eurodollar rate, as applicable, plus the applicable margin of 4.75% in the case of the base rate loans and 5.75% in the case of the Eurodollar loans. We used the proceeds of the 2021 Term Loan Facilities to fund a portion of the edX acquisition (the “edX Acquisition”) and to pay related costs, fees and expenses. On November 4, 2021, we entered into a First Amendment to Term Loan Credit and Guaranty Agreement and a Joinder Agreement, which amended the Term Loan Agreement (collectively, the “Amended Term Loan Facilities”) primarily to provide for an incremental facility to us in an original principal amount of $100 million. The proceeds of the Amended Term Loan Facilities may be used for general corporate purposes.

In January 2023, we entered into an Extension Amendment, Second Amendment and First Incremental Agreement to Credit and Guaranty Agreement, (the “Second Amended Credit Agreement”), which amended the Amended Term Loan Facilities. The provisions of the Second Amended Credit Agreement became effective upon the satisfaction of certain conditions set for therein, including, without limitation, the funding of the 2030 Notes referenced below and the prepayment of certain existing term loans to reduce the outstanding principal amount of term loans outstanding under the Amended Term Loan Facilities from $567 million to $380 million. Pursuant to the Second Amended Credit Agreement, the lenders thereunder agreed to, among other amendments, extend the maturity date of the term loans thereunder from December 28, 2024 to December 28, 2026 (or, if more than $40 million of our 2025 Notes remain outstanding on January 30, 2025, January 30, 2025) and to provide a senior secured first lien revolving loan facility in the principal amount of $40 million. The termination date for such revolving loans will be June 28, 2026 (or, if more than $50 million of the 2025 Notes remain outstanding on January 1, 2025, January 1, 2025). In addition, our Second Amended Credit Agreement includes a financial covenant that requires us to maintain at least $900 million of Recurring Revenue (as defined by the Second Amended Credit Agreement) as of the last day of any period of four consecutive fiscal quarters. The Recurring Revenue for the four consecutive quarters ending June 30, 2024 was less than $900 million and accordingly the Company was not in compliance with this covenant under the Second Amended Credit Agreement. Loans under the Second Amended Credit Agreement bear interest at a per annum rate equal to (i) with respect to term loans, a base rate or the Term SOFR rate, as applicable, plus a margin of 5.50% in the case of the base rate loans and 6.50% in the case of Term SOFR loans and (ii) with respect to revolving loans, a base rate or the Term SOFR rate, as applicable, plus a margin of 4.50% in the case of the base rate loans and 5.50% in the case of Term SOFR loans.

In January 2023, we consummated the issuance of the 2030 Notes in an aggregate principal amount of $147.0 million in a private placement to qualified institutional buyers under Rule 144A of the Securities Act. The 2030 Notes are governed by the 2030 Indenture. The 2030 Notes bear interest at a rate of 4.50% per annum, payable semi-annually in arrears on February 1 and August 1 of each year, beginning on August 1, 2023. The 2030 Notes mature on February 1, 2030, unless earlier redeemed or repurchased by us or converted. At any time from, and after January 11, 2023, the 2030 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. The net proceeds from the issuance of the 2030 Notes were $127.1 million. We used the proceeds from the offering of the 2030 Notes, along with cash on our balance sheet, to repay a portion of the amounts outstanding under the Amended Term Loan Facilities. We have the right under the 2030 Indenture to determine the method of settlement at the time of conversion. As a result of the Chapter 11 cases, the ability of holders of the 2030 Notes to convert such 2030 Notes was automatically stayed.

In light of the Chapter 11 Cases, substantial doubt exists about our ability to continue as a going concern within one year from the date that the condensed consolidated financial statements are issued. Our ability to continue as a going concern is contingent upon, among other things, our ability to, subject to approval by the Bankruptcy Court, implement the Transaction, successfully emerge from the Chapter 11 Cases and generate sufficient liquidity following the Transaction to meet our obligations and operating needs. The Transaction contemplated by the RSA, including the Restructuring Term Sheet, are subject to approval by the Bankruptcy Court, among other conditions. Accordingly, no assurance can be given that the transactions described therein will be consummated on the expected terms, if at all. If we are unable to complete the Transaction, we likely would not have sufficient cash on hand or available liquidity to meet our debt obligations as they become due.

On March 14, 2024, we received a written notification from the Listing Qualifications Department of Nasdaq that we had failed to comply with Nasdaq's minimum bid price requirement. In accordance with Nasdaq rules, we had 180 calendar days, or until September 10, 2024, to regain compliance with the minimum bid price requirement. As part of our efforts to regain compliance with Nasdaq's minimum bid price requirement, we effected a 1-for-30 reverse stock split on June 13, 2024 and our common stock began trading on a post-split adjusted basis on June 14, 2024.

On July 1, 2024, we received a written notification from Nasdaq that for the prior 10 consecutive business days, the closing bid price of our common stock had been at $1.00 per share or greater. Accordingly, we regained compliance with the minimum bid price requirement.

On July 29, 2024, we were notified by Nasdaq that it had determined to delist our common stock pursuant to Nasdaq Listing Rules 5101, 5110(b), and IM-5101-1 as a result of the commencement of the Chapter 11 Cases. We do not intend to appeal this determination. Trading of our common stock was suspended at the opening of business on August 7, 2024, and a Form 25-NSE will be filed with the SEC, which will remove our common stock from listing and registration on Nasdaq. Effective August 7, 2024, our common stock began being quoted on the OTC Pink Market operated by OTC Markets Group Company under the symbol "TWOUQ."

As discussed further in Note 15, on the Petition Date, the Debtors commenced the Chapter 11 Cases. The commencement of the Chapter 11 Cases constitutes an event of default or termination event under all debt agreements of the Company. Accordingly, the Company has classified all its outstanding debt as a current liability on its condensed consolidated balance sheets as of June 30, 2024. Pursuant to Section 362 of the Bankruptcy Code, the filing of the Chapter 11 Cases automatically stayed most actions against the Debtors, including actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Debtors' property. Subject to certain exceptions under the Bankruptcy Code, the filing of the Chapter 11 Cases also automatically stayed the filing of most legal proceedings and other actions against or on behalf of the Company Parties or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of the Debtors' bankruptcy estates, unless and until the Bankruptcy Court modifies or lifts the automatic stay as to any such claim. Refer to the risks described in Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q, for a discussion of the risks related to our indebtedness and capital structure. Given these factors, substantial doubt exists about our ability to continue as a going concern within one year from the date that the condensed consolidated financial statements are issued.

The implementation of the 2022 Strategic Realignment Plan has resulted in improved profitability and we expect this, in conjunction with the comprehensive performance improvement exercise initiated in the fourth quarter of 2023, will lead to further profitability improvements going forward. We believe these profitability improvements will be further aided by our long-term revenue contracts. Our ability to support our cash requirements in the long term will depend on many factors, including our ability to realize the anticipated benefits of the 2022 Strategic Realignment Plan and the comprehensive performance improvement exercise initiated in the fourth quarter of 2023 and our ability to, subject to approval by the Bankruptcy Court, implement the Transaction, successfully emerge from the Chapter 11 Cases and generate sufficient liquidity following the Transaction to meet our obligations and operating needs.

Our principal uses of cash include refinancing our debt, debt service requirements, and capital expenditures for content development, capitalized technology, and property and equipment. During the six months ended June 30, 2024 and 2023, our capital asset additions were $16.8 million and $27.5 million, respectively.

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 debt. Refer to the risks described in Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q, for a discussion of the risks related to our indebtedness and capital structure. Specifically, refer to the risk factors titled*, "We are subject to risks and uncertainties associated with proceedings under chapter 11 of the Bankruptcy Code," "The Chapter 11 Cases raise substantial doubt regarding our ability to continue as a going concern," "The Second Amended Credit Agreement contains financial covenants that may limit our operational flexibility,"* and, *"We may need additional capital in the future to pursue our business objectives. Additional capital may not be available on favorable terms, or at all, which could compromise our ability to grow our business.*"

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands).

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net cash (used in) provided by operating activities	$ (19,925)	$ 1,182
Net cash used in investing activities	(15,708)	(25,032)
Net cash used in financing activities	(1,950)	(91,911)
Effect of exchange rate changes on cash	(927)	(118)
Net decrease in cash, cash equivalents and restricted cash	$ (38,510)	$ (115,879)

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, adjusted for non-cash expense items such as depreciation and amortization expense and stock-based compensation expense. Our cash flows from operations can fluctuate from quarter to quarter due to changes in accounts receivable and deferred revenue driven by varying academic schedules and enrollment levels in our offerings. In addition to these fluctuations in working capital, cash flows from operations at the beginning of the year are impacted by greater marketing spend and the timing of certain payments. We also typically reduce our paid search and other marketing and sales efforts during late November and December because of less demand during the holiday season, contributing to improvements in working capital in the fourth quarter.

The following sections set forth the components of our $19.9 million of cash used in operating activities during the six months ended June 30, 2024.

Net income (loss) (adjusted for non-cash charges)

The following table sets forth our net loss (adjusted for non-cash charges) during the six months ended June 30, 2024 (in thousands):

Net loss	$ (507,089)
Non-cash interest expense	6,159
Depreciation and amortization expense	49,572
Stock-based compensation expense	9,835
Non-cash lease expense	8,313
Impairment charges	396,149
Provision for credit losses	2,368
Loss on sale of receivables	8,120
Other	1,713
Net loss (adjusted for non-cash charges)	$ (24,860)

Changes in operating assets and liabilities, net of assets and liabilities acquired

The following table sets forth the net cash provided by changes in operating assets and liabilities during the six months ended June 30, 2024 (in thousands):

Changes in operating assets and liabilities:	
Cash provided by accounts receivable, net and other receivables, net	$ 35,087
Cash provided by prepaid expenses, other assets, and other liabilities, net	6,521
Cash used in accounts payable and accrued expenses	(38,659)
Cash provided by deferred revenue	1,986
Net cash provided by changes in operating assets and liabilities	$ 4,935

From December 31, 2023 to June 30, 2024:

- Accounts receivable, net and other receivables, net decreased $35.1 million. The decrease in accounts receivable, net and other receivables, net was primarily due to the sale of certain receivables under the Factoring Agreement, partially offset by an increase of accounts receivable, net due to the timing of our Degree Program Segment clients' academic terms.
- Prepaid expenses, other assets, and other liabilities, net decreased $6.5 million. The decrease was primarily due to the sale of non-current accounts receivable under the Factoring Agreement.
- Accounts payable and accrued expenses decreased $38.7 million, primarily due to a change in the timing of certain vendor payments.
- Deferred revenue increased $2.0 million, primarily due to the timing of our clients' academic terms.

Investing Activities

Our investing activities primarily consist of capital expenditures to support the overall growth of our business, strategic acquisitions, and divestitures. We expect our investing cash flows to be affected by the timing of payments we make for capital expenditures and the strategic acquisition or other growth opportunities we decide to pursue.

During the six months ended June 30, 2024, net cash used in investing activities was $15.7 million. This use of cash was driven by cash outflows of $15.2 million for the addition of amortizable intangible assets and $0.5 million for purchases of property and equipment.

Financing Activities

Our financing activities primarily consist of long-term debt borrowings, the repayment of principal on long-term debt, tax withholding payments associated with the settlement of restricted stock units, and cash proceeds from the exercise of stock options.

During the six months ended June 30, 2024, net cash used in financing activities was $2.0 million. This use of cash was driven by net cash outflows of $2.5 million under the Second Amended Credit Agreement and the 2030 Notes and $0.1 million for tax withholding payments associated with the settlement of restricted stock units, partially offset by $0.7 million from cash proceeds received from employee stock purchase plan share purchases.

Critical Accounting Policies and Estimates

Revenue Recognition, Receivables and Provision for Credit Losses

We generate substantially all of our revenue from contractual arrangements, with either our university clients or students, to provide our technology and services.

Performance Obligations

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

Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. Our contracts with university clients in this segment 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. Our contracts to provide our entire bundle of services generally have 10 to 15 year terms and our contracts to provide services under our flexible degree model generally have terms of five years or more. 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 tuition charged and 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 executive education programs and boot camps. Our executive education programs run between two 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 and other services that the university agrees to provide. These amounts are recognized as curriculum and teaching expenses on our condensed consolidated statements of operations and comprehensive loss. Our contracts with university clients in this segment typically have a shorter duration than our contracts with university clients in our Degree Program Segment.

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

Payments to University Clients

Pursuant to certain of our contracts in the Degree Program Segment, we have made, or are obligated to make, payments to university clients at either the execution of a contract or at the extension of a contract in exchange for various marketing and other rights. Generally, these amounts are capitalized as other assets on our 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.

Receivables, Contract Assets and Liabilities

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

We recognize unbilled revenue when revenue recognition occurs in advance of billings. Unbilled revenue is recognized in our Degree Program Segment because billings to university clients do not occur until after the academic term has commenced and final enrollment information is available. Our unbilled revenue represents contract assets.

