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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

or

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

For the transition period from to

Commission File Number: 001-36376

2U, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 8, 2019, there were 63,476,902 shares of the registrant's common stock, par value $0.001 per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- trends in the higher education market and the market for online education, and expectations for growth in those markets;
- the acceptance, adoption and growth of online learning by colleges and universities, faculty, students, employers, accreditors and state and federal licensing bodies;
- our ability to comply with evolving regulations and legal obligations related to data privacy, data protection and information security;
- our expectations about the potential benefits of our cloud-based software-as-a-service, or SaaS, 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 ability to meet the anticipated launch dates of our graduate programs, short courses and boot camps;
- our expectations about the predictability, visibility and recurring nature of our business model;
- our ability to acquire new university clients and expand our graduate programs, short courses and boot camps with existing university clients;
- our ability to successfully integrate the operations of our acquisitions, including Get Educated International Proprietary Limited, or GetSmarter, and Trilogy Education Services, Inc., or Trilogy, achieve the expected benefits of our acquisitions and manage, expand and grow the combined company;
- our ability to service our substantial indebtedness and comply with the financial and other restrictive covenants contained in the credit agreement governing our senior secured term loan facility;
- our ability to generate sufficient future operating cash flows from recent acquisitions to ensure related goodwill is not impaired;
- our ability to execute our growth strategy in the international, undergraduate and non-degree alternative markets;
- our ability to continue to acquire prospective students for our graduate programs, short courses and boot camps;
- our ability to affect or increase student retention in our graduate programs;
- our ability to attract, hire and retain qualified employees;
- our expectations about the scalability of our cloud-based platform;
- our expectations regarding future expenses in relation to future revenue;
- potential changes in regulations applicable to us or our university clients; and

- our expectations regarding the amount of time our cash balances and other available financial resources will be sufficient to fund our operations.

You should refer to the risks described in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, as amended and supplemented by Part II, Item 1A "Risk Factors" in this Quarterly Report, 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," "Company," "we," "us," and "our" refer to 2U, Inc. and its subsidiaries, unless the context indicates otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2019 (unaudited)	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 154,091	$ 449,772
Restricted cash	16,739	—
Investments	—	25,000
Accounts receivable, net	84,797	32,636
Prepaid expenses and other assets	39,239	14,272
Total current assets	294,866	521,680
Property and equipment, net	56,105	52,299
Right-of-use assets	40,391	—
Goodwill	414,027	61,852
Amortizable intangible assets, net	336,373	136,605
University payments and other assets, non-current	71,808	34,918
Total assets	$ 1,213,570	$ 807,354
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable and accrued expenses	$ 59,607	$ 27,647
Accrued compensation and related benefits	27,256	23,001
Deferred revenue	58,634	8,345
Lease liability	7,104	—
Other current liabilities	12,362	9,487
Total current liabilities	164,963	68,480
Long-term debt	245,856	3,500
Deferred tax liabilities, net	6,172	6,949
Lease liability, non-current	62,709	—
Other liabilities, non-current	812	23,416
Total liabilities	480,512	102,345
Commitments and contingencies (Note 6)		
Stockholders' equity		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, none issued	—	—
Common stock, $0.001 par value, 200,000,000 shares authorized, 63,388,705 shares issued and outstanding as of September 30, 2019; 57,968,493 shares issued and outstanding as of December 31, 2018	63	58
Additional paid-in capital	1,180,298	957,631
Accumulated deficit	(434,804)	(244,166)
Accumulated other comprehensive loss	(12,499)	(8,514)
Total stockholders' equity	733,058	705,009
Total liabilities and stockholders' equity	$ 1,213,570	$ 807,354

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue	$ 153,798	$ 106,963	$ 411,493	$ 296,674
Costs and expenses				
Curriculum and teaching	21,336	6,351	41,345	16,665
Servicing and support	27,351	16,586	71,518	49,116
Technology and content development	34,132	16,361	79,969	45,436
Marketing and sales	93,521	60,548	260,231	171,982
General and administrative	42,040	18,974	93,471	63,323
Impairment charge	70,379	—	70,379	—
Total costs and expenses	288,759	118,820	616,913	346,522
Loss from operations	(134,961)	(11,857)	(205,420)	(49,848)
Interest income	924	1,799	5,087	3,053
Interest expense	(5,651)	(27)	(8,130)	(81)
Other expense, net	(710)	(273)	(1,093)	(1,493)
Loss before income taxes	(140,398)	(10,358)	(209,556)	(48,369)
Income tax (expense) benefit	(714)	414	18,918	5,207
Net loss	$ (141,112)	$ (9,944)	$ (190,638)	$ (43,162)
Net loss per share, basic and diluted	$ (2.23)	$ (0.17)	$ (3.14)	$ (0.78)
Weighted-average shares of common stock outstanding, basic and diluted	63,358,890	57,663,361	60,690,536	55,128,845
Other comprehensive loss				
Foreign currency translation adjustments, net of tax of $0 for all periods presented	(5,856)	(2,781)	(3,985)	(12,327)
Comprehensive loss	$ (146,968)	$ (12,725)	$ (194,623)	$ (55,489)

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2018	57,968,493	$ 58	$ 957,631	$ (244,166)	$ (8,514)	$ 705,009
Exercise of stock options	211,506	—	1,928	—	—	1,928
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	9,319	—	—	—	—	—
Stock-based compensation expense	—	—	9,584	—	—	9,584
Net loss	—	—	—	(21,554)	—	(21,554)
Foreign currency translation adjustment	—	—	—	—	(372)	(372)
Balance, March 31, 2019	58,189,318	$ 58	$ 969,143	$ (265,720)	$ (8,886)	$ 694,595
Exercise of stock options	85,539	—	452	—	—	452
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	348,418	—	(2,558)	—	—	(2,558)
Issuance of common stock in connection with business combination, net of offering costs	4,608,101	5	184,317	—	—	184,322
Stock-based compensation expense	—		9,967	—	—	9,967
Net loss	—	—	—	(27,972)	—	(27,972)
Foreign currency translation adjustment	—	—	—	—	2,243	2,243
Balance, June 30, 2019	63,231,376	$ 63	$ 1,161,321	$ (293,692)	$ (6,643)	$ 861,049
Exercise of stock options	41,828	—	562	—	—	562
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	61,016	—	(15)	—	—	(15)
Issuance of common stock in connection with employee stock purchase plan	54,485	—	1,895	—	—	1,895
Stock-based compensation expense	—		16,535	—	—	16,535
Net loss	—	—	—	(141,112)	—	(141,112)
Foreign currency translation adjustment	—	—	—	—	(5,856)	(5,856)
Balance, September 30, 2019	63,388,705	$ 63	$ 1,180,298	$ (434,804)	$ (12,499)	$ 733,058

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2017	52,505,856	$ 53	$ 588,289	$ (205,836)	$ 5,326	$ 387,832
Exercise of stock options	186,049	—	2,120	—	—	2,120
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	154,111	—	(1,002)	—	—	(1,002)
Stock-based compensation expense	—	—	7,122	—	—	7,122
Net loss	—	—	—	(14,871)	—	(14,871)
Foreign currency translation adjustment	—	—	—	—	4,632	4,632
Balance, March 31, 2018	52,846,016	$ 53	$ 596,529	$ (220,707)	$ 9,958	$ 385,833
Exercise of stock options	315,482	—	2,673	—	—	2,673
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	320,753	—	(2,405)	—	—	(2,405)
Issuance of common stock in connection with a public offering of common stock, net of offering costs	3,833,334	4	330,858	—	—	330,862
Stock-based compensation expense	—	—	9,009	—	—	9,009
Net loss	—	—	—	(18,347)	—	(18,347)
Foreign currency translation adjustment	—	—	—	—	(14,178)	(14,178)
Balance, June 30, 2018	57,315,585	$ 57	$ 936,664	$ (239,054)	$ (4,220)	$ 693,447
Exercise of stock options	499,043	—	2,239	—	—	2,239
Issuance of common stock in connection with settlement of restricted stock units, net of withholdings	68,228	1	(44)	—	—	(43)
Issuance of common stock in connection with employee stock purchase plan	22,483	—	1,278	—	—	1,278
Stock-based compensation expense	—	—	7,933	—	—	7,933
Net loss	—	—	—	(9,944)	—	(9,944)
Foreign currency translation adjustment	—	—	—	—	(2,781)	(2,781)
Balance, September 30, 2018	57,905,339	$ 58	$ 948,070	$ (248,998)	$ (7,001)	$ 692,129

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities		
Net loss	$ (190,638)	$ (43,162)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	46,639	23,382
Stock-based compensation expense	36,086	24,064
Non-cash lease expense	8,407	—
Bad debt expense	1,785	—
Impairment charge	70,379	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(39,743)	(35,543)
Payments to university clients	(22,257)	(11,066)
Prepaid expenses and other assets	(6,760)	(5,426)
Accounts payable and accrued expenses	12,712	10,796
Accrued compensation and related benefits	(109)	1,185
Deferred revenue	20,162	12,210
Other liabilities, net	(24,263)	(3,976)
Other	1,939	1,493
Net cash used in operating activities	(85,661)	(26,043)
Cash flows from investing activities		
Purchase of a business, net of cash acquired	(388,004)	—
Additions of amortizable intangible assets	(50,950)	(51,713)
Purchases of property and equipment	(11,310)	(8,027)
Purchase of investments	(10,000)	(25,000)
Proceeds from maturities of investments	25,000	—
Advances made to university clients	(100)	(300)
Advances repaid by university clients	350	25
Other	4	—
Net cash used in investing activities	(435,010)	(85,015)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of offering costs	—	330,862
Proceeds from exercise of stock options	2,942	7,032
Proceeds from debt	243,726	—
Tax withholding payments associated with settlement of restricted stock units	(2,573)	(3,450)
Proceeds from ESPP share purchases	1,895	1,278
Payments for acquisition of amortizable intangible assets	(1,283)	(4,900)
Payment of debt issuance costs	(1,953)	—
Net cash provided by financing activities	242,754	330,822
Effect of exchange rate changes on cash	(1,025)	(908)
Net (decrease) increase in cash, cash equivalents and restricted cash	(278,942)	218,856
Cash, cash equivalents and restricted cash, beginning of period	449,772	223,370
Cash, cash equivalents and restricted cash, end of period	$ 170,830	$ 442,226

See accompanying notes to condensed consolidated financial statements.

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

1. Organization

2U, Inc. (together with its subsidiaries, the "Company") is a leading education technology company that well-recognized nonprofit colleges and universities trust to bring them into the digital age. The Company's comprehensive platform of tightly integrated technology and services provides the digital infrastructure universities need to attract, enroll, educate and support students at scale. With the Company's platform, students can pursue their education anytime, anywhere, without quitting their jobs or moving; and university clients can improve educational outcomes, skills attainment and career prospects for a greater number of students than they could on their own.

The Company has two reportable segments: the Graduate Program Segment and the Alternative Credential Segment (formerly known as the Short Course Segment). The Company's Graduate Program Segment provides services to well-recognized nonprofit colleges and universities, primarily in the United States, to enable the online delivery of graduate programs. The Company's Alternative Credential Segment provides short form non-degree offerings, such as premium online short courses and technical skills-based boot camps, to working professionals around the world through relationships with leading universities. In the first quarter of 2019, we changed the name of this segment from Short Course to Alternative Credential to more accurately reflect the nature and breadth of educational offerings within this segment. Refer to Note 13 for further information about the Company's segments.

On May 22, 2019, the Company completed its acquisition of Trilogy, a workforce accelerator that prepares adult learners for high-growth careers in the digital economy through its boot camp offerings. The acquisition expanded 2U's university portfolio and deepened relationships across both 2U's and Trilogy's partners to make education more accessible for lifelong learners. The results of Trilogy's operations are included in the Alternative Credential Segment. Refer to Note 3 for further information about the acquisition of Trilogy.

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying 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, for financial statements required to be filed with the Securities and Exchange Commission ("SEC"). As permitted under such rules, certain notes and other financial information normally required by U.S. GAAP have been condensed or omitted. The Company believes the condensed consolidated financial statements reflect all normal and recurring adjustments necessary for a fair statement of the Company's financial position, results of operations, and cash flows as of and for the periods presented herein. The Company's results of operations for the three and nine months ended September 30, 2019 and 2018 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, 2018. All significant intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet data as of December 31, 2018 was derived from the audited financial statements, but does not include all disclosures required by U.S. GAAP on an annual reporting basis.

Use of Estimates

The preparation of the condensed consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported herein. The Company bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances. Significant estimates and assumptions are inherent in the analysis and the measurement of deferred tax assets and the recoverability of goodwill. Due to the inherent uncertainty involved in making estimates, actual results reported in

2. Significant Accounting Policies (Continued)

future periods may be affected by changes in those estimates. The Company evaluates its estimates and assumptions on an ongoing basis.

Restricted Cash

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

Investments

The Company's investments within current assets on the condensed consolidated balance sheets relate to certificates of deposit with original maturities between three months and one year. As of December 31, 2018, the Company had a $25.0 million certificate of deposit included in investments that qualified as a Level 1 fair value measurement asset and was stated at cost, which approximated fair value. This certificate of deposit matured in the first quarter of 2019.

Revenue Recognition

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

Performance Obligations

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

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

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

Business Combinations

2. Significant Accounting Policies (Continued)

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

Equity Interests

As of September 30, 2019, the Company had a $10.0 million investment in an education technology company recorded within university payments and other assets, non-current on the condensed consolidated balance sheet. This investment does not have a readily determinable fair value, and is accounted for as a cost method investment, which is subject to fair value remeasurement upon the occurrence of an observable event.

Marketing and Sales Costs

The majority of the marketing and sales costs incurred by the Company are directly related to acquiring students for its university clients' graduate programs, with lesser amounts related to acquiring students for its short courses and boot camps and marketing and advertising efforts related to the Company's own brand. For the three and nine months ended September 30, 2019 and 2018, costs related to the Company's marketing and advertising efforts of its own brand were not material. All such costs are expensed as incurred and reported in marketing and sales expense on the Company's condensed consolidated statements of operations and comprehensive loss.

Leases

For the Company's operating leases, an assessment is performed to determine if an arrangement is a lease at inception. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the information necessary to determine the rate implicit in the Company's leases is not readily available, the Company determines its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any prepaid lease payments made, less lease incentives. The Company's lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company does not have any finance leases for any periods presented.

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

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

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

2. Significant Accounting Policies (Continued)

Long-Lived Asset Additions

During the nine months ended September 30, 2019, the Company had capital asset additions of $62.0 million in property and equipment and capitalized technology and content development, which included an immaterial amount of non-cash capital expenditures. Due to extended payment terms associated with the timing of cash capital expenditures made more than 90 days after the date of purchase, $1.3 million of these additions were classified as cash flows from financing activities in the condensed consolidated statement of cash flows for the nine months ended September 30, 2019.