Other receivables, net are comprised of amounts due under tuition payment plans with extended payment terms from students enrolled in certain of our alternative credential offerings. These plans, which are managed and serviced by third-party providers, are designed to assist students with covering tuition costs after all other student financial assistance and scholarships have been applied. The associated receivables generally have payment terms that exceed one year and are recorded net of any implied pricing concessions, which are determined based on our collections history, market data and any time value of money component. There are no fees or origination costs included in these receivables.

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 Degree Program Segment university clients early in each academic term and from Alternative Credential Segment students, either in full upon registration for the course or in full before the end of the course based on a payment plan, prior to completion of the service period. These payments are recorded as deferred revenue until the services are delivered or until our obligations are otherwise met, at which time revenue is recognized.

Long-Lived Assets

Amortizable Intangible Assets

Acquired Definite-lived Intangible Assets. We capitalize purchased definite-lived intangible assets, such as software, websites and domains, trade names, 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 25 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 technology with 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 amounts are amortized using the straight-line method over the estimated useful life of the software, which is generally three to five years.

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

The content development costs that qualify for capitalization are third-party direct costs, such as videography, editing and other services associated with creating digital content. Additionally, we capitalize internal payroll and payroll-related expenses 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 begins. The capitalized costs for each offering are recorded on a course-by-course basis and included in amortizable intangible assets, net on our condensed consolidated balance sheets. These amounts 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, capitalized content development 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, the amounts 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 of the asset or asset group. Our impairment analysis is based upon cumulative results and forecasted performance. Determining whether a long-lived asset is impaired requires various estimates and assumptions, including whether a triggering event has occurred, the identification of asset groups, estimates of future cash flows, and discount rates and royalty rates used to determine fair values.

During the three and six months ended June 30, 2024, we recorded impairment charges of $56.2 million related to intangible and other long-lived assets within the Alternative Credential Segment, of which $32.2 million related to university client relationships, $10.3 million related to capitalized technology, $5.2 million related to right-of-use assets, $4.4 million related to trade names and domain names, $2.4 million related to capitalized content development, and $1.7 million related to fixed assets. During the three and six months ended June 30, 2023, we did not record impairment charges related to its long-lived assets.

For the impairment analysis performed during the second quarter of 2024, to estimate the recoverability of the asset group, we utilized future cash flow projections that were developed internally. These projections involve predicting unknown future circumstances and events and require significant management judgments and estimates. In arriving at our cash flow projections, we considered our historic operating results, approved budgets and business plans, expected growth rates, and other factors. To determine the fair value of the asset group, we utilized various valuation techniques, including income-based approaches. The income-based approaches largely relied on inputs that were not observable to active markets, which would be deemed “Level 3” fair value measurements.

Goodwill and Other Indefinite-lived Intangible Assets

We review goodwill and other indefinite-lived intangible assets for impairment annually, as of October 1, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of goodwill or an indefinite-lived asset below its carrying value.

Goodwill

We test our goodwill at the reporting unit level, which is an operating segment or one level below an operating segment. During the second quarter of 2023, we completed the update of our internal financial reporting structure to better align with the executive structure following the 2022 Strategic Realignment Plan. As a result of this update, our three reporting units within the Alternative Credential Segment (Executive Education, Boot Camp, and Open Courses) were combined into a single reporting unit (Alternative Credential). The Degree Program Segment continues to have one reporting unit (Degree Program). We performed impairment assessments before and after the change in reporting units. The results of these assessments are described further below.

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 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, discount rates, terminal growth rates, and forecasts of revenue and margins. 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. Changes in these estimates and assumptions could materially affect the determination of fair value and the goodwill impairment test result.

Other Indefinite-lived Intangible Assets

In November 2021, we acquired an indefinite-lived intangible asset, which represented the established edX trade name. We concluded that due to changes in facts and circumstances, effective July 1, 2023, the edX trade name should no longer have an indefinite useful life. We began amortizing the edX trade name on a straight-line basis over its estimated remaining useful life of 25 years. The impact of this change in accounting estimate was immaterial to our consolidated statements of operations for year ended December 31, 2023. We expect the impact to be immaterial in future periods. Refer to Note 3 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 the indefinite-lived intangible asset.

We determined the fair value of our indefinite-lived asset utilizing the income-based approach. The income-based approach requires us to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, discount rates, terminal growth rates, forecasts of revenue and margins, and royalty rates. When determining these assumptions and preparing these estimates, we consider 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, the continued efforts of competitors to gain market share and prospective student enrollment patterns.

Impairment Assessments

During the second quarter of 2023, we experienced a significant decline in our market capitalization, which management deemed to be a triggering event related to our goodwill and indefinite-lived intangible asset. In addition, as a result of the change in the our reporting units in the second quarter of 2023, we performed interim impairment assessments before and after the change in reporting units. We performed these interim impairment assessments as of May 1, 2023.

For the interim impairment assessment performed as of May 1, 2023, before the change in reporting units, we determined the carrying value of our Open Courses reporting unit and the carrying value of our indefinite-lived intangible asset, both within the Alternative Credential Segment, exceeded their respective estimated fair value. As a result, during the three months ended June 30, 2023, we recorded impairment charges of $16.7 million to goodwill and $117.4 million to the indefinite-lived intangible asset. These charges are included within operating expense on our condensed consolidated statements of operations. The estimated fair value of each of the remaining reporting units exceeded their respective carrying value by approximately 10% or more.

For the interim impairment assessment performed as of May 1, 2023, after the change in reporting units, management determined it was not more likely than not that the fair values of the Degree Program reporting unit and the Alternative Credential reporting unit were less than their respective carrying amounts. As such, we concluded that the goodwill relating to those reporting units was not impaired and further quantitative impairment assessment was not necessary.

During the third quarter of 2023, we experienced a significant decline in our market capitalization, which management deemed to be a triggering event related to our goodwill. We performed an interim impairment assessment as of September 30, 2023. The estimated fair value of each of the remaining reporting units exceeded their respective carrying value by more than 10%.

During the fourth quarter of 2023, we experienced a significant decline in our market capitalization. In addition, we made updates to certain long-term financial projections. Management deemed these factors to be triggering events related to our goodwill. We performed a quantitative interim impairment assessment as of December 31, 2023 and determined the carrying value of the Alternative Credential reporting unit exceeded its estimated fair value. As a result, during the three months ended December 31, 2023, we recorded impairment charges of $62.8 million to goodwill, These charges are included within operating expense on our consolidated statements of operations. The estimated fair value of the Degree Program reporting unit exceeded its carrying value by more than 10%.

During the second quarter of 2024, we experienced a significant decline in our market capitalization. In addition, we updated our long-term financial projections in connection with contingency planning related to the Chapter 11 Cases. Management deemed these factors to be triggering events related to our goodwill. We performed a quantitative interim impairment assessment as of May 31, 2024 and determined the carrying value of our Alternative Credential reporting unit exceeded its estimated fair value. As a result, during the three and six months ended June 30, 2024, we recorded impairment charges of $339.9 million to goodwill. This charge is included within operating expense on our condensed consolidated statements of operations. The estimated fair value of the Degree Program reporting unit exceeded its carrying value by more than 10%.

For each of the interim impairment assessments, we utilized a weighted combination of the income-based approach and market-based approach to determine the fair value of each reporting unit and an income-based approach to determine the fair value of its indefinite-lived intangible asset. For the goodwill impairment assessments performed in 2023, key assumptions used in the income-based approach included discount rates based upon each respective reporting unit's or indefinite-lived intangible asset's weighted-average cost of capital adjusted for the risk associated with the operations at the time of the assessment, terminal growth rates and forecasts of revenue and margins. For the indefinite-lived intangible asset impairment assessment performed as of May 1, 2023, key assumptions used in the income-based approach included discount rates, terminal growth rates, forecasts of revenue, and a royalty rate. The income-based approach largely relied on inputs that were not observable to active markets, which would be deemed "Level 3" fair value measurements. Key assumptions used in the market-based approach included the selection of appropriate peer group companies. Changes in the estimates and assumptions used to estimate fair value could materially affect the determination of fair value and the impairment test result.

The income-based approach largely relied on inputs that were not observable to active markets, which would be deemed "Level 3" fair value measurements. Key assumptions used in the market-based approach included the selection of appropriate peer group companies. Changes in the estimates and assumptions used to estimate fair value could materially affect the determination of fair value and the impairment test result.

As of June 30, 2024 and December 31, 2023, the goodwill balance was $311.9 million and $651.5 million, respectively. As of June 30, 2024, the Degree Program reporting unit and the Alternative Credential reporting unit had goodwill balances of $192.5 million and $119.4 million, respectively. It is possible that future changes in circumstances, such as a decline in our market capitalization, 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.

Changes in the estimates and assumptions used to estimate fair value could materially affect the determination of fair value and the impairment test result. For the impairment analysis of the Open Courses reporting unit performed as of May 1, 2023, a 1% increase or decrease to the discount rate, in isolation, would result in a $6.6 million decrease or a $7.5 million increase to the estimated fair value of the reporting unit, respectively, and a 1% decrease or increase to the terminal growth rate, in isolation, would result a $2.2 million decrease or a $2.5 million increase to the estimated fair value of the reporting unit, respectively.

For the impairment analysis of the indefinite-lived intangible asset performed as of May 1, 2023, a 1% increase or decrease to the discount rate, in isolation, would result in a $8.9 million decrease or a $11.2 million increase to the estimated fair value, respectively, and a 1% decrease or increase to the royalty rate, in isolation, would result a $9.8 million decrease or a $9.7 million increase to the estimated fair value, respectively.

For the impairment analysis of the Alternative Credential reporting unit performed as of December 31, 2023, a 1% increase or decrease to the discount rate, in isolation, would result in an $18.6 million decrease or a $20.7 million increase to the estimated fair value of the reporting unit, respectively, and a 1% decrease or increase to the terminal growth rate, in isolation, would result a $6.3 million decrease or a $7.0 million increase to the estimated fair value of the reporting unit, respectively.

For the impairment analysis of the Alternative Credential reporting unit performed as of May 31, 2024, a 1% increase or decrease to the discount rate, in isolation, would result in an $11.4 million decrease or a $13.8 million increase to the estimated fair value of the reporting unit, respectively, and a 1% decrease or increase to the terminal growth rate, in isolation, would result a $7.6 million decrease or a $9.2 million increase to the estimated fair value of the reporting unit, respectively.

Refer to Note 3 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 goodwill and our indefinite-lived intangible asset.

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, and therefore count as multiple FCE enrollments.

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 enrollment levels in our offerings, and varying tuition levels, among other factors.

For the Degree Program Segment, FCE enrollments and average revenue per FCE enrollment include enrollments and revenue from edX bachelor's and master's degree offerings. For the Alternative Credential Segment, FCE enrollments and average revenue per FCE enrollment exclude enrollments and revenue from edX offerings due to the large number of learners taking free or low-cost courses. We believe excluding the impact of these enrollments and revenue is useful to investors because it facilitates a period-to-period comparison.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Degree Program Segment				
FCE enrollments	39,612	50,490	84,305	105,981
Average revenue per FCE enrollment	$ 2,574	$ 2,367	$ 2,533	$ 2,453
Alternative Credential Segment				
FCE enrollments	23,555	25,840	48,510	47,830
Average revenue per FCE enrollment	$ 2,996	$ 3,591	$ 3,131	$ 3,868

Adjusted EBITDA (Loss)

We define adjusted EBITDA (loss) as net income or net loss, as applicable, before net interest income (expense), other income (expense), net, taxes, depreciation and amortization expense, transaction costs, integration costs, professional fees associated with the Chapter 11 Cases, performance improvement initiative implementation expense, restructuring-related costs, stockholder activism costs, certain litigation-related costs, consisting of fees for certain non-ordinary course litigation and other proceedings, impairment charges, losses on debt modification and extinguishment, and stock-based compensation expense. Some of these items may not be applicable in any given reporting period and they may vary from period to period.

Adjusted EBITDA (loss) is a key measure used by our management and Board 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.