During the nine months ended September 30, 2018, the Company had capital asset additions of $70.7 million in property and equipment and capitalized technology and content development, of which $6.1 million consisted of non-cash capital expenditures, primarily related to the acquisition of certain long-lived assets for which a liability was accrued.

Goodwill

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

The determination of the fair value of a reporting unit using the income-based approach requires the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies, control premiums and valuation multiples appropriate for acquisitions in the industry in which the Company competes, discount rates, terminal growth rates, and forecasts of revenue, operating income, depreciation and amortization expense, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, the Company considers each reporting unit's historical results and current operating trends, revenues, 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 Company uses a market-based approach to estimate the value of the reporting unit. The market value 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.

The Company experienced a sustained decline in its stock price during the three months ended September 30, 2019, which management deemed a triggering event that required the Company to perform an interim goodwill impairment test as of September 1, 2019. The Company's test relied in part on the work of an independent valuation firm engaged to provide inputs as to the fair value of the reporting units and to assist in the related calculations and analysis. The results of the interim impairment test indicated that the carrying value of the boot camp business acquired in 2019 within the Company's Alternative Credential Segment exceeded the fair value by $70.4 million. The decrease in this reporting unit's fair value was primarily due to lower expectations of future performance due to the impact of changes in key management as well as an increased focus in integrating the operations of the newly acquired reporting unit, which impacted the estimated operating cash flows. As a result, the Company recorded an impairment charge of $70.4 million on the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2019.

Other than the recently impaired reporting unit, the Company had no reporting units whose estimated fair values as ofSeptember 30, 2019 exceeded their carrying value by less than 10%. It is possible that future changes in the Company's

2. Significant Accounting Policies (Continued)

circumstances, or in the variables associated with the judgments, assumptions and estimates used in assessing the fair value of our reporting units, could require the Company to record additional impairment charges in the future.

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 April 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-04,*Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.* ASU No. 2019-04 provides corrections, updates and clarifications to the previously issued updates of ASU No. 2016-01, ASU No. 2016-13 and ASU No. 2017-12. Various areas of the Accounting Standards Codification were impacted by the update. This standard follows the effective dates of the previously issued ASUs, unless an entity has already early adopted the previous ASUs, in which case the effective date will vary according to each specific ASU adoption. As the Company has adopted ASU No. 2016-01, the amendments related to ASU No. 2016-01 are effective for annual and interim periods in fiscal years beginning after December 15, 2019. As the Company has not yet adopted ASU No. 2016-13, the amendments related to ASU No. 2016-13 are effective for fiscal years beginning after December 15, 2019. Refer below for further discussion of ASU No. 2016-13. The Company is evaluating the impact that the amendments related to ASU Nos. 2016-13 and 2016-01 will have on its consolidated financial position and related disclosures. The amendments to ASU No. 2017-12 are not applicable to the Company.

In August 2018, the FASB issued ASU No. 2018-15,*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which requires customers in cloud computing arrangements that are service contracts to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company early adopted this ASU on July 1, 2018 under the prospective method. As a result of adopting this standard, as of September 30, 2019 and December 31, 2018, the Company had balances of $2.3 million and $0.4 million, respectively, of capitalized implementation costs incurred to integrate the software associated with its cloud computing arrangements, within university payments and other assets, non-current on the condensed consolidated balance sheets. Such capitalized costs are subject to amortization over the remaining contractual term of the associated cloud computing arrangement, with a useful life of between three to five years. The Company did not incur a material amount of such amortization for the three and nine months ended September 30, 2019.

In July 2018, the FASB issued ASU No. 2018-09,*Codification Improvements*, which clarifies and corrects unintended applications of guidance, and makes improvements to several Accounting Standards Codification topics. The applicable amendments in this ASU are effective for the Company in annual periods beginning after December 15, 2018. The Company adopted this ASU on January 1, 2019. Adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In June 2018, the FASB issued ASU No. 2018-07,*Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments to nonemployees. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted this ASU on January 1, 2019. Adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

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

2. Significant Accounting Policies (Continued)

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates step two from the goodwill impairment test and requires an entity to recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value, up to the amount of goodwill allocated to that reporting unit. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company early adopted this ASU on January 1, 2019. Adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Subsequently, the FASB has issued the following standards related to ASU No. 2016-13: ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*; ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*; and ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. ASU No. 2016-13 requires entities to measure all expected credit losses for most financial assets held at the reporting date based on an expected loss model, which includes historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. ASU No. 2016-13 also requires enhanced disclosures to help financial statement users better understand assumptions used in estimating expected credit losses. The amendments in these ASUs are effective for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the impact that the new guidance will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes ASC 840, *Leases (Topic 840)*. The ASU introduces a model for lessees requiring most leases to be reported on the balance sheet. The Company adopted this ASU and the related amendments on January 1, 2019 under the modified retrospective transition method, which resulted in no cumulative-effect adjustment to retained earnings. The Company's financial results for periods ending after January 1, 2019 are presented in accordance with the requirements of Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with Topic 840.

Upon adoption, the Company elected to not recognize ROU assets or lease liabilities for leases with a term of 12 months or less, as permitted by the short-term lease practical expedient. In transition, the Company also applied the package of practical expedients that permit entities to not reassess (i) whether expired or existing contracts contain a lease under the new standard, (ii) the lease classification for expired or existing leases, or (iii) whether previously capitalized initial direct costs would qualify for capitalization under the new standard. The Company also applied the practical expedient that permits a lessee to account for lease and non-lease components in a contract as a single lease component. In addition, the Company did not use hindsight during transition.

Upon adoption, the Company recorded ROU assets of approximately $34 million, which have been reduced for accrued rent, and the remaining balance of any lease incentives upon transition, and also recorded corresponding current and non-current lease liabilities for its operating leases of approximately $5 million and $58 million, respectively, on the condensed consolidated balance sheets. Adoption of this standard did not have a material impact on the Company's condensed consolidated statements of operations and comprehensive loss, the condensed consolidated statements of changes in stockholders' equity or the condensed consolidated statements of cash flows. Refer to Note 7 for more information about the Company's lease-related obligations.

3. Business Combination

On May 22, 2019, the Company completed its acquisition of Trilogy pursuant to an Agreement and Plan of Merger and Reorganization, dated as of April 7, 2019 (the "Merger Agreement"), for a net purchase price of $608.6 million in cash and stock consideration, subject to final adjustments related to working capital and indebtedness. Under the terms of the Merger Agreement, the Company has issued restricted stock units for shares of its common stock, par value $0.001 per share, to certain employees and officers of Trilogy. These awards were issued pursuant to the Company's 2014 Equity Incentive Plan, are subject to future service requirements and will primarily vest over an 18-month period. In addition, a portion of the purchase price held in escrow was recognized as compensation expense in the three months ended September 30, 2019 as the service requirements of certain key employees was determined to be fulfilled. The net assets and results of operations of Trilogy are

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

3. Business Combination (Continued)

included in the Company's condensed consolidated financial statements within the Alternative Credential Segment as of May 22, 2019.

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

	Estimated Average Useful Life (in years)	Purchase Price Allocation
		(in thousands)
Cash and cash equivalents		$ 35,320
Current assets		29,954
Property and equipment, net		2,411
Other non-current assets		6,276
Amortizable intangible assets:		
Developed technology	3	48,096
Developed content	4	48,050
University client relationships	10	84,150
Trade names and domain names	5	7,100
Goodwill		425,678
Current liabilities		(56,917)
Non-current liabilities		(21,523)
		$ 608,595

The Company's provisional valuation of the assets acquired and liabilities assumed is preliminary and the fair values recorded were based upon preliminary estimates, assumptions and other information compiled by management, and are subject to change (which could be significant) within the measurement period of up to one year from the acquisition date. During the three months ended September 30, 2019, the Company made adjustments to the provisional valuation that affected deferred tax liabilities and the residual goodwill. As of September 30, 2019, the Company is awaiting information to finalize the valuation, primarily related to the recording of intangible assets, the related deferred taxes and the final amount of residual goodwill.

The goodwill balance is primarily attributed to the assembled workforce, expanded market opportunities and operating synergies anticipated upon the integration of the operations of 2U and Trilogy. The goodwill resulting from the acquisition is not expected to be tax deductible. Refer to Note 4 for details.

The unaudited pro forma combined financial information below is presented for illustrative purposes and does not purport to represent what the results of operations would actually have been if the business combination occurred as of the dates indicated or what the results would be for any future periods. The following table presents the Company's unaudited pro forma combined revenue and pro forma combined net loss, for the three and nine months ended September 30, 2019 and 2018 as if the acquisition of Trilogy had occurred on January 1, 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands, except per share amounts)			
Pro forma revenue	$ 153,798	$ 130,553	$ 459,756	$ 355,009
Pro forma net loss	(141,020)	(24,715)	(226,901)	(99,204)
Pro forma net loss per share, basic and diluted	$ (2.23)	$ (0.43)	$ (3.74)	$ (1.80)

4. Goodwill and Amortizable Intangible Assets

The table below summarizes the changes in the carrying amount of goodwill by reportable segment:

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

4. Goodwill and Amortizable Intangible Assets (Continued)

	Graduate Program Segment	Alternative Credential Segment	Total
		(in thousands)	
Balance as of December 31, 2018	$ —	$ 61,852	$ 61,852
Goodwill recognized in connection with business combination	—	425,678	425,678
Impairment charge	—	(70,379)	(70,379)
Foreign currency translation adjustments	—	(3,124)	(3,124)
Balance as of September 30, 2019	$ —	$ 414,027	$ 414,027

The Company experienced a sustained decline in its stock price during the three months ended September 30, 2019, which management deemed a triggering event that required the Company to perform an interim goodwill impairment test as of September 1, 2019. The Company's test relied in part on the work of an independent valuation firm engaged to provide inputs as to the fair value of the reporting units and to assist in the related calculations and analysis. The results of the interim impairment test indicated that the carrying value of the boot camp business acquired in 2019 within the Company's Alternative Credential Segment exceeded the fair value by $70.4 million. The decrease in this reporting unit's fair value was primarily due to lower expectations of future performance due to the impact of changes in key management as well as an increased focus in integrating the operations of the newly acquired reporting unit, which impacted the estimated operating cash flows. As a result, the Company recorded an impairment charge of $70.4 million on the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2019.

Amortizable intangible assets, net consisted of the following as of:

		September 30, 2019			December 31, 2018		
	Estimated Average Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
				(in thousands)			
Capitalized technology	3-5	$ 136,961	$ (32,625)	$ 104,336	$ 68,291	$ (16,945)	$ 51,346
Capitalized content development	4-5	158,136	(46,457)	111,679	79,725	(31,662)	48,063
University client relationships	9-10	108,587	(9,148)	99,439	25,616	(4,269)	21,347
Trade names and domain names	5-10	25,856	(4,937)	20,919	18,793	(2,944)	15,849
Total amortizable intangible assets, net		$ 429,540	$ (93,167)	$ 336,373	$ 192,425	$ (55,820)	$ 136,605

The amounts presented in the table above include$24.2 million and $40.3 million of in process capitalized technology and content development as of September 30, 2019 and December 31, 2018, respectively. Amortizable intangible assets recognized in connection with the acquisition of Trilogy consisted of developed technology of $48.1 million, developed content of$48.1 million, university client relationships of$84.2 million and trade names and domain names of $7.1 million, and are included in the balances presented in the table above as ofSeptember 30, 2019.

During 2018, the Company acquired certain third-party technologies to enhance the Company's platform, which is referred to as the 2U Operating System, or 2UOS, for aggregate consideration of$9.5 million. As of September 30, 2019, the Company has a remaining obligation to pay the seller $0.7 million by December 31, 2019.

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

4. Goodwill and Amortizable Intangible Assets (Continued)

The Company recorded amortization expense related to amortizable intangible assets of $19.2 million and $6.4 million for the three months ended September 30, 2019 and 2018, respectively. The Company recorded amortization expense related to amortizable intangible assets of $38.1 million and $17.1 million for the nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, the estimated future amortization expense for amortizable intangible assets placed in service is as follows (in thousands):

Remainder of 2019	$	18,998
2020		73,413
2021		67,803
2022		53,678
2023		35,611
Thereafter		62,699
Total	$	312,202

5. Accrued Expenses

Included within accounts payable and accrued expenses on the Company's condensed consolidated balance sheet as of September 30, 2019 was $20.8 million of accrued university and head tutor compensation and $19.7 million of accrued marketing costs. As of December 31, 2018, accounts payable and accrued expenses included $10.3 million of accrued marketing costs. As of September 30, 2019, the Company maintained a reserve for its September 2019 organizational restructuring of approximately $2.9 million related to employee termination benefits.

6. Commitments and Contingencies

Legal Contingencies

From time to time, the Company is involved in legal proceedings and subject to claims in the ordinary course of its business.

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.

The Company is involved in various claims and legal proceedings arising in the ordinary course of business. The Company accrues a liability when a loss is considered probable and the amount can be reasonably estimated. While the Company does not expect that the ultimate resolution of any existing claims and proceedings (other than the specific matter described below, if decided adversely), individually or in the aggregate, will have a material adverse effect on its financial position, an unfavorable outcome in some or all of these proceedings could have a material adverse impact on 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. As such, the Company's view of these matters is subject to inherent uncertainties and may change in the future.

In re 2U, Inc., Securities Class Action, No. 1:19-cv-7390 (S.D.N.Y.)

On August 7 and 9, 2019, Aaron Harper and Anne M. Chinn filed putative class action complaints against the Company, Christopher J. Paucek, the Company's CEO, and Catherine A. Graham, the Company's former CFO, in the United States District Court for the Southern District of New York. The district court consolidated the two actions on August 27, 2019, with the caption *In re 2U, Inc., Securities Class Action*, No. 1:19-cv-7390 (S.D.N.Y.). The complaints allege violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, and SEC Rule 10b-5 promulgated thereunder, based upon allegedly false and misleading statements regarding the Company's business prospects and financial projections. The proposed class consists of all persons who acquired the Company's securities between February 26, 2018 and July 30, 2019.

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

6. Commitments and Contingencies (Continued)

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.

Marketing and Sales Commitments

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

Future Minimum Payments to University Clients

Pursuant to certain of the Company's contracts in the Graduate Program Segment, the Company has made, or is obligated to make, payments to university clients in exchange for contract extensions and various marketing and other rights. As of September 30, 2019, the future minimum payments due to university clients has not materially changed relative to the amounts provided in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Contingent Payments

The Company has entered into agreements with certain of its university clients in the Graduate Program Segment under which the Company would be obligated 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 in which they relate, and records a liability in other current liabilities on the condensed consolidated balance sheets.

As of September 30, 2019, the Company had an obligation to make an additional investment in an education technology company of up to$5.0 million, upon demand by the investee.

7. Leases

The Company leases facilities under non-cancelable operating leases primarily in the United States, South Africa, the United Kingdom, Canada and Hong Kong. The Company's operating leases have remaining lease terms of between one to 11 years, some of which include options to extend the leases for up tofive years, and some of which include options to terminate the leases withinone 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-cancelable lease terms. The future lease payments due under non-cancelable operating lease arrangements contain fixed rent increases over the term of the lease. The Company also leases office equipment under non-cancelable leases. The Company did not have any subleases as of September 30, 2019.

The components of lease expense consisted of the following for the periods presented:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(in thousands)	
Operating lease expense	$ 3,053	$ 8,389
Short-term lease expense	188	578
Variable lease expense	1,031	3,036
Total lease expense	$ 4,272	$ 12,003

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

7. Leases (Continued)

As of September 30, 2019, for the Company's operating leases, the weighted-average remaining lease term was 8.1 years and the weighted-average discount rate was 12.5%. For the nine months ended September 30, 2019, cash paid for amounts included in the measurement of operating lease liabilities was $9.6 million.

As of September 30, 2019, the maturities of operating lease liabilities were as follows (in thousands):

Remainder of 2019	$	3,865
2020		14,801
2021		13,801
2022		12,902
2023		12,508
Thereafter		55,165
Total lease payments		113,042
Less: imputed interest		(43,229)
Total lease liability	$	69,813

As of September 30, 2019, the Company has additional operating leases for facilities that have not yet commenced with future minimum lease payments of approximately $99.3 million. These operating leases will commence during fiscal years 2019 through 2021, with lease terms of between four to twelve years.

As of December 31, 2018, the future minimum lease payments for operating leases having initial or remaining noncancellable lease terms in excess of one year were as follows (in thousands):

2019	$	12,941
2020		14,020
2021		13,900
2022		13,633
2023		13,959
Thereafter		68,347
Total future minimum lease payments	$	136,800

8. Debt

The Company's outstanding long-term debt was as follows:

	September 30, 2019		December 31, 2018	
	(in thousands)			
Senior secured term loan facility	$	250,000	$	—
Deferred government grant obligations		3,500		3,500
Less: unamortized debt issuance costs		(7,644)		—
Long-term debt	$	245,856	$	3,500

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. As of September 30, 2019 and December 31, 2018, the Company had no current portion of long-term debt.

Credit Agreement

On May 22, 2019, the Company entered into a credit agreement (the "Credit Agreement") with Owl Rock Capital Corporation, as administrative agent and collateral agent, and certain other lenders party thereto that provides for a $250 million senior secured term loan facility (the "Term Loan"). Subject to certain exceptions, the Term Loan under the Credit Agreement may be increased or new term loans may be established in an amount not to exceed (i) $50 million plus (ii) the amount of certain prepayments made by the Company plus (iii) an unlimited amount, subject to the achievement of either a certain First

8. Debt (Continued)

Lien LQA University Segment Revenue Leverage Ratio (as defined in the Credit Agreement) or a certain First Lien Net Leverage Ratio (as defined in the Credit Agreement), as applicable.

The Term Loan matures on May 22, 2024 and bears interest, at the Company's option, at variable rates based on (i) a customary alternative base rate (with a floor of 2.00%) plus an applicable margin of 4.75% or (ii) an adjusted LIBOR rate (with a floor of 1.00%) for the interest period relevant to such borrowing plus an applicable margin of 5.75%. The effective interest rate of the Term Loan for the three and nine months ended September 30, 2019 was 9.04% and 9.11%, respectively. During the three and nine months ended September 30, 2019, the Company incurred interest expense of $5.5 million and $7.9 million, respectively, in connection with the Credit Agreement. As of September 30, 2019, the Company's accrued interest balance associated with the Credit Agreement was $0.2 million.

Comerica Line of Credit

Effective in the second quarter of 2019, the Company terminated its $25.0 million revolving line of credit agreement and letters of credit with Comerica Bank. No amounts were outstanding under this credit agreement as of September 30, 2019 or December 31, 2018.

Deferred Government Grant Obligations

The Company has a total of two outstanding conditional loan agreements with Prince George's County, Maryland and the State of Maryland for an aggregate amount of $3.5 million, each bearing an interest rate of 3% per annum. These agreements are conditional loan obligations that may be forgiven provided that the Company attains certain conditions related to employment levels at 2U's Lanham, Maryland headquarters. The conditional loan with the State of Maryland has a maturity date of December 31, 2026, and the conditional loan with Prince George's County, Maryland has a maturity date of June 22, 2027. The interest expense related to these loans for the three and nine months ended September 30, 2019 and 2018 was immaterial. As of September 30, 2019 and December 31, 2018, the Company's combined accrued interest balance associated with the deferred government grant obligations was $0.2 million and $0.2 million, respectively.

Letters of Credit

Certain of the Company's operating lease agreements entered into prior to September 30, 2019 require security deposits in the form of cash or an unconditional, irrevocable letter of credit. As of September 30, 2019, the Company has entered into standby letters of credit totaling $15.7 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.

9. Income Taxes

The Company's income tax provisions for all periods consist of federal, state and foreign income taxes. The income tax provisions for the three and nine months ended September 30, 2019 and 2018 were based on estimated full-year effective tax rates, including the mix of income for the period between higher-taxed and lower-taxed jurisdictions, after giving effect to significant items related specifically to the interim periods, and loss-making entities for which it is not more likely than not that a tax benefit will be realized.

The Company's effective tax rate was approximately (1)% and 4% for the three months ended September 30, 2019 and 2018, respectively. The Company's effective tax rate was approximately 9% and 11% for the nine months ended September 30, 2019 and 2018, respectively. A one-time tax benefit of approximately $17.8 million related to the acquisition of Trilogy was included in the Company's income tax (expense) benefit for the nine months ended September 30, 2019. This one-time benefit relates to the reversal of the Company's tax valuation allowance that was no longer needed as a result of recognizing an additional net deferred tax liability, due to the acquisition of Trilogy. Excluding the one-time tax benefit, the Company's tax benefit of $1.1 million for the nine months ended September 30, 2019 related to losses generated by operations and the amortization of acquired intangibles in the Alternative Credential Segment that are expected to be realized through future reversing taxable temporary differences. The Company expects to continue to recognize a tax benefit in the future for the Alternative Credential Segment to the extent that this segment continues to generate pre-tax losses while carrying deferred tax liabilities that are in excess of deferred tax assets. To date, the Company has not been required to pay U.S. federal income taxes because of current and accumulated net operating losses.

10. Stockholders' Equity

On May 22, 2019, the Company issued 4,608,101 shares of common stock in connection with its acquisition of Trilogy.

On May 22, 2018, the Company sold 3,833,334 shares of its common stock to the public, including 500,000 shares sold pursuant to the underwriters' over-allotment option, and received net proceeds of $330.9 million. The Company will use the net proceeds from this public offering of common stock for working capital and other general corporate purposes, including expenditures for marketing, technology and content development, in connection with new offering launches and growing existing offerings, as well as strategic acquisitions of, or investments in, complementary products, technologies, solutions or businesses.

As of September 30, 2019, the Company was authorized to issue 205,000,000 total shares of capital stock, consisting of 200,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of September 30, 2019, the Company had reserved a total of 14,423,479 of its authorized shares of common stock for future issuance as follows:

Outstanding stock options	4,404,386
Possible future issuance under 2014 Equity Incentive Plan	7,480,316
Outstanding restricted stock units	1,656,933
Available for future issuance under 2017 Employee Stock Purchase Plan	881,844
Total shares of common stock reserved for future issuance	14,423,479

The shares available for future issuance increased by 2,896,365 and 2,625,292 on January 1, 2019 and 2018, respectively, pursuant to the automatic share reserve increase provision under the Amended and Restated 2014 Equity Incentive Plan (the "2014 Plan"). The Company has not declared or paid cash dividends on its common stock to date.

11. Stock-Based Compensation

The Company provides equity-based compensation awards to employees, independent contractors and directors as an effective means for attracting, retaining and motivating such individuals. The Company maintains two share-based compensation plans: the 2014 Plan and the 2008 Stock Incentive Plan (the "2008 Plan"). Upon the effective date of the 2014 Plan in January 2014, the Company ceased using the 2008 Plan to grant new equity awards and began using the 2014 Plan for grants of new equity awards.

11. Stock-Based Compensation (Continued)

Stock-Based Compensation Expense

Stock-based compensation expense related to stock-based awards, as well as the 2017 Employee Stock Purchase Plan (the "ESPP"), is included in the following line items on the condensed consolidated statements of operations and comprehensive loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Curriculum and teaching	$ 30	$ 3	$ 38	$ 10
Servicing and support	2,626	1,346	6,129	3,538
Technology and content development	2,228	1,089	5,732	2,875
Marketing and sales	2,238	839	4,981	2,046
General and administrative	9,413	4,656	19,206	15,595
Total stock-based compensation expense	$ 16,535	$ 7,933	$ 36,086	$ 24,064

Stock Options

The following is a summary of the stock option activity for thenine months ended September 30, 2019:

	Number of Options	Weighted-Average Exercise Price per Share
Outstanding balance as of December 31, 2018	4,057,788	$ 27.23
Granted	769,452	63.68
Exercised	(338,873)	8.68
Forfeited	(73,404)	54.67
Expired	(10,577)	49.47
Outstanding balance as of September 30, 2019	4,404,386	34.51
Exercisable as of September 30, 2019*	2,982,717	19.97

* As of September 30, 2019, the aggregate intrinsic value of options exercisable was$14.9 million and such shares had a weighted-average remaining contractual term of 4.90 years.

Restricted Stock Units

Under the 2014 Plan, the Company grants restricted stock units ("RSUs") to the Company's directors and certain of the Company's employees, and grants performance restricted stock units ("PRSUs") to certain of the Company's employees. The terms of these grants under the 2014 Plan, including the vesting periods, are determined by the Company's Board of Directors or the Compensation Committee, or a subcommittee thereof.

During the first quarter of 2019, the Company granted 186,433 PRSUs with an aggregate grant date fair value of$11.5 million to certain of its employees. These PRSU awards are generally subject to vesting over periods of approximately one or two years, based on the Company achieving pre-determined consolidated revenue and adjusted EBITDA performance targets for the 2019 fiscal year. The PRSU award agreements provide that the quantity of units subject to vesting may range from 100% to 0% of the granted quantities, depending on the achievement of performance targets. The expense recognized each period is dependent upon the Company's estimate of the number of shares that will ultimately be issued.

The following is a summary of RSU and PRSU activity for thenine months ended September 30, 2019:

11. Stock-Based Compensation (Continued)

	Number of Units	Weighted-Average Grant Date Fair Value per Share
Outstanding balance as of December 31, 2018	1,139,045	$ 52.47
Granted	1,120,287	57.43
Vested	(454,655)	43.51
Forfeited	(147,744)	58.91
Outstanding balance as of September 30, 2019	1,656,933	57.71

Employee Stock Purchase Plan

During the three and nine months ended September 30, 2019, an aggregate of 54,485 shares of 2U's common stock were purchased in accordance with the ESPP. Net proceeds from the issuance of shares of 2U's common stock under the ESPP for the nine months ended September 30, 2019 were $1.9 million. As of September 30, 2019, 881,844 shares remain available for purchase under the ESPP.

12. Net Loss per Share

Diluted net loss per share is the same as basic net loss per share for all periods presented because the effects of potentially dilutive items were anti-dilutive, given the Company's net loss. The following securities have been excluded from the calculation of weighted-average shares of common stock outstanding because the effect is anti-dilutive for the three and nine months ended September 30, 2019 and 2018:

	Three and Nine Months Ended September 30,	
	2019	2018
Stock options	4,404,386	4,097,480
Restricted stock units	1,656,933	1,217,161

Basic and diluted net loss per share is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator (in thousands):				
Net loss	$ (141,112)	$ (9,944)	$ (190,638)	$ (43,162)
Denominator:				
Weighted-average shares of common stock outstanding, basic and diluted	63,358,890	57,663,361	60,690,536	55,128,845
Net loss per share, basic and diluted	$ (2.23)	$ (0.17)	$ (3.14)	$ (0.78)

13. Segment and Geographic Information (Continued)

13. Segment and Geographic Information

The Company has two reportable segments: the Graduate Program Segment and the Alternative Credential Segment (formerly known as the Short Course Segment). The Company's Graduate Program Segment provides services to well-recognized nonprofit colleges and universities, primarily in the United States, to enable the online delivery of graduate programs. The Company's Alternative Credential Segment provides short form non-degree offerings such as premium online short courses and technical skills-based boot camps to working professionals around the world through relationships with leading universities.

Graduate Program Segment

For the three months ended September 30, 2019, one university client accounted for 10% or more of the Company's consolidated revenue, with $20.5 million, or approximately 13% of the Company's consolidated revenue. For the three months ended September 30, 2018, three university clients each accounted for 10% or more of the Company's consolidated revenue, as follows: $24.0 million, $13.0 million and $10.8 million, or approximately 22%, 12% and 10% of the Company's consolidated revenue, respectively.

For the nine months ended September 30, 2019, one university client accounted for 10% or more of the Company's consolidated revenue, with $64.3 million, or approximately 16% of the Company's consolidated revenue. For the nine months ended September 30, 2018, three university clients each accounted for 10% or more of the Company's consolidated revenue, as follows: $65.0 million, $39.5 million and $30.6 million, or approximately 22%, 13% and 10% of the Company's consolidated revenue, respectively.

As of September 30, 2019, two university clients each accounted for 10% or more of the Company's consolidated accounts receivable, net balance, as follows: $11.8 million and $9.0 million, or approximately 14% and 11% of the Company's consolidated accounts receivable, net balance, respectively. As of December 31, 2018, two university clients each accounted for 10% or more of the Company's consolidated accounts receivable, net balance, as follows: $11.9 million and $11.8 million, or approximately 36% and 36% of the Company's consolidated accounts receivable, net balance, respectively.

Alternative Credential Segment

For the three and nine months ended September 30, 2019 and 2018, there were no customers or individual university clients that had associated offerings that accounted for 10% or more of the Company's consolidated revenue. In addition, as of September 30, 2019 and December 31, 2018, no customers had accounts receivable, net balances that accounted for 10% or more of the Company's consolidated accounts receivable, net balance, as customers are individual students or third parties paying on their behalf, rather than university clients.

For the three months ended September 30, 2019, offerings associated with one university client accounted for 10% or more of the segment's revenue, with $8.3 million, or approximately 16% of the segment's revenue. For the three months ended September 30, 2018, offerings associated with four university clients each accounted for 10% or more of the segment's revenue, and when combined, accounted for approximately 91% of the segment's revenue.