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) professional fees associated with the Chapter 11 Cases; (vi) performance

improvement initiative implementation expense: (vii) restructuring-related costs; (viii) impairment charges; (ix) stockholder activism costs; (x) certain litigation-related costs; (xi) losses on debt extinguishment; (xii) interest or tax payments that may represent a reduction in cash; or (xiii) the non-cash expense or the potentially dilutive impact of equity-based compensation, which has been, and we expect will continue to be, an important part of our compensation plan; and

- other companies, including companies in our industry, may calculate adjusted EBITDA (loss) differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider adjusted EBITDA (loss) alongside other U.S. GAAP-based financial performance measures, including various cash flow metrics, net income (loss) and our other U.S. GAAP results. The following table presents a reconciliation of adjusted EBITDA (loss) to net loss for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
Net loss	$ (452,440)	$ (173,654)	$ (507,089)	$ (227,716)
Adjustments:				
Stock-based compensation expense	4,511	10,983	9,835	25,546
Other (income) expense, net	1,428	(227)	9,832	(834)
Net interest expense	19,012	17,545	37,702	35,137
Income tax (benefit) expense	(40)	210	193	323
Depreciation and amortization expense	24,886	27,328	49,572	57,348
Impairment charges	396,149	134,117	396,149	134,117
Debt modification expense and loss on debt extinguishment	—	—	—	16,735
Restructuring charges	8,406	3,622	13,133	8,497
Other*	17,483	1,868	27,363	2,830
Total adjustments	471,835	195,446	543,779	279,699
Adjusted EBITDA	$ 19,395	$ 21,792	$ 36,690	$ 51,983

* Includes (i) transaction and integration costs of $0.0 million and $0.1 million for the three months ended June 30, 2024 and 2023, respectively, and $0.3 million and $0.2 million for the six months ended June 30, 2024 and 2023, respectively, (ii) litigation-related costs of $1.6 million and $1.8 million for the three months ended June 30, 2024 and 2023, respectively, and $4.2 million and $2.6 million for the six months ended June 30, 2024 and 2023, respectively, and (iii) professional fees associated with the Chapter 11 Cases and performance improvement initiative implementation expense of $15.9 million and $0.0 million for the three months ended June 30, 2024 and 2023, respectively, and $22.9 million and $0.0 million for the six months ended June 30, 2024 and 2023, 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 March 6, 2024.

Interest Rate Risk

We are subject to interest rate risk through our borrowings under our Second Amended Credit Agreement. Loans under the Second Amended Credit Agreement bear interest at a per annum rate equal to (i) with respect to term loans, a base rate or the Term SOFR (as defined in the Second Amended Credit Agreement) rate, as applicable, plus a margin of 5.50% in the case of the base rate loans and 6.50% in the case of Term SOFR loans and (ii) with respect to revolving loans, a base rate or the Term SOFR rate, as applicable, plus a margin of 4.50% in the case of the base rate loans and 5.50% in the case of Term SOFR loans. As of June 30, 2024, borrowings under our Second Amended Credit Agreement were $414.3 million. A hypothetical increase in interest rates by 100 basis points would result in a change to 2024 interest expense of approximately $4.1 million.

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 June 30, 2024, our foreign currency translation adjustment gains were $2.2 million and for the three months ended June 30, 2023, our foreign currency translation adjustment losses were $4.0 million. For the six months ended June 30, 2024, our foreign currency translation adjustment gains were $0.5 million and for the six months ended June 30, 2023, our foreign currency translation adjustment losses were $7.3 million.

For the three months ended June 30, 2024 and 2023, we recognized a foreign currency exchange loss of $1.4 million and foreign currency exchange gain of $0.2 million, respectively, included on our condensed consolidated statements of operations and comprehensive loss. For the six months ended June 30, 2024 and 2023, we recognized a foreign currency exchange loss of $1.7 million and foreign currency exchange gain of $0.8 million, respectively, included on our condensed consolidated statements of operations and comprehensive loss.

The foreign exchange rate volatility of the trailing 12 months ended June 30, 2024 was 11% and 5% for the South African rand and British pound, respectively. The foreign exchange rate volatility of the trailing 12 months ended June 30, 2023 was 11% and 9% for the South African rand and British pound, respectively. A 10% fluctuation of foreign currency exchange rates would have had an immaterial effect on our results of operations and cash flows for all periods presented. The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Such volatility, even when it increases our revenue or decreases our expense, impacts our ability to accurately predict our future results and earnings.

Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations for the six months ended June 30, 2024 and 2023, however, our business could be materially affected by inflation in the future. As inflation has accelerated in the U.S. and globally, we continue to monitor all inflation-driven costs, regardless of where they are incurred. If our costs were to become subject to significant inflationary pressures, the price increases implemented by our university clients and our own pricing strategies might not fully offset the higher costs, which could harm our business, financial condition and results of operations.

Item 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 June 30, 2024 at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

We made no changes in our internal control over financial reporting during the three months ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated herein by reference to Note 5 in "Notes to Condensed Consolidated Financial Statements" included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Risk Factors Summary

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

Risks Related to the Chapter 11 Cases

- Trading in our common stock during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. It is likely that our common stock will be canceled or that holders of such common stock will not receive any distribution with respect to, or be able to recover any portion of, their investments.
- We are subject to the risks and uncertainties associated with proceedings under chapter 11 of the Bankruptcy Code.
- The Chapter 11 Cases raise substantial doubt regarding our ability to continue as a going concern.
- Delays in the Chapter 11 Cases may increase the risks of us being unable to consummate the Transaction and increase our costs associated with the Chapter 11 Cases.
- The Restructuring Support Agreement is subject to significant conditions and milestones that may be difficult for us to satisfy.
- If the Restructuring Support Agreement is terminated, our ability to confirm and consummate the Transaction could be materially and adversely affected.
- Our common stock has been suspended and will be delisted from The Nasdaq Global Select Market.
- Even if the Transaction is consummated, we may not be able to achieve our stated goals.
- In certain circumstances, a chapter 11 case may be converted to a case under chapter 7 of the Bankruptcy Code.
- The pursuit of the Chapter 11 Cases has consumed, and will continue to consume, a substantial portion of the time and attention of our management, which may have an adverse effect on our business, financial condition, results of operations and cash flows, and we may experience increased levels of employee attrition.
- Our tax attributes and future tax deductions may be reduced or significantly limited as a result of the consummation of the Plan and any restructuring or reorganization in connection therewith.

Risks Related to Our Business Model

- We have incurred significant net losses since inception and may not achieve or maintain profitability in the future.
- Our financial performance depends heavily on our ability to recruit potential students for our offerings, and our ability to do so may be affected by circumstances beyond our control.
- Our business depends heavily on the adoption by colleges and universities of online delivery of their educational offerings.
- To launch a new degree program, we generally incur significant expense in technology and content development, as well as in marketing and sales to identify and attract prospective students, and it may be several years, if ever, before we generate revenue from a new program sufficient to recover our costs.
- If new offerings do not launch and scale efficiently and in the time frames we expect, our reputation and our revenue will suffer.
- Our financial performance depends heavily on student retention within our offerings, and factors influencing student retention may be out of our control.

Risks Related to Our Operations and Our Growth Strategy

- Our student acquisition efforts depend in large part upon a limited number of third-party advertising platforms.
- If our security measures or those of our third-party service providers are breached or fail and result in unauthorized disclosure of data, we could lose clients, fail to attract new clients and be exposed to protracted and costly litigation.
- Disruption to or failures of our online learning platforms could reduce client and student satisfaction with our offerings and could harm our reputation.
- We face competition from established and emerging companies, which could divert clients or students to our competitors, result in pricing pressure and significantly reduce our revenue.
- If we are unable to maintain and enhance our brand, our reputation and business may suffer.
- We have undergone recent changes to our senior management team and organizational structure, and if we are unable to successfully implement our new organizational structure, or if we lose the services of any of our senior management, our business, operating results, and financial condition could be adversely affected.
- Implementation of our 2022 Strategic Realignment Plan (as defined below) or similar plans may not be successful, which could affect our ability to increase our profitability.
- If students do not expand beyond the free offerings available on our platform, our ability to grow our business and improve our results of operations may be adversely affected.

Risks Related to Our Indebtedness and Capital Structure

- Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk and prevent us from meeting our obligations with respect to our indebtedness.
- Despite current indebtedness levels and existing restrictive covenants, we may still incur additional indebtedness that could further exacerbate the risks associated with our substantial financial leverage.
- To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.
- We may need additional capital in the future to pursue our business objectives. Additional capital may not be available on favorable terms, or at all, which could compromise our ability to grow our business.

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

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

Risk Factors

Risks Related to the Chapter 11 Cases

Trading in our common stock during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. It is likely that our common stock will be canceled or that holders of such common stock will not receive any distribution with respect to, or be able to recover any portion of, their investments.

It is likely that our equity securities will be canceled, or that holders of such equity will not receive any distribution with respect to, or be able to recover any portion of, their investments. Following the filing of the Chapter 11 Cases, our common stock was delisted from The Nasdaq Global Select Market and is now quoted on the OTC Pink Market under the symbol "TWOUQ." Any trading in our common stock during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks to purchasers of our common stock. We urge extreme caution with respect to existing and future investments in our equity and other securities. There is a significant risk that the holders of our common stock will receive no recovery under the Chapter 11 Cases and that our common stock will be worthless.

We are subject to the risks and uncertainties associated with proceedings under chapter 11 of the Bankruptcy Code.

We are subject to risks and uncertainties associated with our Chapter 11 Cases. The Chapter 11 Cases could have a material adverse effect on our business, financial condition, results of operations and cash flows. So long as the Chapter 11 Cases continue, our senior management may be required to spend a significant amount of time and effort dealing with the Chapter 11 Cases and the transactions contemplated by the RSA and the Plan instead of focusing on our business operations. Bankruptcy Court protection also may make it more difficult to retain management and the key personnel necessary to the success and growth of our business. In addition, during the period of time we are involved in the Chapter 11 Cases, our customers and constituents may lose confidence in our ability to meet their commercial needs and may attempt to establish alternative commercial relationships.

Other significant risks associated with the Chapter 11 Cases that could result in material adverse effects on our business, financial condition, results of operations, and cash flows include or relate to the following:

- effects of the Chapter 11 Cases on the Company and our relationship with our various constituents, including colleges and universities, faculty, students, regulatory authorities, employees and other third parties;
- our ability to develop and implement the Plan and whether that Plan will be approved by the Bankruptcy Court and the ultimate outcome of the Chapter 11 Cases in general;
- the length of time we will operate under the Chapter 11 Cases;
- the potential adverse effects of the Chapter 11 Cases on our liquidity and results of operations;
- our ability to operate within the restrictions and the liquidity limitations of the DIP Facility and any other credit facility that the Company may enter into in connection with the Chapter 11 Cases and restrictions imposed by the applicable courts;
- the timing or amount of any recovery, if any, to our stakeholders;
- the potential cancellation of our common stock in the Chapter 11 Cases;
- the delisting and deregistration of our common stock and becoming a private company;
- the potential material adverse effect of claims that are not discharged in the Chapter 11 Cases;
- uncertainty regarding our ability to retain key personnel;
- the increased administrative and legal costs related to the Chapter 11 process;
- changes in our ability to meet our financial obligations during the Chapter 11 process and to maintain contracts that are critical to our operations;
- the effectiveness of the overall restructuring activities pursuant to the Chapter 11 Cases and any additional strategies that the Company may employ to address its liquidity and capital resources, achieve its stated goals, and continue as a going concern; and
- the actions and decisions of equityholders, creditors, and other third parties that have an interest in the Chapter 11 Cases, which may interfere with the ability to confirm and consummate the Plan.

Due to the risks and uncertainties associated with the Chapter 11 Cases, we may not be able to accurately predict or quantify the ultimate impact the Chapter 11 Cases may have on our business, financial condition, results of operations and cash flows, nor can we accurately predict the ultimate impact the Chapter 11 Cases may have on our corporate or capital structure.

The Chapter 11 Cases raise substantial doubt regarding our ability to continue as a going concern.

The Chapter 11 Cases are being jointly administered under the caption "In re: 2U, Inc., et al. Case No. 24-11279 (MEW) (Bankr. S.D.N.Y.)." Under Chapter 11 of the Bankruptcy Code, certain claims in existence prior to our filing of the petition for relief under the Bankruptcy Code are stayed while we continue business operations as a debtor-in-possession. Our operations and our ability to develop and execute our business plan are subject to significant risks and uncertainties associated with Chapter 11 Cases. These conditions raise substantial doubt about our ability to continue as a going concern.

Delays in the Chapter 11 Cases may increase the risks of us being unable to consummate the Transaction and increase our costs associated with the Chapter 11 Cases.

There can be no assurance that we will be able to consummate the Transaction. A prolonged Chapter 11 proceeding could adversely affect our various constituents, including colleges and universities, faculty, students, regulatory authorities, employees and other third parties, which in turn could adversely affect our business, financial condition, results of operations and cash flows and our ability to continue as a going concern. A weakening of our financial condition, cash flows and results of operations could adversely affect our ability to implement the Transaction (or any other plan of reorganization). If we are unable to consummate the Transaction, this may have a material adverse effect on our business, financial condition, results of operations and cash flows.

The Restructuring Support Agreement is subject to significant conditions and milestones that may be difficult for us to satisfy.

There are certain material conditions we must satisfy under the Restructuring Support Agreement, including the timely satisfaction of milestones in the Chapter 11 Cases. Our ability to timely complete such milestones is subject to risks and uncertainties, many of which are beyond our control.

If the Restructuring Support Agreement is terminated, our ability to confirm and consummate the Transaction could be materially and adversely affected.

The Restructuring Support Agreement contains a number of termination events, upon the occurrence of which certain parties to the Restructuring Support Agreement may terminate the agreement. If the Restructuring Support Agreement is terminated as to all parties thereto, each of the parties thereto will be released from its obligations in accordance with the terms of the Restructuring Support Agreement. Such termination may result in the loss of support for the Transaction by the parties to the Restructuring Support Agreement, which could adversely affect our ability to confirm and consummate the Transaction. In certain circumstances, if the Transaction is not consummated, the Chapter 11 Cases could be converted to chapter 7 liquidation cases or a new plan could be proposed that may not be as favorable to holders of claims against us as contemplated by the Restructuring Support Agreement.