For the nine months ended September 30, 2019, offerings associated with one university client accounted for 10% or more of the segment's revenue, with $26.0 million, or approximately 25% of the segment's revenue. For the nine months ended September 30, 2018, offerings associated with three university clients each accounted for 10% or more of the segment's revenue, and when combined, accounted for approximately 82% of the segment's revenue.

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

13. Segment and Geographic Information (Continued)

Segment Performance

The following table summarizes financial information regarding each reportable segment's results of operations for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Revenue by segment*				
Graduate Program Segment	$ 103,393	$ 89,719	$ 308,970	$ 251,487
Alternative Credential Segment	50,405	17,244	102,523	45,187
Total revenue	$ 153,798	$ 106,963	$ 411,493	$ 296,674
Segment profitability**				
Graduate Program Segment	$ 1,213	$ 5,564	$ (6,126)	$ (615)
Alternative Credential Segment	(11,936)	(889)	(22,778)	(1,787)
Total segment profitability	$ (10,723)	$ 4,675	$ (28,904)	$ (2,402)
Segment profitability margin***				
Graduate Program Segment	1.2 %	6.2 %	(2.0)%	(0.2)%
Alternative Credential Segment	(23.7)	(5.2)	(22.2)	(4.0)
Total segment profitability margin	(7.0)	4.4	(7.0)	(0.8)

* The Company has excluded immaterial amounts of intersegment revenues from thethree and nine month periods ended September 30, 2019 and 2018.

** The Company defines segment profitability as net income or net loss, as applicable, before net interest income (expense), taxes, depreciation and amortization expense, foreign currency gains or losses, acquisition-related gains or losses, deferred revenue fair value adjustments, transaction costs, integration costs, restructuring-related costs, impairment charges, and stock-based compensation expense. Some or all of these items may not be applicable in any given reporting period.

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

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

13. Segment and Geographic Information (Continued)

The following table reconciles net loss to total segment profitability:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
	(in thousands)			
Net loss	$ (141,112)	$ (9,944)	$ (190,638)	$ (43,162)
Adjustments:				
Interest income	(924)	(1,799)	(5,087)	(3,053)
Interest expense	5,651	27	8,130	81
Foreign currency loss	710	273	1,093	1,493
Income tax expense (benefit)	714	(414)	(18,918)	(5,207)
Depreciation and amortization expense	22,288	8,599	46,639	23,382
Deferred revenue fair value adjustment	5,927	—	9,279	—
Transaction costs	92	—	4,466	—
Integration costs	2,436	—	2,493	—
Restructuring-related costs	6,581	—	7,174	—
Impairment charge	70,379	—	70,379	—
Stock-based compensation expense	16,535	7,933	36,086	24,064
Total adjustments	130,389	14,619	161,734	40,760
Total segment profitability	$ (10,723)	$ 4,675	$ (28,904)	$ (2,402)

The Company's total assets by segment are as follows:

	September 30, 2019	December 31, 2018
	(in thousands)	
Total assets		
Graduate Program Segment	$ 523,449	$ 702,827
Alternative Credential Segment	690,121	104,527
Total assets	$ 1,213,570	$ 807,354

Trade Accounts Receivable and Contract Liabilities

The Company's trade accounts receivable and contract liabilities in each segment are as follows:

	September 30, 2019	December 31, 2018
	(in thousands)	
Trade accounts receivable		
Graduate Program Segment accounts receivable, net of allowance for doubtful accounts of $0 for all periods presented	$ 28,917	$ 31,110
Graduate Program Segment unbilled revenue*	36,380	265
Alternative Credential Segment accounts receivable, net of allowance for doubtful accounts of $1.8 million and $257 thousand as of September 30, 2019 and December 31, 2018, respectively	19,500	982
Total trade accounts receivable	$ 84,797	$ 32,357
Contract liabilities		
Graduate Program Segment deferred revenue	$ 5,484	$ 2,864
Alternative Credential Segment deferred revenue	53,150	5,481
Total contract liabilities	$ 58,634	$ 8,345

* Unbilled revenue represents contract assets.

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

13. Segment and Geographic Information (Continued)

For the Graduate Program Segment, no revenue recognized during the three months ended September 30, 2019 and 2018 was included in the deferred revenue balance at the beginning of each year, respectively. Revenue recognized in this segment during the nine months ended September 30, 2019 and 2018 that was included in the deferred revenue balance at the beginning of each year was $2.4 million and $2.5 million, respectively.

For the Alternative Credential Segment, no revenue recognized during the three months ended September 30, 2019 and 2018 was included in the deferred revenue balance at the beginning of each year, respectively. Revenue recognized in this segment during the nine months ended September 30, 2019 and 2018 that was included in the deferred revenue balance at the beginning of each year was $5.4 million and $4.5 million, respectively.

Contract Acquisition Costs

The Graduate Program Segment had $0.5 million and $0.3 million of net capitalized contract acquisition costs as of September 30, 2019 and December 31, 2018, respectively. During the three months ended September 30, 2019 and 2018, the Company did not capitalize a material amount of contract acquisition costs and did not record a material amount of associated amortization expense in the Graduate Program Segment in either period. For the nine months ended September 30, 2019 and 2018, the Company capitalized $0.2 million and $0.3 million, respectively, of such costs and did not record a material amount of associated amortization expense in the Graduate Program Segment in either period.

Geographical Information

The Company's non-U.S. revenue, which is based upon the currency of the country in which the university client primarily operates, was $10.6 million and $8.8 million, for the three months ended September 30, 2019 and 2018, respectively, and was sourced entirely from the Alternative Credential Segment's operations outside of the U.S. The Company's non-U.S. revenue, which is based upon the currency of the country in which the university client primarily operates, was $29.4 million and $26.0 million for the nine months ended September 30, 2019 and 2018, respectively, and was sourced entirely from the Alternative Credential Segment's operations outside of the U.S. The Company's long-lived tangible assets in non-U.S. countries as of September 30, 2019 and December 31, 2018 totaled approximately $2.6 million and $1.2 million, respectively.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes to those statements included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2018. 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, and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended. 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, 2018, and our other filings with the Securities and Exchange Commission, or "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, 2018, which are included in our Annual Report on Form 10-K, filed with the SEC on February 26, 2019.

Overview

Our Business

We are a leading education technology company that well-recognized nonprofit colleges and universities trust to bring them into the digital age. Our comprehensive platform of tightly integrated technology and services provides the digital infrastructure universities need to attract, enroll, educate and support students at scale. With our platform, students can pursue their education anytime, anywhere, without quitting their jobs or moving; and university clients can improve educational outcomes, skills attainment and career prospects for a greater number of students than they could on their own.

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

- Our Graduate Program Segment provides services to nonprofit colleges and universities, primarily in the United States to enable the online delivery of graduate programs. We generally target students seeking a full graduate degree of the same quality they would receive on-campus.
- Our Alternative Credential Segment provides short form non-degree offerings such as premium online short courses and technical skills-based boot camps to working professionals around the world through relationships with universities. We target working professionals seeking career advancement through skills attainment. In the first quarter of 2019, we changed the name of this segment from Short Course to Alternative Credential to more accurately reflect the nature and breadth of educational offerings within this segment.

Our growth strategy is to launch graduate programs, short courses and boot camps with new and existing university clients, to increase student enrollments across our portfolio of offerings. We are also committed to continuously improving our platform to deliver high-quality user experiences and outcomes at scale.

Third Quarter 2019 Highlights

For the three months ended September 30, 2019, our revenue was $153.8 million, an increase of 43.8% from $107.0 million for the three months ended September 30, 2018. Excluding the revenue from Trilogy, revenue growth was 16.5%. Our net loss was $141.1 million, or $(2.23) per share, compared to $9.9 million, or $(0.17) per share, for the three months ended September 30, 2018. Our adjusted EBITDA loss* was $10.7 million, compared to Adjusted EBITDA of $4.7 million for the three months ended September 30, 2018, and was primarily driven by the inclusion of Trilogy's results. As of September 30, 2019, our available cash and cash equivalents was $154.1 million. We also launched seven new graduate programs and seven new short courses during the three months ended September 30, 2019.

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* Adjusted EBITDA is a financial measure not in accordance with U.S. GAAP. For more information about adjusted EBITDA and a reconciliation of net loss, the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP, to adjusted EBITDA, see the section below titled "Key Business and Financial Performance Metrics—Adjusted EBITDA."

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

Our Graduate Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled graduate programs for tuition and fees, less credit card fees and other specified charges that we have agreed to exclude in certain university contracts. Our contracts with university clients in this segment typically have terms of 10 to 15 years.

Our Alternative Credential Segment derives revenue primarily from contracts with students for the tuition and fees paid to enroll in, and progress through, our short courses and boot camps. We recognize the gross proceeds received from the students enrolled and share contractually specified amounts received from students with the associated university client, in exchange for licenses to use the university brand name and other university trademarks. These amounts are recognized as curriculum and teaching costs on our condensed consolidated statements of operations and comprehensive loss. Our contracts with university clients in this segment are typically shorter and less restrictive than our contracts with university clients in our Graduate Program Segment.

Marketing and Sales Costs

Our most significant cost in each fiscal period relates primarily to student acquisition activities across each of our segments. This includes the cost of online advertising and demand generation, as well as compensation and benefit costs for our marketing analytics and admissions application counseling personnel.

For all of our educational offerings, we have the primary responsibility for identifying qualified students, generating potential student interest, and driving admissions applications. The number of students who enroll in our offerings in any given period is significantly dependent on the amount we have spent on these student acquisition activities.

Graduate Program Segment

Our marketing and sales spend in any period generates student enrollments eight months after the initial spend, on average. We then generate revenue as students matriculate through programs, which generally occurs over a two year period following initial enrollment. As a result, marketing and sales spend in any period is largely attributable to revenue that we expect to receive over time in future periods. We expect that the total revenue we will receive over time related to students who enroll in our graduate programs as a result of current period marketing and sales spend, will be significantly greater as a multiple of that current period expense than is implied by the multiple of current period revenue to current period marketing and sales expense.

Alternative Credential Segment

Our marketing and sales spend in any period generates student enrollments six to 24 weeks after the initial spend, on average. We then generate revenue as students matriculate through offerings, which typically occurs over a three to six month period following initial enrollment.

Other Costs and Expenses

Our other costs and expenses consist of the following:

Curriculum and teaching. Curriculum and teaching costs are associated with our Alternative Credential Segment and primarily relate to amounts due to our university clients for licenses to use the university brand name and other university trademarks. The payments are based on contractually specified percentages of the gross proceeds we receive from our students. Curriculum and teaching costs also include amounts paid to compensate our instructors related to the delivery of educational services to students.

Servicing and support. Servicing and support costs consist primarily of compensation and benefit costs related to the management and operations of our educational offerings, as well as supporting students and faculty members. This includes costs related to enabling access our platform, facilitating in-program field placements and student immersions, and assisting with compliance requirements.

Technology and content development. Technology and content development costs consist primarily of compensation and benefit costs related to the ongoing improvement and maintenance of our platform, as well as hosting and licensing costs. It also includes amortization expense related to technology and content development.

General and administrative. General and administrative costs consist primarily of personnel expenses, including compensation and other personnel-related costs for our executive, administrative, legal, finance and human resources functions.

Net Interest Income (Expense)

Interest income is derived from interest received on our cash and cash equivalents. Interest expense consists of interest on our long-term debt and associated debt issuance costs. Net interest income (expense) reflects the aggregation of interest income and interest expense.

Income Taxes

Our income tax provisions for all periods consist of U.S. federal, state and foreign income taxes.

Results of Operations

Consolidated Operating Results

Comparison of Three Months Ended September 30, 2019 and 2018

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

	Three Months Ended September 30,					
	2019		2018		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
	(dollars in thousands)					
Revenue	$ 153,798	100.0 %	$ 106,963	100.0 %	$ 46,835	43.8 %
Costs and expenses						
Curriculum and teaching	21,336	13.9	6,351	5.9	14,985	235.9
Servicing and support	27,351	17.8	16,586	15.5	10,765	64.9
Technology and content development	34,132	22.2	16,361	15.3	17,771	108.6
Marketing and sales	93,521	60.8	60,548	56.5	32,973	54.5
General and administrative	42,040	27.3	18,974	17.7	23,066	121.6
Impairment charge	70,379	45.8	—	—	70,379	*
Total costs and expenses	288,759	187.8	118,820	110.9	169,939	143.0
Loss from operations	(134,961)	(87.8)	(11,857)	(10.9)	(123,104)	*
Interest income	924	0.6	1,799	1.7	(875)	(48.6)
Interest expense	(5,651)	(3.7)	(27)	0.0	(5,624)	*
Other expense, net	(710)	(0.5)	(273)	(0.3)	(437)	160.1
Loss before income taxes	(140,398)	(91.4)	(10,358)	(9.5)	(130,040)	*
Income tax (expense) benefit	(714)	(0.5)	414	0.4	(1,128)	(272.3)
Net loss	$ (141,112)	(91.9)%	$ (9,944)	(9.1)%	$ (131,168)	*

* Not meaningful for comparative purposes.

The following table sets forth the revenue by segment for each of the periods indicated.

	Three Months Ended September 30,		Period-to-Period Change	
	2019	2018	Amount	Percentage
	(dollars in thousands)			
Revenue by segment*				
Graduate Program Segment	$ 103,393	$ 89,719	$ 13,674	15.2%
Alternative Credential Segment	50,405	17,244	33,161	192.3
Total revenue	$ 153,798	$ 106,963	$ 46,835	43.8

* Immaterial amounts of intersegment revenue have been excluded from the above results for the three months endedSeptember 30, 2019 and 2018.

Revenue. Revenue increased $46.8 million, or 43.8%. Trilogy accounted for $29.2 million, or 62.3%, of the increase in our consolidated revenue.

Graduate Program Segment revenue increased $13.7 million, or 15.2%. This increase was primarily driven by growth in full course equivalent enrollments of 8,245, or 25.2%, partially offset by a decrease in the average revenue per full course equivalent enrollment, from$2,747 to $2,527.

Alternative Credential Segment revenue increased $33.2 million, or 192.3%. This increase was primarily driven by our acquisition of Trilogy, which contributed significantly to this segment's overall growth in full course equivalent enrollments of 5,792, or 64.8%, as well as this segment's increase in the average revenue per full course equivalent enrollment, from $1,930 to $3,825. Excluding the impact from acquiring Trilogy, the Alternative Credential Segment revenue growth was $4.0 million, or 23.2%. Fluctuations in foreign currency exchange rates did not have a material impact on revenue.

Curriculum and Teaching. Curriculum and teaching costs increased $15.0 million, or 235.9%. This increase was primarily due to boot camps offered through Trilogy and an increase in short courses taken in our Alternative Credential Segment.

Servicing and Support. Servicing and support costs increased $10.8 million, or 64.9%. This increase was primarily due to a $9.5 million increase in compensation and benefit costs, as we increased our headcount in servicing and support by 60%, which reflects the impact of our acquisition of Trilogy, and in order to serve a growing number of students and faculty in existing and new offerings. The remaining $1.3 million of the increase primarily related to higher travel, rent and other servicing and support costs, due in part to an increase in headcount.

Technology and Content Development. Technology and content development costs increased $17.8 million, or 108.6%. This increase was due in part to a $10.6 million increase related to higher amortization expense associated with capitalized technology and content development, which reflects the impact of our acquisition of Trilogy. Additionally, the increase included $5.4 million of higher compensation and benefit costs (net of amounts capitalized for technology and content development), as we increased our headcount in technology and content development by 81%, which reflects the impact of our acquisition of Trilogy and hiring to support scaling of existing offerings and the launch of new offerings. The remaining $1.8 million of the increase primarily related to higher other net costs to support and maintain our internal software applications.

Marketing and Sales. Marketing and sales costs increased $33.0 million, or 54.5%. This increase was primarily due to higher direct internet marketing costs of $17.7 million as we increased our student acquisition activities to drive future enrollments in our offerings. Additionally, the increase included $10.9 million of higher compensation and benefit costs, as we increased our headcount in marketing and sales by 43%, in order to drive future enrollment and revenue growth in existing and new offerings and $2.7 million of higher depreciation and amortization expense. The remaining $1.7 million of the increase primarily related to higher other marketing and sales costs.

General and Administrative. General and administrative costs increased $23.0 million, or 121.6%. This was primarily due to the impact of the acquisition of Trilogy, as well as transaction, integration and restructuring-related costs incurred.

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

Net Interest Income (Expense). In the three months ended September 30, 2019, we incurred net interest expense of $4.7 million, compared to net interest income of $1.8 million in the same period of 2018. This change of $6.5 million was primarily driven by an increase in interest expense of $5.1 million related to our senior secured term loan facility and $0.4 million related to the amortization of debt issuance costs, partially offset by higher interest income of $0.9 million as a result of a higher cash balance.

Other Expense, Net. For the three months ended September 30, 2019, we incurred other expense, net, of $710 thousand, compared to $273 thousand in the same period of 2018.

Income Tax (Expense) Benefit. Our income tax provisions 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.

Our effective tax rate was approximately (1)% and 4% for the three months ended September 30, 2019 and 2018, respectively. Our net tax expense of $0.7 million for the three months ended September 30, 2019 included expense of $1.5 million for a purchase accounting adjustment to the one-time tax benefit related to the acquisition of Trilogy, and a benefit of $0.8 million due to losses generated by operations and the amortization of acquired intangibles in our Alternative Credential Segment that are expected to be realized through future reversing taxable temporary differences. To date, we have not been required to pay U.S. federal income taxes because of our current and accumulated net operating losses.

Comparison of Nine Months Ended September 30, 2019 and 2018

The following table sets forth selected consolidated statement of operations data for each of the periods indicated.

	Nine Months Ended September 30, 2019 Amount	2019 Percentage of Revenue	2018 Amount	2018 Percentage of Revenue	Period-to-Period Change Amount	Period-to-Period Change Percentage
	(dollars in thousands)					
Revenue	$ 411,493	100.0 %	$ 296,674	100.0 %	$ 114,819	38.7 %
Costs and expenses						
Curriculum and teaching	41,345	10.0	16,665	5.6	24,680	148.1
Servicing and support	71,518	17.4	49,116	16.6	22,402	45.6
Technology and content development	79,969	19.4	45,436	15.3	34,533	76.0
Marketing and sales	260,231	63.2	171,982	58.0	88,249	51.3
General and administrative	93,471	22.7	63,323	21.3	30,148	47.6
Impairment charge	70,379	17.1	—	—	70,379	*
Total costs and expenses	616,913	149.8	346,522	116.8	270,391	78.0
Loss from operations	(205,420)	(49.8)	(49,848)	(16.8)	(155,572)	312.1
Interest income	5,087	1.2	3,053	1.0	2,034	66.6
Interest expense	(8,130)	(2.0)	(81)	—	(8,049)	*
Other expense, net	(1,093)	(0.3)	(1,493)	(0.5)	400	(26.8)
Loss before income taxes	(209,556)	(50.9)	(48,369)	(16.3)	(161,187)	333.2
Income tax benefit	18,918	4.6	5,207	1.8	13,711	263.3
Net loss	$ (190,638)	(46.3)%	$ (43,162)	(14.5)%	$ (147,476)	341.7

* Not meaningful for comparative purposes.

The following table sets forth the revenue by segment for each of the periods indicated.

	Nine Months Ended September 30, 2019	2018	Period-to-Period Change Amount	Percentage
	(dollars in thousands)			
Revenue by segment*				
Graduate Program Segment	$ 308,970	$ 251,487	$ 57,483	22.9%
Alternative Credential Segment	102,523	45,187	57,336	126.9
Total revenue	$ 411,493	$ 296,674	$ 114,819	38.7

* Immaterial amounts of intersegment revenue have been excluded from the above results for thenine months ended September 30, 2019 and 2018.

Revenue. Revenue increased $114.8 million, or 38.7%. Trilogy accounted for $41.1 million, or 35.8%, of the increase in our consolidated revenue.

Graduate Program Segment revenue increased $57.5 million, or 22.9%. This increase was primarily driven by growth in full course equivalent enrollments of 26,619, or 28.6%, partially offset by a decrease in the average revenue per full course equivalent enrollment, from$2,705 to $2,583.

Alternative Credential Segment revenueincreased $57.3 million, or 126.9%. This increase was primarily driven by our acquisition of Trilogy, which contributed significantly to this segment's overall growth in full course equivalent enrollments of 13,358, or 57.7%, as well as this segment's increase in the average revenue per full course equivalent enrollment, from $1,951 to $3,061. Excluding the impact from acquiring Trilogy, the Alternative Credential Segment revenue growth was $16.2 million, or 35.9%. Fluctuations in foreign currency exchange rates did not have a material impact on revenue.

Curriculum and Teaching. Curriculum and teaching costs increased $24.7 million, or 148.1%. This increase was primarily due to boot camps offered through Trilogy and an increase in short courses taken in our Alternative Credential Segment.

Servicing and Support. Servicing and support costs increased $22.4 million, or 45.6%. This increase was primarily due to a $19.2 million increase in compensation and benefit costs, as we increased our headcount in servicing and support by 72%, to serve a growing number of students and faculty in existing and new offerings. Additionally, there was a $1.2 million increase in other costs, which reflects the impact of our acquisition of Trilogy. The remaining $2.0 million of the increase primarily related to higher rent, travel and other servicing and support costs, due in part to an increase in headcount.

Technology and Content Development. Technology and content development costs increased $34.6 million, or 76.0%. This increase was due to a $18.2 million increase related to higher amortization expense associated with capitalized technology and content development, which reflects the impact of our acquisition of Trilogy, as well as $3.5 million of higher hosting and licensing costs due to the larger number of courses that have been developed and the continued maintenance of our platform in a cloud environment. Additionally, there was a $10.3 million increase in compensation and benefit costs (net of amounts capitalized for technology and content development), as we increased our headcount in technology and content development by 95%, which reflects the impact of our acquisition of Trilogy and hiring to support scaling of existing offerings and the launching of new offerings. The remaining $2.6 million of the increase primarily related to higher other net costs to support and maintain our internal software applications.

Marketing and Sales. Marketing and sales costs increased $88.2 million, or 51.3%. This increase was primarily due to higher direct internet marketing costs of $54.4 million to drive future enrollments in our offerings. The increase also included $24.2 million of higher compensation and benefit costs, as we increased our headcount in marketing and sales by 53%, to drive future enrollment and revenue growth in existing and new offerings and $4.0 million of higher depreciation and amortization expense. Additionally, the increase included $1.6 million of higher hosting and licensing costs, $1.4 million of higher rent and facilities expenses. The remaining $2.6 million of the increase primarily related to higher other marketing and sales costs.

General and Administrative. General and administrative costs increased $30.2 million, or 47.6%. This was primarily due to the impact of the acquisition of Trilogy, as well as transaction, integration and restructuring-related costs incurred.

Impairment charge. In the nine months ended September 30, 2019, we recorded an impairment charge of $70.4 million. 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 more information regarding this impairment charge.

Net Interest Income (Expense). In the nine months ended September 30, 2019, we incurred net interest expense of $3.0 million, compared to net interest income of $3.0 million in the same period of 2018. This change of $6.0 million was primarily driven by an increase in interest expense of $7.3 million related to our senior secured term loan facility and $0.6 million related to the amortization of debt issuance costs, partially offset by higher interest income of $2.0 million as a result of a higher cash balance from our May 2018 public offering of common stock.

Other Income (Expense), Net. For the nine months ended September 30, 2019, we incurred other expense, net, of $1.1 million, compared to $1.5 million in the same period of 2018.

Income Tax Benefit. Our income tax provisions 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.

Our effective tax rate was approximately 9% and 11% for the nine months ended September 30, 2019 and 2018, respectively. Our tax benefit of $18.9 million for the nine months ended September 30, 2019 includes a one-time tax benefit related to the acquisition of Trilogy. This one-time benefit relates to the reversal of our tax valuation allowance that was no longer needed as a result of recognizing an additional net deferred tax liability, due to the acquisition of Trilogy. Excluding the one-time tax benefit, our tax benefit related to losses generated by operations and the amortization of acquired intangibles in our Alternative Credential Segment that are expected to be realized through future reversing taxable temporary differences. We expect to continue to recognize a tax benefit in the future for our Alternative Credential Segment to the extent that this segment continues to generate pre-tax losses while carrying deferred tax liabilities that are in excess of deferred tax assets. To date, 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), taxes, depreciation and amortization expense, foreign currency gains or losses, acquisition-related gains or losses, deferred revenue fair value adjustments, transaction costs, integration costs, restructuring-related costs, impairment charges, and stock-based compensation expense. Some or all of these items may not be applicable in any given reporting period.

The following table reconciles net loss to total segment profitability:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Net loss	$ (141,112)	$ (9,944)	$ (190,638)	$ (43,162)
Adjustments:				
Interest income	(924)	(1,799)	(5,087)	(3,053)
Interest expense	5,651	27	8,130	81
Foreign currency loss	710	273	1,093	1,493
Income tax expense (benefit)	714	(414)	(18,918)	(5,207)
Depreciation and amortization expense	22,288	8,599	46,639	23,382
Deferred revenue fair value adjustment	5,927	—	9,279	—
Transaction costs	92	—	4,466	—
Integration costs	2,436	—	2,493	—
Restructuring-related costs	6,581	—	7,174	—
Impairment charge	70,379	—	70,379	—
Stock-based compensation expense	16,535	7,933	36,086	24,064
Total adjustments	130,389	14,619	161,734	40,760
Total segment profitability	$ (10,723)	$ 4,675	$ (28,904)	$ (2,402)

Three Months Ended September 30, 2019 and 2018

Revenue by segment and segment profitability for the three months ended September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30,		Period-to-Period Change	
	2019	2018	Amount	Percentage
	(dollars in thousands)			
Revenue by segment*				
Graduate Program Segment	$ 103,393	$ 89,719	$ 13,674	15.2 %
Alternative Credential Segment	50,405	17,244	33,161	192.3
Total revenue	$ 153,798	$ 106,963	$ 46,835	43.8
Segment profitability				
Graduate Program Segment	$ 1,213	$ 5,564	$ (4,351)	(78.2)
Alternative Credential Segment	(11,936)	(889)	(11,047)	**
Total segment profitability	$ (10,723)	$ 4,675	$ (15,398)	(329.2)

* The Company has excluded immaterial amounts of intersegment revenues from the three months ended September 30, 2019 and 2018.

** Not meaningful for comparative purposes.

Segment profitability in our Graduate Program Segment for the three months ended September 30, 2019 was $1.2 million, a decrease of $4.4 million, or 78.2%, from $5.6 million for the same period of 2018. This period-over-period decrease in segment profitability was primarily due to marketing spend and marketing and program staffing costs growing more quickly than revenue as we launch new programs and absorb market driven adjustments to enrollment expectations in existing programs. Going forward, we intend to realign these costs with revenue, improve efficiency in the segment's overall cost structure and adjust the cadence of new program launches, which are a significant driver of losses in the near term. These actions are expected to increase segment profitability over time. However, the impact of our initiatives to improve specific and overall cost efficiencies and the actual timing of new program launches may result in significant variability in the Graduate Program Segment's profitability between future periods.

Segment profitability in our Alternative Credential Segment for the three months ended September 30, 2019 was $(11.9) million, a decrease of $11.0 million, from $(0.9) million for the same period of 2018. The primary factor impacting segment profitability was the acquisition of Trilogy. There were also changes in relative expense levels and expense timing in this period of rapid growth for the Alternative Credential Segment, year-over-year and quarter-over-quarter. Therefore, changes in segment profitability do not necessarily represent a business trend. Changes in segment profitability are highly dependent upon the timing of launches of new and existing offerings. We expect to increase investment in the development, marketing and support of newer and newly launching offerings in this segment. Based on timing differences between the addition of costs related to the increased investment and the related recognition of revenue, we expect that there will be significant variability in segment profitability in this segment between periods.

Nine Months Ended September 30, 2019 and 2018

Revenue by segment and segment profitability for the nine months ended September 30, 2019 and 2018 were as follows:

	Nine Months Ended September 30,		Period-to-Period Change	
	2019	2018	Amount	Percentage
	(dollars in thousands)			
Revenue by segment*				
Graduate Program Segment	$ 308,970	$ 251,487	$ 57,483	22.9%
Alternative Credential Segment	102,523	45,187	57,336	126.9
Total revenue	$ 411,493	$ 296,674	$ 114,819	38.7
Segment profitability				
Graduate Program Segment	$ (6,126)	$ (615)	$ (5,511)	**
Alternative Credential Segment	(22,778)	(1,787)	(20,991)	**
Total segment profitability	$ (28,904)	$ (2,402)	$ (26,502)	**

* The Company has excluded immaterial amounts of intersegment revenues from the nine months ended September 30, 2019 and 2018.

** Not meaningful for comparative purposes.

Segment profitability in our Graduate Program Segment for the nine months ended September 30, 2019 was $(6.1) million, a decrease of $5.5 million, from $(0.6) million for the same period of 2018. This period-over-period decrease in segment profitability was primarily due to marketing spend and marketing and program staffing costs growing more quickly than revenue as we launch new programs and absorb market driven adjustments to enrollment expectations in existing programs. Going forward, we intend to realign these costs with revenue, improve efficiency in the segment's overall cost structure and adjust the cadence of new program launches, which are a significant driver of losses in the near term. These actions are expected to increase segment profitability over time. However, the impact of our initiatives to improve specific and overall cost efficiencies and the actual timing of new program launches may result in significant variability in the Graduate Program Segment's profitability between future periods.