Our common stock has been suspended from trading on The Nasdaq Global Select Market and has begun trading over the counter.

On August 7, 2024, our common stock was suspended from trading on Nasdaq and began trading on the OTC Pink Market under the symbol "TWOUQ". We can provide no assurance that our common stock will continue to trade on this market, whether broker-dealers will provide public quotes of our common stock on this market, whether the trading volume of our common stock will be sufficient to provide for an efficient trading market or whether quotes for our common stock will continue on this market in the future, which could result in significantly lower trading volumes and reduced liquidity for investors seeking to buy or sell our common stock. Furthermore, because of the limited market and generally low volume of trading in our common stock, the price of our common stock could be more likely to be affected by broad market fluctuations, general market conditions, changes in the markets' perception of our securities, and announcements made by us or third parties with interests in the Chapter 11 Cases. A Form 25-NSE will be filed with the SEC, which will remove the Company's common stock from listing and registration on Nasdaq.

Even if the Transaction is consummated, we may not be able to achieve our stated goals***.***

Even if the Transaction or any other Chapter 11 plan of reorganization is consummated, we may continue to face a number of risks, such as changes in economic conditions, changes in our industry, changes in demand for our products and services and increasing expenses. Some of these risks become more acute when a case under the Bankruptcy Code continues for a protracted period without indication of how or when the case may be completed. As a result of these risks and others, we cannot guarantee that the Transaction will achieve our stated goals.

Furthermore, even if our debt and other liabilities are reduced or discharged through the Transaction, we may need to raise additional funds through public or private debt or equity financing or other various means to fund our business after the completion of the Chapter 11 Cases. Our access to additional financing may be limited, if it is available at all. Therefore, adequate funds may not be available when needed or may not be available on favorable terms, or at all.

In certain circumstances, a chapter 11 case may be converted to a case under chapter 7 of the Bankruptcy Code.

Upon a showing of cause, the Bankruptcy Court may convert our Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code. In such event, a chapter 7 trustee would be appointed or elected to liquidate our assets for distribution in accordance with the priorities established by the Bankruptcy Code. We believe that liquidation under chapter 7 would result in significantly smaller distributions being made to our creditors than those provided for through the Transaction because of (i) the likelihood that the assets would have to be sold or otherwise disposed of in a distressed fashion over a short period of time rather than in a controlled manner and as a going concern, (ii) additional administrative expenses involved in the appointment of a chapter 7 trustee, and (iii) additional expenses and claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of operations.

The pursuit of the Chapter 11 Cases has consumed, and will continue to consume, a substantial portion of the time and attention of our management, which may have an adverse effect on our business, financial condition, results of operations and cash flows, and we may experience increased levels of employee attrition.

While the Chapter 11 Cases continue, our management will be required to spend a significant amount of time and effort focusing on the Chapter 11 Cases instead of focusing exclusively on our business operations. This diversion of attention may materially adversely affect the conduct of our business, and, as a result, our financial condition and results of operations, particularly if the Chapter 11 Cases are protracted.

Furthermore, during the pendency of the Chapter 11 Cases, we may experience increased levels of employee attrition, and our employees may face considerable distraction and uncertainty. A loss of key personnel or material erosion of employee morale could adversely affect our business and results of operations. Our ability to engage, motivate and retain key employees or take other measures intended to motivate and incentivize key employees to remain with us through the pendency of the Chapter 11 Cases is limited by restrictions on implementation of incentive programs under the Bankruptcy Code. The loss of services of members of our senior management team could impair our ability to execute our strategy and implement operational initiatives, which would be likely to have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, the longer the Chapter 11 Cases continue, the more likely it is that vendors and employees will lose confidence in our ability to emerge from Chapter 11 successfully.

Our tax attributes and future tax deductions may be reduced or significantly limited as a result of the consummation of the Plan and any restructuring or reorganization in connection therewith.

Generally, any discharge of our debt obligations as a result of the Chapter 11 Cases for an amount less than the adjusted issue price may give rise to cancellation of indebtedness income, which will reduce our tax attributes.

Certain tax attributes otherwise available and of value to us may be reduced, in most cases by the principal amount of the indebtedness forgiven. U.S. federal income tax attributes subject to reduction generally include (i) net operating losses ("NOL(s)") and NOL carryforwards; (ii) general business credit carryovers; (iii) minimum tax credit carryovers; (iv) capital loss carryovers; (v) tax basis in assets (but not below the amount of liabilities to which the taxpayer remains subject immediately after the indebtedness forgiven); (vi) passive activity loss and credit carryovers; and (vii) foreign tax credit carryovers. Loss of these tax attributes may have an adverse effect on our prospective cash flow.

To the extent that U.S. federal NOL carryforwards, other losses and credits generated by us prior to emergence from bankruptcy are available as deductions after emergence, our ability to utilize such deductions may be limited by Section 382 of the Internal Revenue Code of 1986, as amended (the "IRC"). Section 382 provides rules limiting the utilization of a corporation's NOLs and other losses, deductions and credits following a more than 50% change in ownership of a corporation's equity over a three-year period (an "ownership change"). If a corporation undergoes an ownership change while it is subject to an existing limitation under Section 382 of the IRC, the new limitation applies in addition to (and does not replace) the existing limitation. An exception to the limitations under Section 382 of the IRC generally applies when, among other requirements, so-called "qualified creditors" of a corporation in chapter 11 receive, in respect of their claims, at least 50% of the vote and value of the stock of the corporation pursuant to a confirmed chapter 11 plan (the "382(l)(5) Exception"). We determined that we have undergone an ownership change during the three-year period ended December 31, 2016 and that any resulting limitation under Section 382 of the IRC was not expected to limit our ability to carry forward historical net operating losses before expiration. In addition, we believe that the transactions contemplated by the Plan will result in an ownership change, and we expect that the application of the 382(l)(5) Exception could result in significant future cash tax savings over other alternative approaches and transaction forms. However, it is uncertain whether the consummation of the Plan will satisfy all of the requirements of the 382(l)(5) Exception, as such determination will depend on several factors, including the extent to which holders of certain of our indebtedness may be treated as “qualified creditors” and whether our creditors will be treated as receiving at least 50% of our stock as a result of being creditors. In order to maximize the likelihood of the availability of the 382(l)(5) Exception, we sought interim and final orders from the Bankruptcy Court establishing certain procedures with respect to trading in claims by certain holders of our indebtedness. The Bankruptcy Court entered the interim order establishing such procedures on July 30, 2024 (the “Interim Order”), which provides that: (i) any holder of equal or greater than $25,000,000 in principal amount of the Convertible Notes (a “Substantial Claimholder”) must provide notice of its unsecured notes claims; (ii) prior to effectuating any transfer of such unsecured notes claims by a Substantial Claimholder that would result in an increase in the amount of unsecured notes claims beneficially owned by the Substantial Claimholder, or would result in another person becoming a Substantial Claimholder, the Substantial Claimholder must provide notice of the intended transfer; and (iii) we, or certain Consenting Noteholders, may file an objection to the intended transfer of unsecured notes claims, subject to the notification requirements in the Interim Order, in which case such transfer will not be effective unless approved by a final and non-appealable order of the Bankruptcy Court. The rules relating to the use of pre-bankruptcy tax attributes by a corporation emerging from a bankruptcy are inherently uncertain. Accordingly, there cannot be any assurance that we will be entitled to use such attributes following emergence from the Chapter 11 Cases.

Most U.S. states have similar rules that apply with respect to state tax attributes. We also have net operating loss carryforwards in South Africa and the United Kingdom and there is no guarantee that entities in these countries will generate enough taxable income to fully utilize them.

Risks Related to Our Business Model

The evolving scope of our offerings and changes to our operating model make it difficult to predict our future financial and operating results, and we may not achieve our expected financial and operating results in the future.

From 2008 to 2017, our offerings generally only consisted of graduate degree programs. In July 2017, we expanded our offerings to include premium online executive education programs and in May 2019, we further expanded our offerings to include skills-based boot camps. In 2020 we launched our first undergraduate degree program and in November 2021 we expanded our offerings to include open courses and added a consumer facing marketplace. In addition, from time to time, we have entered into and we may in the future enter into agreements to strategically exit certain of our clients’ programs to better align with our evolving scope of offerings and our business. Given the significant evolution of our current scope of offerings and changes to our operating model, our ability to forecast our future operating results, including revenue, cash flows and profitability, is limited and subject to a number of risks and uncertainties. For example, a decline in our revenue due to a mutually agreed strategic exit from a program may not be apparent in our financial results until a few quarters later. We may also experience a temporary increase in our revenue because of certain payments we receive upon the termination of these programs. If our assumptions regarding these risks and uncertainties are incorrect or change, or if we do not manage these risks successfully, our operating and financial results may differ materially from our expectations and our business may suffer.

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

We incurred net losses of $317.6 million, $322.2 million and $194.8 million during the years ended December 31, 2023, 2022 and 2021, respectively, and $507.1 million and $227.7 million during the six months ended June 30, 2024 and 2023, respectively. We will need to generate and sustain increased revenue levels and/or reduce operating expenditures in future periods to become profitable, and, even if we do, we may not be able to maintain or increase our profitability. We have invested, and expect to continue to invest, substantial financial and other resources in developing our platform, including expanding our platform offerings, developing or acquiring new platform features and services, expanding into new markets and geographies, developing new content, and on our sales and marketing efforts. Our efforts to grow our business may be more costly than we expect, and we may not be able to achieve or maintain profitability or to increase our revenue enough to offset our operating expenses. We may incur significant losses in the future for a number of reasons, including unforeseen expenses, difficulties, complications, delays and other unknown events. As a result, we may be unable to achieve and maintain profitability, and the value of our company and our common stock could decline significantly.

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

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

We have experienced, and may in the future experience, fluctuations in our student enrollments based on a variety of factors. For example, student enrollments have declined, and may decline in the future. Our university clients changing their admissions standards and macroeconomic conditions have each contributed to significant fluctuations in student enrollment across our offerings.

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

- Negative perceptions about online learning programs. Online offerings that we or our competitors provide may not be successful, operate efficiently, or perform well. Any such underperformance could create the perception that online offerings in general are not an effective way to educate students, whether or not our offerings achieve satisfactory performance. In addition, special interest groups have in the past and may in the future take actions to create negative perceptions about online learning programs through the media, litigation or other tactics.
- Unsuccessful marketing efforts. We invest substantial resources in developing and implementing data-driven marketing strategies that focus on identifying the right potential student at the right time. In connection with our platform-based and product-level marketing efforts, we make substantial use of search engine optimization, paid search, social media and custom website development and deployment and we rely on a small number of internet search engines and marketing partners. The effectiveness and cost of our marketing efforts has varied over time and from offering to offering based on economic conditions, competition, advertising prices, offerings type, university client reputation and other factors, including the effectiveness of our marketing partners to identify students and learners.
- Damage to university client reputation. Because we often use a university client's brand in connection with our marketing efforts for their offerings, our university clients' reputations are critical to our ability to enroll students. Many factors affecting our university clients' reputations are beyond our control, including ranking among nonprofit educational institutions, internal university matters, changes in university leadership positions and other matters that impact the public perception of our university clients.
- Lack of interest in an offering. We may encounter difficulties attracting students for offerings that are not highly desired or that are relatively new within their fields. Macroeconomic conditions beyond our control may diminish interest in employment in a field, which could contribute to a lack of interest in offerings related to that field.
- Reduced support from our university clients. Our ability to grow our revenue from a particular offering depends on the growth of enrollment in that offering. Our university clients could limit enrollment in certain offerings, cease providing the offerings altogether or significantly curtail or inhibit our ability to promote their offerings, any of which would negatively impact our revenue.
- Our lack of control over our university clients' admissions standards and admissions decisions for degree programs. Even if we identify prospective students for a degree program, there is no guarantee that our university clients will admit these students to that program. Our university clients retain complete discretion over setting admissions standards and making admissions decisions, and university clients may change admissions standards or inconsistently apply admissions standards.
- Our lack of control over our university clients' tuition decisions, particularly for our degree programs. We do not control tuition decisions for our offerings and, in particular, for our degree programs, our university clients retain complete control over tuition decisions. If we are not able to effectively recruit and retain students for a program because the tuition is too high, or perceived as being too high, it could negatively impact our business.
- Inability to maintain sufficient high-quality content from our clients. Our success depends on our ability to provide students with high-quality learning experiences. For certain of our offerings, including many of our degree programs, while our clients are primarily responsible for curriculum development, we provide learning design and development experts that collaborate with faculty to ensure the final course content is engaging and digestible in an online format. For other offerings, including our open course offerings, our clients are solely responsible for curriculum development and we provide limited self-help resources. If the course content in our offerings is not high-quality and students are dissatisfied with their experience in an offering on our platform or do not find the content of our offerings appealing, they may stop accessing our content. In turn, if clients perceive that our platform lacks an adequate learner audience, clients may be less willing to provide content to offer on our platform, and the experience of students could be further negatively impacted.

- Inability of students to secure funding. Like on-campus college and university students, many of the students in our university clients' offerings, in particular degree programs and boot camps, rely on the availability of third-party financing to pay for tuition and other costs of their education. This may include federal, state or private student loans, scholarships and grants, or benefits or reimbursement provided by an employer. Any developments that reduce the availability or increase the cost of financial aid for higher education generally, or for our university clients' offerings, such as a government shutdown as a result of failure to enact funding legislation for the government's fiscal year, could impair students' abilities to meet their financial obligations and could negatively impact future enrollment in our offerings.
- General economic conditions. Student enrollment in our offerings may be affected by changes in global economic conditions. An improvement in economic conditions and, in particular, an improvement in the economic conditions in the U.S. and the U.S. unemployment rate, may reduce demand among potential students for educational services, as they may find adequate employment without additional education. Conversely, a worsening of economic and employment conditions may reduce the willingness of employers to sponsor educational opportunities for their employees or discourage existing or potential students from pursuing additional education due to a perception that there are insufficient job opportunities, increased economic uncertainty or other factors.

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

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

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

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

In addition, in order to maintain good relations with our university clients, we may decide not to approach certain institutions that our university clients regard as their direct competitors to offer similar programs or courses, even if we are allowed to do so under our contracts. A limited number of our contracts with our university clients include provisions that may result in pricing adjustments in limited circumstances. If we need to incur contingent costs in connection with enabling competitive offerings or if we determine not to approach certain institutions, or if we have to adjust our pricing provisions, our ability to grow our business and achieve profitability would be impaired.

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

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

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

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

Our continued growth and ability to achieve profitability depends on our and our university clients' ability to successfully launch and scale new offerings. The number of offerings we launch in a year has varied over time and we expect the number of newly launched programs to increase significantly in 2024. Our ability to launch and scale new offerings in the time frame we expect has varied over time and from offering to offering. If we are not successful in launching an offering in the planned timeframe or recruiting potential students for our offerings, it would adversely impact our ability to generate revenue, and our university clients and the students in their offerings could lose confidence in the knowledge and capability of our employees. If we cannot quickly and efficiently scale our technology to handle growing student enrollment and new offerings, our university clients' and their students' experiences may suffer, which could damage our reputation among colleges and universities and their faculty and students and impact our ability to acquire new university clients.

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

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

- satisfy existing students in, and attract and enroll new students for, our offerings;
- assist our university clients in their development and production of an increased volume of course content;
- successfully introduce new features and enhancements and maintain a high level of functionality in our platform; and
- deliver high-quality support to our university clients and their faculty and students.

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

If we fail to increase sales of our enterprise offerings, or if we need to change the contract terms associated therewith, including with respect to pricing or contract length, it could negatively affect our business, financial condition, and results of operations.

In addition to our offerings for individual learners, we sell our enterprise offerings to businesses, academic institutions, and governmental organizations. These customers utilize our platform to provide relevant training, skills, and credentialing programs to current and potential employees through our online platform. To maintain and expand our relationships with these entities, we must demonstrate the value, benefits, and return on investment of providing education, training, skills, and credentialing through our online platform and achieve acceptance from both employees and these entities of the merits and legitimacy of our offerings.

Our growth strategy is dependent upon increasing sales of our enterprise offerings to these entities, which we offer on a subscription basis. We have a limited history with our enterprise models and changes in our models could adversely affect our revenue and financial condition. In addition, as new competitors introduce competitive applications or services, or as we enter into new international markets, we may be unable to attract new customers at the same price or based on the same pricing models we have historically used, or for contract lengths consistent with our historical averages. Changes to our pricing models or contract lengths could negatively impact our revenue and financial position, and we may have increased difficulty achieving growth or profitability. As we drive a greater portion of our revenue through our enterprise offerings, this may also result in reduced margins in the future.

As we seek to increase sales of our enterprise offerings, we face upfront sales costs, higher customer acquisition costs, more complex customer requirements, and discount requirements. If we are unable to maintain or increase the number of enterprise customers offerings, our business, financial condition, and results of operations may be negatively impacted.

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

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

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

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

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

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

We rely on our reputation for delivering high-quality online educational offerings and recommendations from existing university clients to attract potential new university clients. Therefore, the loss of any single offering, whether due to a mutual decision between us and a university client to terminate an agreement or the failure of any university client to renew its agreement with us upon expiration, or otherwise, could harm our reputation and impair our ability to pursue our growth strategy and ultimately to become profitable.

The recent significant decline in the market price of our common stock and the impairment of intangible assets and goodwill arising from our acquisitions could continue to negatively impact and affect our net income and shareholders' equity.

We review goodwill and other indefinite-lived intangible assets for impairment annually, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of goodwill or an indefinite-lived asset below its carrying value. We experienced a significant decline in the market price of our common stock subsequent to February 9, 2022 that resulted in a triggering event for assessing our goodwill and indefinite-lived intangible asset balances. When we acquire a business, a substantial portion of the purchase price of the acquisition may be allocated to goodwill and other indefinite-lived intangible assets. During the three months ended March 31, 2022, we recorded impairment charges of

$28.8 million and $30.0 million to goodwill and the indefinite-lived intangible asset, respectively. During the three months ended September 30, 2022, we recorded impairment charges of $50.2 million and $29.3 million to goodwill and the indefinite-lived intangible asset, respectively. During the three months ended June 30, 2023, we recorded impairment charges of $16.7 million and $117.4 million to goodwill and the indefinite-lived intangible asset, respectively. During the three months ended December 31, 2023, we recorded impairment charges of $62.8 million to goodwill. During the three months ended June 30, 2024, we recorded impairment charges of $339.9 million and $56.2 million to goodwill and intangible and other long-lived assets, respectively.

Future declines in the results of our acquisitions and other factors could cause us to record an impairment of all or a portion of the relevant goodwill in the future. We may not be able to achieve our business targets for businesses we previously acquired or will acquire in the future, which could result in our incurring additional goodwill and other intangible assets impairment charges. Further declines in our market capitalization increase the risk that we may be required to perform another impairment analysis, which could result in an impairment of up to the entire balance of our goodwill and other intangible assets based on the quantitative assessment performed.

We are working to incorporate generative artificial intelligence, or AI, into some of our products. This technology is new and developing and may present operational and reputational risks, competitive harm, legal and regulatory risk, and additional costs, any of which could materially and adversely affect our business, financial condition and result of operations.

We use AI technologies in our platform and certain of our offerings, and we are making investments in expanding the use of AI throughout our business. This new and emerging technology, which is in its early stages of commercial use, presents a number of inherent risks. For example, AI technologies can create accuracy issues, unintended biases, and discriminatory outcomes and create other perceived or actual technical, legal, compliance, privacy, security, and ethical risks which could slow our partners' and customers' adoption of our products and services that use AI. The use of AI technologies may in the future result in cybersecurity incidents that implicate the personal data of end users of AI applications. Such cybersecurity incidents may be more complicated to discover due to the nature of AI and the limited ability to track its reasoning mechanism when producing results. To the extent we experience cybersecurity incidents in connection with our use of AI technology, it could similarly adversely affect our reputation and expose us to legal liability or regulatory risk. Further, our competitors or other third parties may incorporate AI into their products more quickly or more successfully than us, which could impair our ability to compete effectively.

In addition, litigation or government regulation related to the use of AI (including the use of generative AI) may also adversely impact our ability to develop and offer products that use AI, as well as increase the cost and complexity of doing so. For example, the publication of the White House Blueprint for an AI Bill of Rights and the EU Artificial Intelligence Act signal that compliance requirements on operators of AI systems in the U.S. and the EU may be significant. In addition, developing, testing and deploying AI in our platform, offerings and services involves significant technical complexity and requires specialized expertise. Any disruption or failure in our AI systems or infrastructure could result in delays or errors in our operations, which could harm our business and financial results. Further, market demand and acceptance of AI technologies are uncertain, and we may be unsuccessful in our efforts related to deploying AI in our business.

Risks Related to Our Operations and Our Growth Strategy

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

Our platform and program-level marketing efforts make substantial use of paid search, social media, search engine optimization and custom website development and deployment and we rely on advertising through a limited number of third-party advertising platforms such as Google, Meta Platforms and LinkedIn, to direct traffic to, and recruit new students for, our offerings. Changes in the way these platforms operate - whether due to changes in law, changes in the practices of mobile operating system providers, or otherwise - or changes in their advertising prices, data use practices, or other terms have impacted the cost and efficiency of our student acquisition efforts in the past and could in the future make marketing our offerings more expensive, or less effective. For example, on January 4, 2024, Google began testing a new feature on its Chrome browser called "Tracking Protection." While it is unclear when or if Google expects to implement the Tracking Protection Tool, this feature limits cross-site tracking by restricting website access to third-party cookies by default. Third-party cookies have been a fundamental part of the web for nearly three decades, aiding platforms in generating relevant ads, among other functions. However, the implementation of this change could have adverse consequences for the advertising platforms we use, negatively affecting our ability to effectively advertise our services. In addition, the elimination of a particular medium or platform on which we advertise, could limit our ability to direct traffic to our offerings and recruit new students on a cost-effective basis, any of which could have a material adverse effect on our business, results of operations and financial condition.

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

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

The U.S. Department of Justice brought several antitrust lawsuits against Google claiming, among other things, that Google improperly uses its monopoly over internet search to impede competition and harm consumers.While we cannot predict the impact that these lawsuits may have on advertising costs or Google's future operations, any reduction in the number of prospective students directed to our websites could negatively affect our ability to generate prospective students, and ultimately revenue, through our student acquisition activities.

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

Our platforms and computer systems store and transmit proprietary and confidential client, student, and company information, which may include personal information of students, prospective students, faculty and employees, subject to stringent legal and regulatory obligations. As a technology company, we have faced and continue to face an increasing number of threats to our platforms and computer systems, including unauthorized activity and access, system viruses, worms, malicious code, denial of service attacks, phishing attacks, ransomware attacks, social engineering attacks, and organized cyberattacks, any of which could breach our security, or threaten an open source platform that we do not control and create a data exfiltration condition and/or disrupt our platform and our clients' offerings. The techniques used by computer hackers and cyber criminals to obtain unauthorized access to data or to sabotage computer systems are growing in sophistication, change frequently and generally are not detected until after an incident has occurred. We have experienced, and may in the future experience, an increasing number of cybersecurity threats to our platform and computer systems and to the systems of our third-party service providers and our efforts to maintain the security and integrity of our platform, and the cybersecurity measures taken by our third-party service providers, may be unable to anticipate, detect or prevent all attempts to compromise our systems. While there can be no assurances of effectiveness, we have implemented certain safeguards and processes to thwart hackers, and all related activity, and protect the data in our platforms and computer systems. If our, or our third-party service providers', security measures are breached or fail as a result of third-party action, employee error, malfeasance or otherwise, it could result in the loss or misuse of proprietary and confidential university, student (including prospective student), employee or company information, which could subject us to material liability, or materially interrupt our business, potentially over an extended period of time. Any such event could harm our reputation, adversely affect our ability to attract new clients and students, cause existing clients to scale back their offerings or elect not to renew their agreements, cause prospective students not to enroll or existing students to not stay enrolled in our offerings, or subject us to third-party lawsuits, regulatory fines or other action or liability. Further, any reputational damage resulting from breach of our security measures could create distrust of our company by prospective clients or students. In addition, our insurance coverage may not be adequate to cover losses associated with such events, and in any case, such insurance may not cover all costs, expenses or losses we could incur to respond to and remediate a security breach. As a result, we may be required to expend significant additional resources to protect against the threat of these disruptions and security breaches or to alleviate problems caused by such disruptions or breaches.

Data protection laws in jurisdictions around the world require companies and institutions to notify impacted individuals of certain data breach incidents, usually in writing. Under the terms of our contracts with our university clients, we would be responsible for the costs of investigating and disclosing data breaches to the university clients' students, if required by law. In addition to costs associated with investigating, disclosing, and remediating a data breach, we could be required to compensate victims by providing identity protection or monitoring services. We also could be subject to substantial monetary fines or private claims by affected parties and our reputation would likely be harmed.

Disruption to or failures of our online learning platforms could reduce university client and student satisfaction with our offerings and could harm our reputation.

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

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

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

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

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

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

If the mobile solutions available to our students and clients are not effective, the use of our platform could decline.

Students have been increasingly accessing our offerings and marketplace on mobile devices through our mobile applications in recent years. The smaller screen size and reduced functionality associated with some mobile devices may make the use of our platform more difficult or our clients may believe that online learning through such mobile devices is not effective. If we are not able to provide our clients with the functionality to deliver a rewarding experience on mobile devices, our ability to attract students to our offerings may be harmed and, consequently, our business may suffer.

As new mobile devices and mobile features are released, we may encounter problems in developing or supporting apps for them. In addition, supporting new devices and mobile device operating systems may require substantial time and resources.