Segment profitability in our Alternative Credential Segment for the nine months ended September 30, 2019 was $(22.8) million, a decrease of $21.0 million, from $(1.8) million for the same period of 2018. The primary factor impacting segment profitability in this segment was acquisition of Trilogy. There were also changes in relative expense levels and expense timing in this period of rapid growth for the Alternative Credential Segment, year-over-year and quarter-over-quarter. Therefore, changes in segment profitability do not necessarily represent a business trend. Changes in segment profitability are highly dependent upon the timing of launches of new and existing offerings. We expect to increase investment in the development, marketing and support of newer and newly launching offerings in this segment. Based on timing differences between the addition of costs related to the increased investment and the related recognition of revenue, we expect that there will be significant variability in segment profitability in this segment between periods.

Capital Resources and Liquidity

Capital Expenditures

During the nine months ended September 30, 2019, we had capital asset additions of $62.0 million, which were comprised of $51.5 million in capitalized technology and content development, $5.2 million of leasehold improvements, $4.8 million of other property and equipment, $0.3 million of trade and domain names, and an immaterial amount of non-cash capital expenditures. Due to extended payment terms associated with the timing of cash capital expenditures made more than 90 days after the date of purchase, an additional $1.3 million for purchases made in prior year was classified as cash flows from financing activities in the condensed consolidated statement of cash flows for the nine months ended September 30, 2019. For the full year of 2019, we expect new capital asset additions of approximately $81 million to $85 million, of which approximately $2 million to $5 million will be funded by landlord leasehold improvement allowances.

Sources of Liquidity

Credit Agreement

On May 22, 2019, we entered into a credit agreement (the "Credit Agreement") with Owl Rock Capital Corporation, as administrative agent and collateral agent, and certain other lenders party thereto that provides for a $250 million senior secured term loan facility (the "Term Loan"). Subject to certain exceptions, the Term Loan under the Credit Agreement may be increased or new term loans may be established in an amount not to exceed (i) $50 million plus (ii) the amount of certain prepayments made by us plus (iii) an unlimited amount, subject to the achievement of either a certain First Lien LQA University Segment Revenue Leverage Ratio (as defined in the Credit Agreement) or a certain First Lien Net Leverage Ratio (as defined in the Credit Agreement), as applicable.

The Term Loan matures on May 22, 2024 and bear interest, at our option, at variable rates based on (i) a customary alternative base rate (with a floor of 2.00%) plus an applicable margin of 4.75% or (ii) an adjusted LIBOR rate (with a floor of 1.00%) for the interest period relevant to such borrowing plus an applicable margin of 5.75%. During the three and nine months ended September 30, 2019, we incurred interest expense of $5.5 million and $7.9 million, respectively, in connection with the Credit Agreement. For additional information regarding the Credit Agreement, including its prepayment provisions and related covenants, see our Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission on May 22, 2019.

Comerica Line of Credit

Effective in the second quarter of 2019, we terminated our $25.0 million revolving line of credit agreement and letters of credit with Comerica Bank. No amounts were outstanding under this credit agreement as of September 30, 2019 or December 31, 2018.

Deferred Government Grant Obligations

We have a total of two outstanding conditional loan agreements with Prince George's County, Maryland and the State of Maryland for an aggregate amount of $3.5 million, each bearing an interest rate of 3% per annum. These agreements are conditional loan obligations that may be forgiven provided that we attain certain conditions related to employment levels at our Lanham, Maryland headquarters. The conditional loan with the State of Maryland has a maturity date of December 31, 2026, and the conditional loan with Prince George's County, Maryland has a maturity date of June 22, 2027. The interest expense related to these loans for the three and nine months ended September 30, 2019 and 2018 was immaterial.

Letters of Credit

Certain of our operating lease agreements entered into prior to September 30, 2019 require security deposits in the form of cash or an unconditional, irrevocable letter of credit. As of September 30, 2019, we have entered into standby letters of credit totaling $15.7 million as security deposits for the applicable leased facilities and in connection with the deferred government grant obligations.

We maintain restricted cash as collateral for standby letters of credit for our leased facilities and in connection with our deferred government grant obligations.

Working Capital

We define working capital as current assets minus current liabilities. Our working capital as of September 30, 2019 and December 31, 2018 was $129.9 million and $453.2 million, respectively. Our cash and cash equivalents balances within working capital as of September 30, 2019 and December 31, 2018 were $154.1 million and $449.8 million, respectively. The decrease in our working capital primarily relates to the cash used to complete the Trilogy acquisition and the negative working capital assumed.

We do not enter into investments for trading or speculative purposes. We invest any cash in excess of our immediate requirements in investments designed to preserve the principal balance and provide liquidity. Accordingly, our cash is invested primarily in demand deposit accounts or certificates of deposit that are currently providing only a minimal return.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended September 30,		Period-to-Period Change	
	2019	2018	Amount	Percentage
	(dollars in thousands)			
Cash (used in) provided by:				
Operating activities	$ (85,661)	$ (26,043)	$ (59,618)	228.9 %
Investing activities	(435,010)	(85,015)	(349,995)	411.7
Financing activities	242,754	330,822	(88,068)	(26.6)
Effect of exchange rate changes on cash	(1,025)	(908)	(117)	13.0
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (278,942)	$ 218,856	$ (497,798)	(227.5)

Operating Activities

Cash used in operating activities was $85.7 million for the nine months ended September 30, 2019, an increase of $59.6 million, or 228.9%, from $26.0 million for the same period of 2018. Our cash used in operating activities during the nine months ended September 30, 2019 primarily reflected our net loss of $190.6 million, adjustments for non-cash items of $163.3 million, and a net decrease in our operating assets and liabilities of $58.3 million. Non-cash charges included a $70.4 million impairment charge, $46.6 million of depreciation and amortization expense and $36.1 million of stock-based compensation expense. The net changes in operating assets and liabilities included a $39.7 million increase in accounts receivable, net, a $24.3 million decrease in other liabilities, net, a $22.3 million increase in payments to university clients, a $20.2 million increase in deferred revenue and a $12.7 million increase in accounts payable and accrued expenses.

Cash used in operating activities was $26.0 million for the nine months ended September 30, 2018, a decrease of $36 thousand, or 0.1%, from $26.1 million for the same period of 2017. Our cash used in operating activities during the nine months ended September 30, 2018 primarily reflected our net loss of $43.2 million, adjustments for non-cash items of $47.4 million, and a net decrease in our operating assets and liabilities of $30.3 million. Non-cash charges included $24.1 million of stock-based compensation expense and $23.4 million of depreciation and amortization expense. The net changes in operating assets and liabilities included a $35.5 million increase in accounts receivable, net, an $11.1 million increase in payments to university clients, a $12.2 million increase in deferred revenue and a $10.8 million increase in accounts payable and accrued expenses.

Investing Activities

Cash used in investing activities for the nine months ended September 30, 2019 was $435.0 million, an increase of $350.0 million, or 411.7%, from $85.0 million for the same period of 2018. This increase was primarily due to a $388.0 million outflow related to our acquisition of Trilogy, net of cash acquired. The increase was also due to higher purchases of property and equipment of $3.3 million as we expanded into new facilities. These increases in outflows were partially offset by a $25.0 million inflow from the maturity of a certificate of deposit, as well as a $15.0 million year-over-year decrease in the purchase of investments.

Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2019 was $242.8 million, a decrease of $88.1 million from $330.8 million for the same period of 2018. This decrease was primarily due to $330.9 million in proceeds received from our public offering of common stock in May 2018, a $4.1 million decrease in proceeds received from the exercise of stock options and $2.0 million related to payments made for debt issuance costs. These decreases in cash provided by financing activities were partially offset by $243.7 million of proceeds from our Term Loan, a $3.6 million decrease in payments made for the acquisitions of amortizable intangible assets and a $0.9 million decrease of tax withholding payments associated with the settlement of restricted stock units in the prior year.

Other

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

Critical Accounting Policies

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

We generate substantially all of our revenue from contractual arrangements, with either our university clients or students, to provide a comprehensive platform of tightly integrated technology and technology-enabled services that support our graduate programs, short courses and technical skills-based boot camps.

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.

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

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

We do not disclose the value of unsatisfied performance obligations for our Graduate Program Segment because the variable consideration is allocated entirely to a wholly unsatisfied promise to transfer a service that forms part of a single performance obligation. We do not disclose the value of unsatisfied performance obligations for our Alternative Credential Segment because the performance obligation is part of a contract that has an original duration of less than one year.

Contract Acquisition Costs

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

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

Payments to University Clients

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

Accounts Receivable, Contract Assets and Liabilities

Balance sheet items related to contracts consist of accounts receivable, net and deferred revenue on our condensed consolidated balance sheets. Included in accounts receivable, net are trade accounts receivable, which are comprised of billed and unbilled revenue. Accounts receivable, net is stated at net realizable value, and we utilize the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of the amounts due. Our estimates are reviewed and revised periodically based on historical collection experience and a review of the current status of accounts receivable, net. Historically, actual write-offs for uncollectible accounts have not significantly differed from prior estimates. We recognize unbilled revenue when revenue recognition occurs in advance of billings. Unbilled revenue is recognized in our Graduate Program Segment because billings to university clients do not occur until after the academic term has commenced and final enrollment information is available. Our unbilled revenue represents contract assets.

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. We generally receive payments for our share of tuition and fees from graduate program university clients early in each academic term and from short course and boot camp 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.

Goodwill

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

The determination of the fair value of a reporting unit using the income-based approach requires us to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies, control premiums and valuation multiples appropriate for acquisitions in the industry in which we compete, discount rates, terminal growth rates, and forecasts of revenue, operating income, depreciation and amortization expense, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, we consider each reporting unit's historical results and current operating trends, revenues, 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, we use a market-based approach to estimate the value of the reporting unit. The market value 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.

We experienced a sustained decline in our stock price during the three months ended September 30, 2019, which management deemed a triggering event that required us to perform an interim goodwill impairment test as of September 1, 2019. Our test relied in part on the work of an independent valuation firm engaged to provide inputs as to the fair value of the reporting units and to assist in the related calculations and analysis. The results of the interim impairment test indicated that the carrying value of our boot camp business acquired in 2019 within our Alternative Credential Segment exceeded the fair value by $70.4 million. The decrease in this reporting unit's fair value was primarily due to lower expectations of future performance due to the impact of changes in key management as well as an increased focus in integrating the operations of the newly acquired reporting unit, which impacted the estimated operating cash flows. As a result, we recorded an impairment charge of $70.4 million on our condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2019.

Other than the recently impaired reporting unit, we have no reporting units whose estimated fair values as ofSeptember 30, 2019 exceeded their carrying value by less than 10%. It is possible that future changes in our 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.

Internally-Developed Intangible Assets

Capitalized Technology

Capitalized technology includes certain purchased software and technology licenses, direct third-party costs, and internal payroll and payroll-related costs used in the creation of our internal-use software. Software development projects generally include three stages: the preliminary project stage (all costs are expensed as incurred), the application development stage (certain costs are capitalized and certain costs are expensed as incurred) and the post-implementation/operation stage (all costs are expensed as incurred). Costs capitalized in the application development stage include costs of designing the application, coding, integrating our and the university's networks and systems, and the testing of the software. Capitalization of costs requires judgment in determining when a project has reached the application development stage and the period over which we expect to benefit from the use of that software. Once the software is placed in service, these costs are amortized on 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 conjunction with the faculty for each graduate program, short course and boot camp. University clients and their faculty generally provide materials used for the course in an on-campus setting, including curricula, case studies and other reading materials, and presentations. We are responsible for the conversion of the materials into a format suitable for delivery through our online learning platform, including all expenses associated with this effort. With regard to the Graduate Program Segment, the development of content is part of our single performance obligation and is considered a contract fulfillment cost.

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

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Evaluation of Long-Lived Assets

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

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, 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 full course equivalent enrollments as a key metric to evaluate the success of our growth strategy.

Full Course Equivalent Enrollmentsin Our University Clients' Offerings

We measure full course equivalent 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 full course equivalent enrollments for each course within each segment to calculate the total full course equivalent 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 full course equivalent enrollments for that period. Any individual student may be enrolled in more than one course during a period.

Average revenue per full course equivalent 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 full course equivalent enrollments within the applicable segment during that same period. This amount may vary from period to period depending on the academic calendars of our university clients, the relative growth rates of our graduate programs, short courses and boot camps, as applicable, and varying tuition levels, among other factors.

The following table sets forth the full course equivalent enrollments and average revenue per full course equivalent enrollment in our Graduate Program Segment and Alternative Credential Segment for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019*	2018
Graduate Program Segment				
Full course equivalent enrollments	40,910	32,665	119,602	92,983
Average revenue per full course equivalent enrollment	$ 2,527	$ 2,747	$ 2,583	$ 2,705
Alternative Credential Segment				
Full course equivalent enrollments	14,729	8,937	36,519	23,161
Average revenue per full course equivalent enrollment**	$ 3,825	$ 1,930	$ 3,061	$ 1,951

* We acquired Trilogy on May 22, 2019 and Trilogy's results of operations are included in our results from the date of acquisition. As such, Trilogy will impact the full course equivalent enrollment measures for our Alternative Credential Segment from the acquisition date forward.

** The calculation of the Alternative Credential Segment's average revenue per full course equivalent enrollment includes $6.0 million and $9.3 million of revenue that was excluded from the results of operations in the three and nine months ended September 30, 2019, respectively, due to a deferred revenue fair value purchase accounting adjustment recorded as part of the acquisition of Trilogy.

Of the increase in full course equivalent enrollments in our Graduate Program Segment for the three months ended September 30, 2019 and 2018, 1,239, or 15.0%, and 3,975, or 46.2%, respectively, were attributable to graduate programs launched during the preceding 12 months. Of the increase in full course equivalent enrollments in our Graduate Program Segment for the nine months ended September 30, 2019 and 2018, 1,772, or 6.7%, and 7,766, or 36.7%, respectively, were attributable to graduate programs launched during the preceding 12 months.

Of the increase in full course equivalent enrollments in our Alternative Credential Segment for the three months ended September 30, 2019 and 2018, 2,799, or 48.3%, and 5,561, or 62.2%, respectively, were attributable to offerings launched during the preceding 12 months. Of the increase in full course equivalent enrollments in our Alternative Credential Segment for the nine months ended September 30, 2019 and 2018, 7,697, or 57.6%, and 13,997, or 60.4% were attributable to offerings launched during the preceding 12 months.