The success of our mobile apps could also be harmed by factors outside our control, such as:

- actions taken by mobile app distributors;
- unfavorable treatment received by our mobile apps, especially as compared to competing apps, such as the placement of our mobile apps in a mobile app download store;
- increased costs in the distribution and use of our mobile apps; or
- changes in mobile operating systems, such as iOS and Android, that degrade functionality of our mobile website or mobile apps or that give preferential treatment to competitive offerings.

If our clients or students encounter difficulty accessing or using, or if they choose not to use, our mobile platform, our growth prospects and our business may be adversely affected.

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

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

An acquisition, investment, or new business relationship may result in unforeseen operating difficulties, expenditures and integration challenges including the following:

- diversion of management's attention from ongoing business concerns and performance;
- managing a larger combined company;
- maintaining employee morale and retaining key management and other employees;
- retaining existing business and operational relationships and attracting new business and operational relationships;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations and inconsistencies in standards, controls, procedures and policies;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information technology, communications and other systems;
- undetected errors or unauthorized use of a third party's code in the products of the acquired companies or in the technology acquired;
- breaches of our cybersecurity measures if there are cybersecurity issues we are not aware of at the time of the acquisition;
- entry into highly competitive markets in which we have no or limited direct prior experience and where competitors have stronger market positions; and
- exposure to unknown liabilities, including claims and disputes by third parties against the companies we acquire.

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

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

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

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

Any of these outcomes could harm our business and operating results. In addition, a significant portion of the purchase price of companies we have acquired and may acquire in the future may be allocated to goodwill and indefinite-lived intangible assets, which must be assessed for impairment at least annually. If our acquisitions do not ultimately yield expected returns, we may be required to make changes to our operating results based on our impairment assessment process. For example, during the three months ended March 31, 2022, we recorded impairment charges of $28.8 million and $30.0 million to goodwill and the indefinite-lived intangible asset, respectively. During the three months ended September 30, 2022, we recorded impairment charges of $50.2 million and $29.3 million to goodwill and the indefinite-lived intangible asset, respectively. During the three months ended June 30, 2023, we recorded impairment charges of $16.7 million and $117.4 million to goodwill and the indefinite-lived intangible asset, respectively. During the three months ended December 31, 2023, we recorded impairment charges of $62.8 million to goodwill. As of June 30, 2024 and December 31, 2023, our goodwill balances were $311.9 million and $651.5 million, respectively. In 2023, the Company concluded that due to changes in facts and circumstances, the edX trade name should be classified as a finite-lived intangible asset rather than an indefinite-lived asset. As of June 30, 2024 and December 31, 2023, the net carrying value of the edX trade name was $70.8 million and $76.7 million, respectively.

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

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

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

In our Alternative Credential Segment, which has a lower barrier to entry, we face increasing competition from other providers of massive open online courses, which directly compete with our open course offerings, but have also expanded their offerings to include certificate offerings, nano-degrees and similar non-degree alternatives. We also face competition from companies that provide corporate training programs and online courses taught outside the university environment (e.g., by experts in various fields).

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

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

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

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

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

If we are not able to maintain and enhance our brand, our reputation and business may suffer.

We believe that maintaining and enhancing our reputation and brand recognition is important to attract and retain students and clients, and that the importance of our reputation and brand recognition will continue to increase as competition in the markets in which we operate continues to develop. Our success in this arena will depend on a range of factors, both within and beyond our control. The following factors, many of which are beyond our control, may affect our reputation and brand recognition:

- our ability to market our platform effectively and efficiently;
- our ability to maintain a useful, innovative, and reliable platform;
- our ability to maintain a high satisfaction among students and partners;
- our ability to provide high quality, valuable content for our platform;
- our ability to successfully differentiate our platform from competing offerings;
- our ability to maintain a consistently high level of customer service;
- our ability to prevent any actual or perceived data security breach or incident or data loss, or misuse or perceived misuse of our platform;
- the actions of competitors or other third parties;
- positive or negative publicity, including with respect to events or activities attributed to us, our employees or our clients;
- interruptions, delays, or attacks on our platform; and
- litigation or legal developments.

Damage to our reputation and brand, from the factors listed above or otherwise, may reduce demand for our platform and have an adverse effect on our business, operating results and financial condition. Moreover, any attempts to rehabilitate our reputation and brand recognition may be costly and time-consuming, and there can be no assurance that any such efforts will ultimately be successful.

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

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

We have undergone recent changes to our senior management team and organizational structure, and if we are unable to successfully implement our new organizational structure, or if we lose the services of any of our senior management, our business, operating results, and financial condition could be adversely affected.

In November 2023, Christopher “Chip” Paucek, our former Chief Executive Officer resigned and the Board appointed Paul Lalljie as our Chief Executive Officer. In addition, over the last twelve months, we have had several senior management changes and we have changed our organizational structure to appoint a leader of each business segment.

Any significant leadership change, senior management transition or change to our organizational structure involves inherent risk and any failure to ensure a smooth transition could hinder our strategic planning, business execution and future performance. In particular, this or any future leadership transition or organizational change may result in a loss of personnel with deep institutional or technical knowledge and changes in business strategy or objectives, and has the potential to disrupt our operations and relationships with employees and partners due to added costs, operational inefficiencies, changes in strategy, decreased employee morale and productivity and increased turnover. We must successfully implement our new organizational structure to achieve our operating objectives.

Our future success depends in large part on the continued service of certain senior management. Our senior management team is critical to the development of our technology, platform, university client relationships, and overall financial and strategic direction and members of senior management are all employed on an at-will basis, which means that they could terminate their employment with us at any time, for any reason and without notice. From time to time, there may be changes in our senior management team resulting from the hiring or departure of executives. If we lose the services of senior management, or if our senior management team cannot work together effectively, our business, operating results, and financial condition could be adversely affected. We do not maintain key-person insurance on any of our employees, including our senior management team. The loss of the services of any key member of our senior management team, or failure to find a suitable successor, could make it more difficult to successfully operate our business and achieve our business goals.

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

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

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

- the need to localize and adapt online offerings for specific countries, including translation into foreign languages and ensuring that these offerings enable our university clients to comply with local education laws and regulations;
- difficulties in staffing and managing foreign operations, including different pricing environments, longer sales cycles, longer accounts receivable payment cycles and collections issues;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- new and different sources of competition, and practices which may favor local competitors;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including labor and employment, tax, education, privacy and data protection, and anti-bribery laws and regulations, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- adverse tax consequences, including liabilities for indirect taxes or the potential for required withholding taxes for our overseas employees;
- terrorist attacks, public health crises, labor strikes or other widespread work stoppages, adverse environmental conditions and acts of war such as the ongoing conflicts in Ukraine and the Middle East;
- unstable regional, economic or political conditions; and
- fluctuations in currency exchange rates or restrictions on foreign currency and resulting effects on our revenue and expenses.

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

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

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

We engage some individuals classified as independent contractors, not employees, and if U.S. or international regulatory authorities mandate that they be classified as employees, our business would be adversely impacted.

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

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

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

Implementation of our 2022 Strategic Realignment Plan or similar plans may not be successful, which could affect our ability to increase our profitability.

On July 28, 2022, we announced a plan to accelerate our transition to a platform company (the "2022 Strategic Realignment Plan"). The plan was designed to reorient the company around a single platform allowing us to pursue a portfolio-based marketing strategy that drives traffic to the edX marketplace. As part of the plan, in 2022, we simplified our executive structure, reduced employee headcount, rationalized our real estate footprint and took steps to optimize our marketing spend. In furtherance of the 2022 Strategic Realignment Plan, we reduced employee headcount during the third quarter of 2023. We expect to record in the aggregate approximately $70 million to $75 million in restructuring charges associated with the 2022 Strategic Realignment Plan. The plan was substantially completed by December 31, 2022 with cash expenditures relating to the employee headcount reduction continuing through the first quarter of 2024 and cash expenditures related to real estate continuing through the duration of lease terms ranging from 1 to 7 years. In late 2023, we announced leadership changes and commenced a comprehensive performance improvement exercise aimed at, among other things, further improving profitability and optimizing our operating model. Part of this exercise includes headcount reductions associated with implementing changes to the Company's organizational structure, as management works to align staffing levels with business priorities across functional Although we believe that the 2022 Strategic Realignment Plan and subsequent related actions will reduce overhead costs, enhance operational efficiency, and result in improved profitability, we cannot guarantee that these activities will achieve or sustain the expected benefits, or that the benefits, even if achieved, will be adequate to meet our long-term profitability and operational expectations. Risks associated with the impact of the 2022 Strategic Realignment Plan and subsequent related actions also include additional unexpected costs and negative impacts on our cash flows from operations and liquidity, employee attrition beyond our intended reductions and adverse effects on employee morale, diversion of management attention, adverse effects to our reputation as an employer, which could make it more difficult for us to hire and retain employees in the future, and potential failure or delays to meet operational and growth targets due to the loss of qualified employees and the potential negative impact on our reputation among our university clients. If we do not realize the expected benefits or synergies of the 2022 Strategic Realignment Plan and subsequent related actions, our business, financial condition, cash flows and results of operations could be negatively impacted.

If students do not expand beyond the free offerings available on our platform, our ability to grow our business and improve our results of operations may be adversely affected.

Many of our students initially access the free or audit track of the open courses available on our platform. Our growth strategy depends in part on our ability to increase the number of learners on our platform and to persuade those learners to enroll in the paid certificate track of the open courses available on our platform or in one of our other paid offerings. If students do not expand beyond free offerings, our ability to grow our business may be adversely affected.

Risks Related to Our Indebtedness and Capital Structure

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

As of June 30, 2024 and December 31, 2023, we had approximately $945.9 million and $948.4 million, respectively, of indebtedness on a consolidated basis, including $380 million of 2.25% Senior Unsecured Convertible Notes due 2025 (the "2025 Notes") issued pursuant to an indenture between the Company and Wilmington Trust, National Association (the "2025 Indenture"). Additionally, on January 11, 2023, we issued $147 million of 4.50% Senior Unsecured Convertible Notes due 2030 (the "2030 Notes" and together with the 2025 Notes, the "Convertible Notes") pursuant to an indenture between the Company and Wilmington Trust, National Association (the "2030 Indenture" and together with the 2025 Indenture, the "Indentures"), and amended, extended and paid down the Term Loan Credit and Guaranty Agreement, dated as of June 28, 2021, by entering into the Extension Amendment, Second Amendment and First Incremental Agreement to Credit and Guaranty Agreement, dated as of January 9, 2023 (the "Second Amended Credit Agreement") reducing the amount of term loans outstanding under such instrument to $380 million and adding a revolving credit facility in an amount not to exceed $40 million. See Note 10 in the "Notes to Condensed Consolidated Financial Statements" included in Part II, Item 8 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;
- subject us to additional scrutiny from regulators;
- 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 Indentures and the Second Amended 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. For example, the scheduled maturity date of the loans under the Second Amended Credit Agreement may be accelerated to: (i) in the case of the term loan facility, January 30, 2025 in the event more than $40 million of 2025 Notes remain outstanding on such date and (ii) in the case of the revolving facility, January 1, 2025, in the event more than $50 million of 2025 Notes remain outstanding on such date. The 2030 Indenture also restricts the ability to refinance the 2025 Notes with any debt that is secured, structurally senior or matures prior to the 2030 Notes. If the debt under the Second Amended 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, including the Convertible Notes which have cross-acceleration provisions to material debt, including the Second Amended Credit Agreement and the Convertible Notes, which could immediately materially and adversely affect our business, financial condition, and results of operations. See below also "Risk Factors – Risks Related to Our Indebtedness and Capital Structure – The Second Amended Credit Agreement contains financial covenants that may limit our operational flexibility." 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, which may adversely impact our business, financial condition, and results of operations and raises substantial doubt about our ability to continue as a going concern. In addition, the perception that we may not be able to continue as a going concern may cause customers and other business partners to choose not to conduct business with us due to concerns about our ability to meet our contractual obligations and continue operating our business without interruption.

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

We may incur significant additional indebtedness in the future under the agreements governing our indebtedness. We are subject to limited restriction under the terms of the Indentures from incurring additional unsecured debt. Although the Second Amended 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.

The Second Amended Credit Agreement contains financial covenants that may limit our operational flexibility and with which we may be unable to comply from time to time.

The Second Amended Credit Agreement requires us to comply with several financial covenants and other restrictive covenants, such as maintaining minimum recurring revenues, a minimum fixed charge coverage ratio, a maximum consolidated senior secured net leverage ratio and a maximum consolidated total net leverage ratio, maintaining insurance coverage, and restricting our ability to make certain investments. In addition, the 2030 Notes also contain certain covenants consistent with and that prevent us from amending or obtaining waivers for certain financial covenants in the Second Amended Credit Agreement. Compliance with these covenants may limit our ability to engage in new lines of business, make certain investments, pay dividends, or enter into various transactions.