Adjusted EBITDA

Adjusted EBITDA represents our earnings before net interest income (expense), taxes, depreciation and amortization expense, foreign currency gains or losses, acquisition-related gains or losses, deferred revenue fair value adjustments, transaction costs, integration costs, restructuring-related costs, impairment charges, and stock-based compensation expense. In the first quarter of 2019, we revised our definition of adjusted EBITDA to exclude the impact of transaction costs in connection with the acquisition of Trilogy. We believe this change is meaningful to investors because we did not have material transaction costs in prior periods and as a result, excluding the impact of such costs beginning in the first quarter of 2019 facilitates a period-to-period comparison of our business. In the second quarter of 2019, we revised our definition of adjusted EBITDA to exclude the impact of the deferred revenue fair value adjustments in connection with the acquisition of Trilogy. Business combination accounting guidance requires the write down of deferred revenue in conjunction with the acquisition. We did not have any deferred revenue fair value adjustments during the three and nine months periods ended September 30, 2018. Therefore, we included these revenues in adjusted EBITDA because they related to a specific transaction and are reflective of our ongoing financial performance. Adjusted EBITDA is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, the exclusion of certain expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA 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. In addition, adjusted EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate adjusted EBITDA in the same manner as we do. We prepare adjusted EBITDA to eliminate the impact of stock-based compensation expense, which we do not consider indicative of our core operating performance.

Our use of adjusted EBITDA 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 these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect the impact of changes in foreign currency exchange rates;
- adjusted EBITDA does not reflect acquisition related gains or losses such as, but not limited to, post-acquisition changes in the value of contingent consideration reflected in operations;
- adjusted EBITDA does not reflect transaction costs, integration costs or restructuring-related costs;
- adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation;

- adjusted EBITDA does not reflect interest or tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Net loss	$ (141,112)	$ (9,944)	$ (190,638)	$ (43,162)
Adjustments:				
Interest income	(924)	(1,799)	(5,087)	(3,053)
Interest expense	5,651	27	8,130	81
Foreign currency loss	710	273	1,093	1,493
Income tax expense (benefit)	714	(414)	(18,918)	(5,207)
Depreciation and amortization expense	22,288	8,599	46,639	23,382
Deferred revenue fair value adjustment	5,927	—	9,279	—
Transaction costs	92	—	4,466	—
Integration costs	2,436	—	2,493	—
Restructuring-related costs	6,581	—	7,174	—
Impairment charge	70,379	—	70,379	—
Stock-based compensation expense	16,535	7,933	36,086	24,064
Total adjustments	130,389	14,619	161,734	40,760
Adjusted EBITDA (loss)	$ (10,723)	$ 4,675	$ (28,904)	$ (2,402)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to market risk from the information provided in Part II, Item 7A of our Annual Report on Form 10-K, filed with the SEC on February 26, 2019.

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 nine months ended September 30, 2019 and 2018, our foreign currency translation adjustment was a loss of$4.0 million and a gain of $12.3 million, respectively.

For the three months ended September 30, 2019 and 2018, we recognized foreign currency exchange losses of$0.7 million and $0.3 million, respectively, included on our condensed consolidated statements of operations and comprehensive loss. For the nine months ended September 30, 2019 and 2018, we recognized foreign currency exchange losses of $1.1 million and $1.5 million, respectively, included on our condensed consolidated statements of operations and comprehensive loss.

The foreign currency exchange rate volatility of the trailing 12 months endingSeptember 30, 2019 was 11% and 6% for the South African rand and British pound, respectively. A 10% fluctuation of foreign currency exchange rates would have had an immaterial effect on our results of operations and cash flows for all periods presented. The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Such volatility, even when it increases our revenues or decreases our expenses, impacts our ability to accurately predict our future results and earnings.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 (the “Exchange Act”), as amended, 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. The scope of management’s assessment of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2019 includes all of the Company’s consolidated operations except for, as permitted by SEC guidance for newly acquired businesses, those disclosure controls and procedures of Trilogy that are subsumed by internal control over financial reporting. We acquired Trilogy on May 22, 2019 and their results of operations are included in our financial statements effective with the second quarter of 2019. As of September 30, 2019, the assets acquired in the Trilogy acquisition constituted approximately 4.9% of the Company’s consolidated assets, and revenues attributable to the Trilogy acquisition represent 10.0% of the Company’s revenues for the nine month period ended September 30, 2019. Based on this evaluation, management concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of September 30, 2019.

Changes in Internal Control Over Financial Reporting

Other than the change in our internal control over financial reporting as a result of the acquisition of Trilogy, there were no other changes in our internal control over financial reporting during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We are currently in the process of assessing and integrating Trilogy’s internal control over financial reporting with our existing 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 6 in “Notes to Condensed Consolidated Financial Statements” included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We are involved in various claims and legal proceedings arising in the ordinary course of business. We accrue a liability when a loss is considered probable and the amount can be reasonably estimated. See “Note 6. Commitments and Contingencies—Legal Contingencies” to our unaudited financial statements included elsewhere in this periodic report. While we do not expect that the ultimate resolution of any existing claims and proceedings (other than the specific matter described below, if decided adversely), individually or in the aggregate, will have a material adverse effect on our financial position, an unfavorable outcome in some or all of these proceedings could have a material adverse impact on results of operations or cash flows for a particular period. This assessment is based on our current understanding of relevant facts and circumstances. As such, our view of these matters is subject to inherent uncertainties and may change in the future.

In re 2U, Inc., Securities Class Action, No. 1:19-cv-7390 (S.D.N.Y.)

On August 7 and 9, 2019, Aaron Harper and Anne M. Chinn filed putative class action complaints against us Christopher J. Paucek, our CEO, and Catherine A. Graham, our former CFO, in the United States District Court for the Southern District of New York. The district court consolidated the two actions on August 27, 2019, with the caption In re 2U, Inc., Securities Class Action, No. 1:19-cv-7390 (S.D.N.Y.). The complaints allege violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, and SEC Rule 10b-5 promulgated thereunder, based upon allegedly false and misleading statements regarding our company’s business prospects and financial projections. The proposed class consists of all persons who acquired our company’s securities between February 26, 2018 and July 30, 2019.

We believe that the claims are without merit and we intend to vigorously defend against these claims. However, due to the complex nature of the legal and factual issues involved, the outcome of this matter is not presently determinable.

Item 1A. Risk Factors

The risks described in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on February 26, 2019, remain current in all material respects, except as amended and supplemented by the additional risk factors below. These risks do not identify all risks that we face. Our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations.

Risks Related to the Trilogy Acquisition and the Combined Company

Our international operations expose us to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

After the GetSmarter and Trilogy acquisitions, we conduct a more substantial portion of our business outside the U.S. and we accordingly make certain business and resource decisions considering assumptions about foreign currency. As a result, we face exposure to adverse movements in foreign currency exchange rates, in particular with respect to the volatility of the South African rand, or ZAR. While our reporting currency is in U.S. dollars, a portion of our consolidated revenues and expenses are denominated in ZAR, certain of our assets are denominated in ZAR and we have a significant employee base in South Africa. A decrease in the value of the U.S. dollar in relation to the ZAR could increase our cost of doing business in South Africa.

Alternatively, if the ZAR depreciates against the U.S. dollar, the value of our ZAR revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk. Our exposure to adverse movements in foreign currency exchange rates, including the ZAR, could have a material adverse impact on our financial results and cash flows.

In addition, local political events, financial instability and other factors can lead to economic uncertainty and currency exchange rate fluctuations. For example, the announcement of the Referendum of the U.K.’s Membership of the EU (referred to as “Brexit”), advising for the exit of the U.K. from the EU resulted in significant volatility in the global stock markets and exchange rate fluctuations.

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 revenues or decreases our expenses, impacts our ability to accurately predict our future results and earnings.

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

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

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

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

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

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

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

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

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

In our Alternative Credential Segment, which has a lower barrier to entry, we are facing increasing competition from traditional massive open online course providers, which have evolved from providing massive open online courses to providing short course certificates, nano degrees and similar non-degree alternatives, as well as from companies that provide corporate training programs and online courses taught outside the university environment (e.g., by experts in various fields).

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 selective nonprofit colleges and universities seeking to offer online graduate programs or short courses, any of which could negatively affect our revenue and future operating results and our ability to grow our business.

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

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

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

A significant portion of our revenue in the Alternative Credential Segment is attributable to courses with three university clients. The loss of any of these clients, or a decline in enrollment in certain of these courses, could significantly reduce our revenue in this segment.

We expect that our courses with our three largest university clients in the Alternative Credential Segment will continue to account for a large portion of our revenue in this segment. Any decline in these university clients' reputations or any increase in the fees charged by the university clients for the courses could adversely affect the number of students that enroll in these courses. Further, these university clients could become resistant to offering online courses through our platform. These university clients are not required to continue using us as their provider for online short courses. If any of these university clients elected to end certain courses or to terminate or not renew their relationships with us, it would significantly reduce our revenue in this segment.

The future results of the combined company may be adversely impacted if the combined company does not effectively manage its expanded operations following the completion of the Trilogy acquisition.

Following the completion of the Trilogy acquisition, the size of the combined company's business has increased significantly. Our ability to successfully manage this expanded business will depend, in part, upon management's ability to design and implement strategic initiatives that address not only the integration of two discrete companies in different geographic locations, but also the increased scale and scope of the combined business with its associated increased costs and complexity. The combined company may not be successful and may not realize the expected operating leverage, synergies and strategic benefits currently anticipated from the Trilogy acquisition.

Trilogy may underperform relative to our expectations.

Trilogy may not be able to achieve the levels of revenue, earnings or operating efficiency that we expect. Trilogy's business and financial performance are subject to certain risks and uncertainties, including, among others: (i) the ability to acquire new university clients and expand offerings with existing university clients; (ii) the demand for skills-based boot camps in web development, data analytics, user experience or user interface design, and cybersecurity; (iii) the acceptance, adoption and growth of Trilogy's skills-based boot camps by colleges and universities, students and employers; and (iv) the lack of predictability and visibility and the non-recurring nature of Trilogy's business model.

If Trilogy underperforms relative to our expectations, we may not be able to achieve the levels of revenue, earnings or operating efficiency that we expect, and our business and operating results may be harmed.

Uncertainties associated with the Trilogy acquisition may cause the departure of management personnel and other key employees, which could adversely affect the future business and operations of the combined company.

We depend upon the experience and industry knowledge of our officers and other key employees, including those who joined us after the Trilogy acquisition, to execute our business plans. The combined company's success will depend, in part, upon our ability to retain key management personnel and other key employees. Current and prospective employees may experience uncertainty about their future roles with the combined company, which may materially adversely affect our ability to attract and retain key personnel and could adversely impact operations of the combined company.

The market price of our common stock may decline as a result of the Trilogy acquisition.

The market price of our common stock may decline as a result of the Trilogy acquisition if, among other things, we are unable to achieve the expected growth in revenue, or if the strategic benefits or synergies are not realized or if the transaction costs related to the Trilogy acquisition are greater than expected. The market price of our common stock also may decline if we do not achieve the perceived benefits of the Trilogy acquisition as rapidly or to the extent anticipated by financial or industry analysts or if the effect of the Trilogy acquisition on our financial results is not consistent with the expectations of financial or industry analysts.

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

As of September 30, 2019, we had approximately $253.5 million of indebtedness on a consolidated basis. See Note 8 in the "Notes to Condensed Consolidated Financial Statements" included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

On May 22, 2019 we borrowed $250.0 million under our new senior secured Term Loan with an interest rate of LIBOR (subject to a 1.00% floor) plus 5.75% or, at our option, an alternate base rate (subject to a 2.00% floor) plus 4.75%. We utilized the borrowings under the Term Loan to finance a portion of the Trilogy acquisition.

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;
- expose us to increased interest rate risk as a significant portion of our indebtedness is subject to variable interest rates;
- place us at a competitive disadvantage compared to certain of our competitors who have less debt;
- hinder our ability to adjust rapidly to changing market conditions;
- limit our ability to secure adequate bank financing in the future with reasonable terms and conditions; and
- increase our vulnerability to, and limit our flexibility in planning for or reacting to, a potential downturn in general economic conditions or in one or more of our businesses.

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

In addition, the Credit Agreement governing our Term Loan contains affirmative and negative covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

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. Although the Credit Agreement governing our Term Loan contains 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 permit us to incur obligations that, although preferential to our common stock in terms of payment, do not constitute indebtedness.

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

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

If we are unable to generate sufficient cash from operating activities or are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness or if we fail to comply with the various covenants in the instruments governing our indebtedness and we are unable to obtain waivers from the required lenders, 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.

Our debt obligations may limit our flexibility in managing our business.

The Credit Agreement governing our Term Loan requires us to comply with several customary financial and other restrictive covenants, such as maintaining leverage ratios in certain situations, maintaining insurance coverage, and restricting our ability to make certain investments. See "Management's Discussion and Analysis of Financial Condition and Results of

Operations-Capital Resources and Liquidity-Sources of Liquidity-Credit Agreement.” We are also required to maintain liquidity of $25.0 million of unrestricted cash as of the last day of each fiscal quarter, which may limit our ability to engage in new lines of business, make certain investments, pay dividends, or enter into various transactions. The Credit Agreement also includes covenants that require us to maintain minimum: (i) annualized last quarter Graduate Program Segment revenue (“Minimum Graduate LQAR”) and (ii) last 12 months Alternative Credential Segment revenue (“Minimum Alternative Credential LTMR”). As of the quarter and last 12 months ended September 30, 2019, Minimum Graduate LQAR and Minimum Alternative Credential LTMR were$413.6 million and $207.7 million, respectively, which exceeded the requirements of$374.7 million and $165.8 million for the quarter and last 12 months ended September 30, 2019, respectively. For the quarter and last 12 months ending December 31, 2019, we will be required to have Minimum Graduate LQAR of$397.8 million and Minimum Alternative Credential LTMR $185.0 million, respectively. These covenants may limit the flexibility of our operations, and failure to meet either one of these minimum revenue covenants could result in defaults under the credit agreement governing our Term Loan even if we have satisfied our payment obligations. If such a default were to occur, our business, financial condition, and results of operations would be materially adversely affected.

We have incurred and may incur in the future significant charges due to impairment of our goodwill.

We review goodwill at least annually, and more frequently if indicators of impairment occur, at the reporting unit level. An interim goodwill impairment test performed during the reporting period indicated that the carrying value of Trilogy exceeded its fair value, primarily due to lower expectations of future performance of Trilogy that impacted estimated operating cash flows. As a result, we recorded an impairment charge of $70.4 million on our condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2019. Future changes in our 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, which could have a material adverse effect on our business, 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

None.