These covenants may limit the flexibility of our operations, and lack of compliance, or inability to obtain a waiver related to those covenants, could result in a default under the Second Amended Credit Agreement. In addition, our Second Amended Credit Agreement includes a financial covenant that requires the Company to maintain $900 million minimum Recurring Revenues (as defined by the Second Amended Credit Agreement) as of the last day of any period of four consecutive fiscal quarters, commencing with the fiscal quarter ending September 30, 2021 through the maturity date. The Recurring Revenue for the four consecutive quarters ending June 30, 2024 was less than $900 million and accordingly the Company was not in compliance with the covenants under the Second Amended Credit Agreement. If the Transactions are not approved, the lenders would have the right to terminate their commitments to provide loans under the Second Amended 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 Second Amended Credit Agreement were to be accelerated, we currently do not have sufficient cash to repay such indebtedness and we may be unable to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, including the Convertible Notes, which have cross-acceleration provisions to material debt, including the Second Amended Credit Agreement and the Convertible Notes, which would immediately materially and adversely affect our business, financial condition, and results of operations and raise substantial doubt about our ability to continue as a going concern. Additionally, the scheduled maturity date of the loans under the Second Amended Credit Agreement may be accelerated to (i) in the case of the term loan facility, January 30, 2025 in the event more than $40 million of 2025 Notes remain outstanding on such date and (ii) in the case of the revolving facility, January 1, 2025, in the event more than $50 million of 2025 Notes remain outstanding on such date. See Note 8 to the accompanying financial statements.

Furthermore, the Second Amended Credit Agreement restricts, and any future indebtedness may similarly restrict or prohibit, us from making any cash payments to settle a conversion, repurchase, mandatory redemption or maturity payment in respect of the Convertible Notes. Our inability to make cash payments upon the conversion or repurchase of the Convertible Notes could result in dilution to our stockholders and limit our operational flexibility, respectively, and, in respect of a payment in connection with a mandatory redemption or maturity, would permit holders of the Convertible Notes to accelerate our obligations under the Convertible 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, to obtain waivers related to those covenants, if available, 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.

To service or refinance 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. In order to service or refinance our indebtedness and to meet our liquidity needs we may be required to obtain additional financing and, subject to market conditions, we may seek to amend, refinance, restructure, exchange or repurchase our outstanding indebtedness and/or raise additional equity. We may seek to enter into revolving credit facilities, issue debt or equity securities or incur other indebtedness, sell assets (including businesses or business lines) or securitize receivables to meet future cash needs or to reduce our borrowing costs. Any issuance of equity or debt may be for cash or in exchange for our outstanding securities or indebtedness, or a combination thereof. Any debt we incur in the future may have terms (including interest rate, financial covenants and covenants limiting our operating flexibility) that are not favorable to us, and any such additional equity financing may dilute the economic and/or voting interests of our existing stockholders, may be preferred in right of payment to our outstanding common stock or confer other privileges to the holders.

Furthermore, our failure to obtain any necessary financing, amendment, refinancing, restructuring, exchange or repurchases could have a material and adverse effect on our results of operations, cash flows, financial condition and liquidity.

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 payable upon maturity or a mandatory redemption of the Convertible Notes, or if we fail to comply with the various covenants in the instruments governing our indebtedness and we are unable to obtain waivers, if available, 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.

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

In August 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-06, Accounting for Convertible Instruments and Contract in an Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"), which amends the accounting standards for convertible debt instruments that may be settled entirely or partially in cash upon conversion. ASU 2020-06 eliminates requirements to separately account for liability and equity components of such convertible debt instruments and eliminates the ability to use the treasury stock method for calculating diluted earnings per share for convertible instruments whose principal amount may be settled using shares. Instead, ASU 2020-06 requires (i) the entire amount of the security to be presented as a liability on the balance sheet and (ii) application of the if-converted method for calculating diluted earnings per share. Under the if-converted method, diluted earnings per share will generally be calculated assuming that all the Convertible Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive, which could adversely affect our diluted earnings per share.

We adopted ASU 2020-06 in the first quarter of 2022, using the modified retrospective basis, effective as of January 1, 2022. Following adoption of this ASU, we no longer separate the liability and equity components of the Convertible Notes on our balance sheet.

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

We may need to raise additional funds to respond to business challenges or opportunities, accelerate our growth, develop new offerings or enhance our platform. Our continued access to sources of liquidity depends on multiple factors, including global economic conditions, the condition of global financial markets, the availability of sufficient amounts of financing and our operating performance, all of which may be impacted by inflation and currency and interest rate fluctuations. If we seek to raise additional capital, it may not be available on favorable terms or may not be available at all. In addition, under our Second Amended Credit Agreement, we may be restricted from using the net proceeds of financing transactions for our operating objectives. Lack of sufficient capital resources could significantly limit our ability to manage our business and to take advantage of business and strategic opportunities and raise substantial doubt about our ability to continue as a going concern. Our Second Amended Credit Agreement includes a financial covenant that requires the Company to maintain $900 million minimum Recurring Revenues (as defined by the Second Amended Credit Agreement) as of the last day of any period of four consecutive fiscal quarters, commencing with the fiscal quarter ending September 30, 2021 through the maturity date. In addition, our Second Amended Credit Agreement includes a financial covenant that requires the Company to maintain $900 million minimum Recurring Revenues (as defined by the Second Amended Credit Agreement) as of the last day of any period of four consecutive fiscal quarters, commencing with the fiscal quarter ending September 30, 2021 through the maturity date. The Recurring Revenue for the four consecutive quarters ending June 30, 2024 was less than $900 million and accordingly the Company was not in compliance with the covenants under the Second Amended Credit Agreement. Although failure to comply with this financial covenant without being able to cure or otherwise obtain a waiver could cause the obligations under the Second Amended Credit Agreement to accelerate, any efforts to enforce such acceleration under the Second Amended Credit Agreement is automatically stayed as a result of the Chapter 11 Cases and the lenders' rights of enforcement in respect of the Second Amended Credit Agreement are subject to the applicable provisions of the Bankruptcy. Additionally, if we fail to refinance our 2025 Notes (i) prior to January 30, 2025, then the maturity on the term loan facility under the Second Amended Credit Agreement will be accelerated, and (ii) prior to January 1, 2025, then the maturity on the revolving facility under the Second Amended Credit Agreement will be accelerated. The 2030 Indenture also restricts the ability to refinance the 2025 Notes with any debt that is secured, structurally senior or matures prior to the 2030 Notes. See below also "Risk Factors – Risks Related to Our Indebtedness and Capital Structure – The Second Amended Credit Agreement contains financial covenants that may limit our operational flexibility."

As of March 31, 2024, we had $380 million and $147.0 million outstanding under the 2025 Notes and the 2030 Notes, and $22.6 million in cash and cash equivalents. Accordingly, without additional funding, we do not expect to have sufficient funds to meet our obligations, including our upcoming maturities. Moreover, any additional capital raised through the sale of equity or debt securities with an equity component would dilute our stock ownership. If adequate additional funds are not available if and when needed, we may be required to delay, reduce the scope of, or eliminate material parts of our business strategy or may be forced into bankruptcy or liquidation. See Note 2 to the accompanying financial statements.

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

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

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

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

Certain requirements of Title II and Title III of the Americans with Disabilities Act apply to us and our university clients and Section 504 of the Rehabilitation Act of 1974 applies to our university clients that receive federal funding. Further, in the absence of definitive federal rulemaking, the Web Content Accessibility Guidelines 2.1, a set of recommendations and technical standards for making websites accessible to individuals with disabilities published by the World Wide Web Consortium, have become the effective standard for learner-facing aspects of our platform. We may not be successful in ensuring that our offerings and services comply with these changing statutory and regulatory requirements, which could make our solutions less attractive to our clients and students, and we expect to incur ongoing costs of compliance.

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

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

Activities of the U.S. Congress or Department of Education could result in adverse legislation, regulations, guidance, actions or investigations.

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

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

In addition, ongoing regulatory activities and initiatives of the DOE may have similar consequences for our business even in the absence of Congressional action. For example, there is a DOE rulemaking process underway in 2024 that includes agenda topics related to accreditation, state authorization, and distance education that could impact our institutional partners and our business. The DOE has also indicated that it may consider additional rulemaking agenda topics and guidance changes in 2024. We cannot predict with certainty what these future changes will be, or whether they will lead to any additional reports that may impact our business in the future.

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

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

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

Because the bundled services rule was promulgated in the form of agency guidance issued by the DOE in the form of a "dear colleague" letter, or DCL, and is not codified by statute or regulation, there is risk that the rule could be altered or removed without customary administrative procedural requirements, such as adequate prior notice and an opportunity to comment, that accompany formal agency rulemaking. Although the DCL remains the longstanding policy, in March 2023, the DOE provided notice that it intends to review the bundled services rule, with the intent to improve the guidance on the incentive compensation rule with respect to bundled services. Following this notice, DOE held listening sessions and accepted written feedback from the public on questions it posed. DOE has not indicated if or when it will issue revised guidance on the DCL, and we are unable to determine the impact that any such guidance would have on our business model or results of operations.

In addition, the legal weight the DCL would carry in any litigation over the propriety of any specific compensation or revenue sharing arrangements under the HEA or the incentive compensation rule is uncertain. We can offer no assurances as to how the DCL would be interpreted by a court. The revision, removal or invalidation of the bundled services rule by Congress, the DOE or a court, whether in an action involving our company or our university clients, or in an action that does not involve us, could require us to change our business model and renegotiate the terms of many of our university client contracts and could compromise our ability to generate revenue or otherwise adversely impact our business.

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

Even though the DCL issued in 2011 clarifies that tuition revenue-sharing arrangements with our university clients are permissible, we are still subject to other provisions of the incentive compensation rule that prohibit us from offering to our employees who are involved with or responsible for recruiting or admissions activities any bonus or incentive-based compensation based on the successful recruitment, admission or enrollment of students into any institution. If we or our subcontractors or agents violate the incentive compensation rule, we could be liable to our university clients for substantial fines, sanctions or other liabilities, including liabilities related to "whistleblower" claims under the federal False Claims Act. Any such claims, even if without merit, could require us to incur significant costs to defend the claim, distract management's attention and damage our reputation.

If we or our university clients fail to meet the DOE's third party servicer requirements, we may incur liabilities, or be fined, limited, suspended or terminated from participating as a Third-Party Servicer of Title IV programs.

On February 15, 2023, DOE published Dear Colleague Letter GEN-23-03, subsequently amended, which updated its existing guidance to significantly expand its interpretation of the types of service providers that qualify as participating in the administration of Title IV funds under the definition of a "Third-Party Servicer" (TPS). Under this guidance, entities like ours performing the functions of student recruiting and retention, the provision of software products and services involving Title IV administration activities, and the provision of educational content and instruction, among other things, would have been deemed "Third-Party Servicers" and would have been subject to regulation by the DOE under the HEA and the DOE's regulations and guidance. This guidance also prohibited institutions from contracting with foreign or foreign-owned Third-Party Servicers.

On April 4, 2023, the Company filed a lawsuit in federal district court against the DOE and its Secretary that challenged the DOE's revised TPS guidance. The lawsuit contends that the DOE's expansion of the definition of "Third-Party Servicer" from that contained in the HEA, and prohibition on contracting with foreign or foreign-owned TPSs, violated both the HEA and the Administrative Procedure Act.

On May 16, 2023, the DOE published *Dear Colleague Letter* GEN-23-08, which rescinded the DOE's prohibition on contracting with foreign or foreign-owned third party services and further delayed the implementation of the remaining TPS guidance, and reinstated the guidance in place prior to DOE's February 15, 2023 notice. The DOE stated that it plans to publish revised guidance with an effective date at least six months after its publication. The lawsuit remains pending but is stayed awaiting issuance of the DOE's revised TPS guidance. We do not know when the DOE will issue this revised guidance or the scope or terms of the guidance.

If the Company were deemed to be a TPS under revised regulation and guidance, its risks related to the Title IV obligations of its Title IV eligible partner institutions would increase, as would its regulatory burden, and its ability to contract with institutions could be limited and our business could be adversely impacted. For example, a TPS is required to meet certain administrative capability and financial responsibility requirements, which if not met would disqualify it from contracting with Title IV eligible institutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are also subject to evolving EU rules on data transfer, as we may transfer personal data from the European Economic Area to other jurisdictions. The invalidation of the EU-U.S. Privacy Shield framework in July 2020, enforcement action by certain EU data protection authorities (such as the Irish Data Protection Commission in May 2023) and introduction of updated Standard Contractual Clauses (SCC) in 2021 for alternative means of cross-border data transfer, results in additional complexity and risk to our compliance measures. The European Commission issued an adequacy decision in respect of the EU-US Data Privacy Framework on July 10, 2023, permitting transfers of personal data from the EU to U.S. organizations certified under the Framework, without additional transfer mechanisms. However, legal challenges to the validity of this adequacy decision have already been lodged in the EU, with further challenges expected.

Moreover, other new regulations, such as the Digital Services Act, which entered into force in the UK on November 16, 2022, and will apply to all EU member states in February 2024, and California's Age Appropriate Design Code, passed in August 2022 and going into effect in July 2024, place additional obligations on online platforms and the ways in which they handle, share and disclose data.

In the U.S., the California Consumer Privacy Act ("CCPA") took effect in January 2020. Pursuant to the CCPA, we are required, among other things, to meet certain enhanced notice requirements to California residents regarding our use or disclosure of their personal information, allow California residents to opt-out of certain uses and disclosures of their personal information without penalty, and provide Californians with other choices related to personal data in our possession. The California Attorney General may seek substantial monetary penalties and injunctive relief in the event of our non-compliance with the CCPA. The CCPA also allows for private lawsuits from Californians in the event of certain data breaches. The CCPA was amended by the California Privacy Rights Act ("CPRA"), which went into effect on January 1, 2023 (regulations pending). CPRA places additional obligations on covered businesses regarding consumer opt-out rights and use of sensitive data, among other requirements. Moreover, Virginia, Utah, Connecticut and Colorado all have passed new privacy laws that went into effect in 2023. New privacy laws have also recently been passed in Indiana, Iowa, Montana, and Tennessee, which will go into effect between 2024 and 2026. There are a number of additional proposals for U.S. federal and state privacy laws that, if passed, could increase our potential liability, add layers of complexity to compliance in the U.S. market, increase our compliance costs, and adversely impact our business. However, without an overarching federal law driving privacy compliance in the U.S., the risk is high of a patchwork of privacy legislation formed by individual state laws, similar to the states' approach to breach notification obligations. This could not only increase costs for compliance but also raise the risk of enforcement by individual state attorneys general.

We also expect that there will continue to be new proposed laws, regulations, rulings and industry standards concerning privacy, security, data storage and data protection in the U.S., the EU and other jurisdictions, and we cannot yet determine the impact such future laws, regulations, rulings and standards may have on our business. For example, the European ePrivacy Directive (Directive 2002/58/EC, as amended by Directive 2009/136/EC), which obliges EU member states to introduce certain national laws regulating privacy in the electronic communications sector, will soon be replaced by the ePrivacy Regulation. As the text of the ePrivacy Regulation is still under development and in draft form, and as further guidance is issued and interpretations of both the ePrivacy Regulation and the GDPR develop, it is difficult to assess the impact of either on our business or operations, but it may require us to modify our data practices and policies. In addition, in 2021 new privacy laws were passed in China, Brazil and other jurisdictions, and in 2023, a new privacy law was passed in India. Many countries are considering updates to their current data protection regulations, including Australia.

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

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

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

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

Students typically use a credit or debit card to pay application and enrollment fees and to make tuition payments for the offerings in our Alternative Credential Segment that are not free. We are subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. We believe that we and the payment processing service providers we use are compliant in all material respects with the Payment Card Industry Data Security Standard. However, there is no guarantee that such compliance will be maintained or that compliance will prevent illegal or improper use of our systems that are integrated with our payment processing providers. If we or any of the third-party payment processors we use fail to be in compliance with applicable credit card rules and regulations, we may be required to migrate to an alternate payment processor which could result in transaction downtime during the migration and/or a loss of students and have a material adverse effect on our business, financial condition and results of operations.

We are subject to governmental export, import and sanctions controls that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.

Our business activities are subject to various restrictions under U.S. export and similar laws and regulations, including the U.S. Department of Commerce's Export Administration Regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. The U.S. export control laws and U.S. economic sanctions laws include restrictions or prohibitions on the sale of certain services to U.S. embargoed or sanctioned countries, governments, persons, and entities. In addition, various countries regulate the import of certain technology and have enacted or could enact laws that could limit our ability to provide students access to our platform or could limit our students' ability to access or use our services in those countries.

Changes in our platform, or future changes in export and import regulations, may prevent our international students from utilizing our platform or, in some cases, prevent the export or import of our platform to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions, or related legislation or changes in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our platform by, or in our decreased ability to export or sell subscriptions to our platform to, existing or potential students internationally. Any decreased use of our platform or limitation on our ability to export or sell our platform would adversely affect our business, results of operations, and financial results.

Risks Related to Intellectual Property

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

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

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

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

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

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

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

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

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

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

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

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

We pursue the registration of our domain names, trademarks and service marks in the United States and in jurisdictions outside the United States. However, third parties may knowingly or unknowingly infringe on our trademark or service mark rights, third parties may challenge our trademark or service mark rights, and pending or future trademark or service mark applications may not be approved. In addition, effective trademark protection may not be available in every country in which we operate or intend to operate. In any or all cases, we may be required to expend significant time and expense to prevent infringement or enforce our rights.

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

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

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

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

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

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

We do not control and may be unable to predict the future path of the Open edX Platform.

Certain of our offerings are hosted on the Open edX Platform that is owned by the non-profit entity that survived the edX Acquisition. We do not own the Open edX Platform and we do not control and may be unable to predict the future path of open source technology development of the Open edX Platform, including the ongoing development of open source components used in the Open edX Platform, which could reduce the appeal of our offerings hosted on the Open edX Platform and damage our reputation. If open source software programmers, many of whom we do not employ, or our own internal programmers do not continue to develop and enhance the Open edX Platform, we may be unable to meet student or university requirements.

General Risk Factors

Increased scrutiny and changing expectations from investors, customers, employees, and others regarding our environmental, social and governance practices and reporting could cause us to incur additional costs, devote additional resources and expose us to additional risks, which could adversely impact our reputation, customer acquisition and retention, access to capital and employee retention.

Companies across all industries are facing increasing scrutiny related to their environmental, social and governance, or ESG, practices and reporting. Investors, customers, employees and other stakeholders have focused increasingly on ESG practices and placed increasing importance on the implications and social cost of their investments, purchases and other interactions with companies. For example, many investment funds focus on positive ESG business practices and sustainability scores when making investments and may consider a company’s ESG or sustainability scores as a reputational or other factor in making an investment decision. In addition, investors, particularly institutional investors, use these scores to benchmark companies against their peers and if a company is perceived as lagging, these investors may engage with such company to improve ESG disclosure or performance and may also make voting decisions on this basis. With this increased focus and demand, public reporting regarding ESG practices is becoming more broadly expected. If our ESG practices and reporting do not meet investor, customer, or employee expectations, which continue to evolve, our brand and reputation may be negatively impacted. Any disclosure we make may include our policies and practices on a variety of ESG matters, including corporate governance, environmental compliance, employee health and safety practices, human capital management, and workforce inclusion and diversity. It is possible that stakeholders may not be satisfied with our ESG reporting, our ESG practices or our speed of adoption. We could also incur additional costs and devote additional resources to monitor, report and implement various ESG practices, including resources required to comply with any final SEC rulemaking related to climate disclosures, which was published by the SEC on March 6, 2024 but is currently subject to a stay pending the outcome of legal challenges. If we fail, or are perceived to be failing, to meet the standards included in any sustainability disclosure or the expectations of our various stakeholders, it could negatively impact our reputation, access to capital and employee retention.

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

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

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

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

Our results of operations could be adversely affected by natural disasters, public health crises, political crises, political or geopolitical crises, the physical effects of climate changes or other catastrophic events.

Our business and operations could be materially and adversely affected in the event of droughts, floods, fires, telecommunications failures, blackouts or other power losses, break-ins, acts of terrorism, an outbreak of hostilities, political or geopolitical crises such as conflicts in Ukraine and the Middle East, inclement weather, the physical effects of climate change, public health crises, pandemics or endemics, or other catastrophic events. For example, the uncertain nature, magnitude, and duration of hostilities stemming from Russia's military invasion of Ukraine or the conflict in the Middle East, including the potential effects of sanctions and retaliatory cyber-attacks on the world economy and markets, have contributed to increased market volatility and uncertainty, which could negatively impact our results of operations. If floods, fire, inclement weather including extreme rain, wind, heat, or cold, or accidents due to human error were to occur and cause damage to our properties or other locations from which our employees are working, or if our operations or the operations of our service providers were interrupted by telecommunications failures, blackouts, acts of terrorism or outbreak of hostilities, political or geopolitical crises, or public health crises, our results of operations would suffer, especially if such events were to occur during peak periods. We may not be able to effectively shift our operations due to disruptions arising from the occurrence of such events, and our business could be affected adversely as a result.

Further, risks related to rapid climate change may have an increasingly adverse impact on our business and those of our university clients and students in the longer term. Any of our primary locations and the locations of our university clients and students may be vulnerable to the adverse effects of climate change. Changing market dynamics, global policy developments, and the increasing frequency and impact of extreme weather events on critical infrastructure in the U.S., South Africa, and elsewhere have the potential to disrupt our business and the business of our university clients and students, and may cause us to experience higher attrition, losses, and additional costs to maintain our operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our university clients and students and impact the communities in which we operate. Overall, climate change, its effects, and the resulting, unknown impact could have a material adverse effect on our financial condition and results of operations.

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

During the three months ended June 30, 2024, none of our directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or adopted or terminated a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

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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	June 10, 2022	
3.2	Certificate of Amendment to Eighth Amended and Restated Certificate of Incorporation	8-K	001-36376	3.1	June 14, 2024	
3.3	Amended and Restated Bylaws of the Registrant.	8-K	001-36376	3.1	December 22, 2022	
10.1	Restructuring and Support Agreement, dated July 24, 2024, by and among 2U, Inc., certain subsidiaries of 2U, Inc. and the Contesting Creditors party thereto.	8-K	001-36376	10.1	July 25, 2024	
10.2	Equity Rights Offering Backstop Commitment Letter, dated July 24, 2024, by and among 2U, Inc. and the Commitment Parties party thereto.	8-K	001-36376	10.2	July 25, 2024	
10.3	Form of Debtor-in-Possession Credit and Guarantee Agreement.	8-K	001-36376	10.3	July 25, 2024	
10.4†	Form of Retention Bonus Prepayment Acknowledgement.	8-K	001-36376	10.4	July 25, 2024	
10.5†	Summary of Non-Employee Director Compensation.					X
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

† Indicates management contract or compensatory plan.

* Portions of this exhibit have been omitted pursuant to Item 601(b) of Regulation S-K.

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.	
August 9, 2024	By:	/s/ Paul S. Lalljie
		Paul S. Lalljie
		Chief Executive Officer
August 9, 2024	By:	/s/ Matthew J. Norden
		Matthew J. Norden
		Chief Financial Officer

EXHIBIT 10.5

SUMMARY OF NON-EMPLOYEE DIRECTOR COMPENSATION

- Each year, the Compensation Committee (the "***Committee***") of the Board of Directors (the "***Board***") of 2U, Inc. (the "***Company***") approves the compensation arrangements for non-employee members of the Board to take effect as of April 1 of such year. The compensation arrangements described below were approved effective April 1, 2024 and may be modified, amended or terminated by the Board at any time in its discretion.

- Each non-employee director will receive an annual cash retainer of $183,000, to be paid in equal quarterly installments of $45,750 on April 1 (or as soon as reasonably practicable thereafter) and on the first day of each calendar quarter thereafter.

- Each non-employee director who serves as Chair of the Board or Chair of the Audit Committee, Compensation Committee or Nominating and Corporate Governance Committee will receive an additional annual cash retainer of $69,000, $25,000, $15,000 or $11,000, respectively, to be paid in equal quarterly installments on April 1 (or as soon as reasonably practicable thereafter) and on the first day of each calendar quarter thereafter.

- Each non-employee director who serves as a member of the Audit Committee, Compensation Committee or Nominating and Corporate Governance Committee (in each case, other than the Chair) will receive an additional annual cash retainer of $12,500, $10,000, or $5,000, respectively, to be paid in equal quarterly installments on April 1 (or as soon as reasonably practicable thereafter) and on the first day of each calendar quarter thereafter.

- Each non-employee director will receive a per meeting fee of $1,500 for every Board meeting in excess of the typical quarterly meeting, subject to a cap of $10,000.

- The cash retainers described in this summary may be prorated to reflect partial periods of a non-employee director's service.

As previously disclosed, Ivona Smith was appointed to the Board on May 9, 2024. In connection with her appointment, the Company entered into an Independent Director Agreement with Ms. Smith, pursuant to which, in lieu of the non-employee director compensation described above, Ms. Smith is entitled to receive a monthly cash retainer of $30,000, paid in advance each month. Ms. Smith is not entitled to receive any other compensation, including any other retainers or meeting fees, in connection with her service on the Board.

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EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE 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:	August 9, 2024	By:	/s/ PAUL S. LALLJIE
			Name: Paul S. Lalljie
			Title: *Chief Executive Officer*

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Matthew J. Norden, 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:	August 9, 2024	By:	/s/ MATTHEW J. NORDEN
			Name: Matthew J. Norden
			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 June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul S. Lalljie, 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:	August 9, 2024	By:	/s/ PAUL S. LALLJIE	
			Name:	Paul S. Lalljie
			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 June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matthew J. Norden, 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: August 9, 2024

By: /s/ MATTHEW J. NORDEN

Name: Matthew J. Norden
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.