Item 6. Exhibits

Exhibit Number	Description	Form	File No.	Exhibit Number	Filing Date	Filed Herewith
2.1	Agreement and Plan of Merger and Reorganization, dated as of April 7, 2019, by and among 2U, Inc., Skywalker Purchaser, LLC, Skywalker Sub, Inc., Fortis Advisors LLC, as stockholder representative and Trilogy Education Services, Inc.	8-K	001-36376	2.1	April 8, 2019	
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	8-K	001-36376	3.1	April 4, 2014	
3.2	Amended and Restated Bylaws of the Registrant.	8-K	001-36376	3.2	April 4, 2014	
10.1	Credit Agreement, dated May 22, 2019, by and among 2U, Inc., as borrower, the Guarantors from time to time party thereto, the Lenders from time to time party thereto, Owl Rock Capital Corporation, as administrative agent and collateral agent and Owl Rock Capital Advisors LLC, as Lead Arranger and Bookrunner.	8-K	001-36376	10.1	May 22, 2019	
10.2	Summary of Non-Employee Director Compensation	10-Q	001-36376	10.2	July 30, 2019	
10.3	Amended and Restated 2014 Equity Incentive Plan Restricted Stock Unit Award Agreement					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

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.
November 12, 2019	By:	/s/ Christopher J. Paucek
		Christopher J. Paucek
		Chief Executive Officer
November 12, 2019	By:	/s/ Paul S. Lalljie
		Paul S. Lalljie
		Chief Financial Officer

2U, INC.
PERFORMANCE STOCK UNIT GRANT NOTICE
(AMENDED AND RESTATED 2014 EQUITY INCENTIVE PLAN)
(US)

2U, Inc. (the "***Company***"), pursuant to Section 6(c) of the Company's Amended and Restated 2014 Equity Incentive Plan (the "***Plan***"), hereby awards to Participant a Performance Stock Unit Award for the target number of shares of the Company's Common Stock ("***Performance Stock Units***") set forth below (the "***Award***"). The Award is subject to all of the terms and conditions as set forth in this notice of grant (this "***Performance Stock Unit Grant Notice***") and in the Plan and the Performance Stock Unit Award Agreement (the "***Award Agreement***"), both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan or the Award Agreement. In the event of any conflict between the terms in the Award Agreement or this Performance Stock Unit Grant Notice and the Plan, the terms of the Plan shall control.

Participant:	______________________
Date of Grant:	______________________
Grant Number:	______________________
Vesting Commencement Date:	______________________
Target Number of Performance Stock Units/Shares:	______________________

Performance Periods: 1/3rd of the Target Number of Performance Stock Units set forth above (the "***Target Number of PSUs***") will be eligible to be earned for each of the three performance periods as set forth below (each, a "***Performance Period***").

1. Performance Period 1: The Vesting Commencement Date through the first anniversary of the Vesting Commencement Date.
2. Performance Period 2: The Vesting Commencement Date through the second anniversary of the Vesting Commencement Date.
3. Performance Period 3: The Vesting Commencement Date through the third anniversary of the Vesting Commencement Date.

Performance-Based Vesting: The number of Performance Stock Units earned in respect of each Performance Period will be determined by multiplying the Achievement Percentage (as determined based on the Company's relative total stockholder return in accordance with Appendix A) for such Performance Period by 1/3rd of the Target Number of PSUs.

Upon the date that the Committee (or its designee) determines the Achievement Percentage for a Performance Period, which shall in no event be more than ninety (90) days following the completion of such Performance Period (the "***Determination Date***"), the earned Performance Stock Units for such Performance Period shall vest and become payable, subject to the Participant's Continuous Service through the Determination Date.

Additional Terms/Acknowledgements: Participant acknowledges receipt of, and understands and agrees to, this Performance Stock Unit Grant Notice, the Award Agreement and the Plan. Participant further acknowledges that as of the Date of Grant, this Performance Stock Unit Grant Notice, the Award Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the Award specified above and supersede all prior oral and written agreements on the terms of this Award with the exception, if applicable, of (i) the written employment agreement or offer letter agreement entered into between the Company and Participant specifying the terms that should govern this specific Award, and (ii) any compensation recovery policy that is adopted by the Company or is otherwise required by applicable law.

By accepting this Award, Participant acknowledges having received and read the Performance Stock Unit Grant Notice, the Award Agreement and the Plan and agrees to all of the terms and conditions set forth in these documents. Participant consents to receive Plan documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

2U, INC.		**PARTICIPANT**	
By:	______________________ Signature		______________________ Signature
Title:	______________________	Date:	______________________
Date:	______________________		

ATTACHMENTS: Award Agreement and Amended and Restated 2014 Equity Incentive Plan

2U, INC.
AMENDED AND RESTATED 2014 EQUITY INCENTIVE PLAN
PERFORMANCE STOCK UNIT AWARD AGREEMENT
(US)

Pursuant to the Performance Stock Unit Grant Notice (the "***Grant Notice***") and this Performance Stock Unit Award Agreement (the "***Agreement***"), 2U, Inc. (the "***Company***") has awarded you ("***Participant***") a Performance Stock Unit Award (the "***Award***") pursuant to Section 6(c) of the Company's Amended and Restated 2014 Equity Incentive Plan (the "***Plan***") for the Target Number of PSUs. Capitalized terms not explicitly defined in this Agreement or the Grant Notice shall have the same meanings given to them in the Plan. The terms of your Award, in addition to those set forth in the Grant Notice, are as follows. Section references are to this Agreement unless otherwise stated.

1. GRANT OF THE AWARD. This Award represents the right to be issued on a future date one (1) share of Common Stock for each Performance Stock Unit that is earned and vests in accordance with the Grant Notice and Sections 2 and 3 below (subject to any adjustment under Section 4 below). As of the Date of Grant, the Company will credit to a bookkeeping account maintained by the Company for your benefit the Target Number of PSUs subject to the Award. This Award was granted in consideration of your services to the Company.

2. VESTING. The Performance Stock Units will be earned, if at all, at a level between 50% and 200% of the Target Number of PSUs based on the Company's achievement of the performance conditions set forth in Appendix A during the Performance Periods. The Performance Stock Units earned in respect of a Performance Period (if any) will vest on the applicable Determination Date, subject to your Continuous Service through the Determination Date. Any fraction of a share of Common Stock that would otherwise be issuable in respect of a vested Performance Stock Unit will be rounded to the nearest whole share. Any Performance Stock Units that were eligible to be earned for a Performance Period and that are not earned for the Performance Period will immediately and automatically be cancelled and forfeited without consideration as of the applicable Determination Date. Upon a termination of your Continuous Service prior to the Determination Date for a Performance Period, the Performance Stock Units eligible to be earned for such Performance Period will be forfeited at no cost to the Company and you will have no further right, title or interest in or to such Performance Stock Units or the underlying shares of Common Stock.

3. CHANGE IN CONTROL. Notwithstanding any contrary provision of the Grant Notice or this Agreement, if a Change in Control occurs prior to the end of a Performance Period and your Continuous Service with the Company has not terminated as of, or immediately prior to, the effective time of the Change in Control:

(a) Such Performance Period shall be shortened to end at a date within ten (10) days prior to the Change in Control as determined by the Committee, and as of immediately prior to the effective time of such Change in Control, the Performance Stock Units eligible to be earned for such Performance Period will be deemed earned and will vest with respect to a number of shares of Common Stock equal to (i) the product of (A) the Target Number of PSUs eligible to be earned for such Performance Period and (B) a fraction, the numerator of which equals the number of days elapsed in such Performance Period through and including the date the Change in Control occurs and the denominator of which equals the original number of days in the Performance Period (such product, the "***Prorata Units***"), multiplied by (ii) an Achievement Percentage determined based on the Company's TSR (as defined in Appendix A) for such shortened Performance Period calculated using the closing stock price of a share of Common Stock on the last day of such shortened Performance Period as the ending stock price of the Company;

(b) As of immediately prior to the effective time of such Change in Control, a number of Performance Stock Units equal to (i) the Target Number of PSUs eligible to be earned for such Performance Period minus (ii) the Prorata Units (the "***Time-Vesting Units***") will cease to be subject to the vesting schedule set forth in Section 2 and will instead become eligible to vest solely based on your Continuous Service and shall vest on the last day of the original Performance Period, subject to your Continuous Service through such vesting date, provided that if as of, or within twelve (12) months after, the effective time of such Change in Control, your Continuous Service terminates due to an involuntary termination (not including death or Disability) by the Company without Cause or due to a voluntary termination by you with Good Reason, then, as of the date of termination of Continuous Service, the Time-Vesting Units shall be accelerated in full;

(c) If the Time-Vesting Units are not continued, assumed or substituted for in accordance with the provisions of Section 9(c)(i) of the Plan, then, as of the effective time of such Change in Control, the Time-Vesting Units shall be accelerated in full. For clarity, your Award will be considered to be continued, assumed or substituted for if it remains (or is replaced by an award that is) subject to terms and conditions that preserve its intrinsic value as of immediately prior to the Change in Control, provided that it may instead confer the right to receive cash, common stock of the acquiring entity or other consideration paid to the stockholders of the Company pursuant to the Change in Control; and

(d) As of immediately prior to the effective time of such Change in Control, any Performance Stock Units under this Award other than the Time-Vesting Units and the Prorata Units, will be cancelled and forfeited for no consideration.

4. NUMBER OF SHARES. The number of Performance Stock Units subject to your Award may be adjusted from time to time for Capitalization Adjustments, as provided in the Plan. Any additional Performance Stock Units, shares, cash or other property that becomes subject to the Award pursuant to this Section 4, if any, shall be subject, in a manner determined by the Board, to the same forfeiture restrictions, restrictions on transferability, and time and manner of delivery as applicable to the other Performance Stock Units and shares covered by your Award. Notwithstanding the provisions of this Section 4, no fractional shares or rights for fractional shares of Common Stock shall be created pursuant to this Section 4. Any fraction of a share will be rounded down to the nearest whole share.

5. SECURITIES LAW COMPLIANCE. You may not be issued any Common Stock under your Award unless the shares of Common Stock underlying the Performance Stock Units are either (i) then registered under the Securities Act, or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award must also comply with other applicable laws and regulations governing the Award, and you shall not receive such Common Stock if the Company determines that such receipt would not be in material compliance with such laws and regulations.

6. TRANSFER RESTRICTIONS. Prior to the time that shares of Common Stock have been delivered to you, you may not transfer, pledge, sell or otherwise dispose of this Award or the shares issuable in respect of your Award, except as expressly provided in this Section 6. For example, you may not use shares that may be issued in respect of your Performance Stock Units as security for a loan.

(a) **Death.** Your Award is transferable by will and by the laws of descent and distribution. At your death, vesting of your Award will cease and your executor or administrator of your estate shall be entitled to receive, on behalf of your estate, any Common Stock or other consideration that vested but was not issued before your death.

(b) **Domestic Relations Orders.** Upon receiving written permission from the Board or its duly authorized designee, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your right to receive the distribution of Common Stock or other consideration hereunder, pursuant to a domestic relations order or marital settlement agreement that contains the information required by the Company to effectuate the transfer. You are encouraged to discuss the proposed terms of any division of this Award with the Company General Counsel prior to finalizing the domestic relations order or marital settlement agreement to verify that you may make such transfer, and if so, to help ensure the required information is contained within the domestic relations order or marital settlement agreement.

7. DATE OF ISSUANCE.

(a) The issuance of shares in respect of the Performance Stock Units is intended to be exempt from Section 409A of the Code as a "short-term deferral" pursuant to Treasury Regulations Section 1.409A-1(b)(4) and will be construed and administered in such a manner. Subject to the satisfaction of the withholding obligations set forth in this Agreement, in the event one or more Performance Stock Units vests, the Company shall issue to you one (1) share of Common Stock in settlement of each Performance Stock Unit that is earned and vests in accordance with this Agreement (subject to any adjustment under Section 4 above). The issuance dates shall be on or within thirty (30) days after the applicable Performance Stock Unit vests, subject to clause (b) below (the issuance date is referred to as the "***Original Issuance Date***").

(b) If the Original Issuance Date does not occur (1) during an "open window period" applicable to you, as determined by the Company in accordance with the Company's then-effective policy on trading in Company securities, and (2) on a date when you are otherwise permitted to sell shares of Common Stock on an established stock exchange or stock market, and both (i) the Company decides, prior to the Original Issuance Date, not to satisfy the Withholding Taxes by withholding shares of Common Stock from the shares otherwise due to you under this Award, and (ii) you do not elect to pay your Withholding Taxes in cash, then the shares that would otherwise be issued to you on the Original Issuance Date will not be delivered on such Original Issuance Date and will instead be delivered on or within thirty (30) days after the first business day when you are not prohibited from selling shares of the Company's Common Stock in the open public market, but in no event later than the 15th day of the third calendar month of the applicable year following the year in which the shares of Common Stock under this Award are no longer subject to a "substantial risk of forfeiture" within the meaning of Treasury Regulations Section 1.409A-1(d) (or, in the event the Award is not a "short-term deferral" within the meaning of Section 409A of the Code, such earlier date as is required for the Award to comply with Section 409A of the Code).

(c) The form of delivery of shares (e.g., a stock certificate or electronic entry evidencing such shares) shall be determined by the Company.

8. DIVIDENDS. You shall receive no benefit or adjustment to your Award with respect to any cash dividend, stock dividend or other distribution that does not result from a Capitalization Adjustment.

9. RESTRICTIVE LEGENDS. The shares of Common Stock issued under your Award shall be endorsed with appropriate legends as determined by the Company.

10. EXECUTION OF DOCUMENTS. You hereby acknowledge and agree that the manner selected by the Company by which you indicate your consent to your Grant Notice is also deemed to be your execution of your Grant Notice and of this Agreement. You further agree that such manner of indicating consent may be relied upon as your signature for establishing your execution of any documents to be executed in the future in connection with your Award.

11. AWARD NOT A SERVICE CONTRACT.

(a) Nothing in this Agreement (including, but not limited to, the vesting of your Award or the issuance of the shares subject to your Award), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Agreement or the Plan shall: (i) confer upon you any right to continue in the employ of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Agreement or the Plan; or (iv) deprive the Company of the right to terminate you at will and without regard to any future vesting opportunity that you may have.

(b) The Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "***reorganization***"). Such a reorganization could result in the termination of your Continuous Service, or the termination of Affiliate status of your employer and the loss of benefits available to you under this Agreement, including but not limited to, the termination of the right to continue vesting in the Award. This Agreement, the Plan, the transactions contemplated hereunder and the vesting schedule set forth herein or any covenant of good faith and fair dealing that may be found implicit in any of them do not constitute an express or implied promise of continued engagement as an employee or consultant for the term of this Agreement, for any period, or at all, and shall not interfere in any way with the Company's right to conduct a reorganization.

12. WITHHOLDING OBLIGATIONS.

(a) On each vesting date, and on or before the time you receive a distribution of the shares underlying your Performance Stock Units, and at any other time as reasonably requested by the Company in accordance with applicable tax laws, you hereby authorize any required withholding from the Common Stock issuable to you and/or otherwise agree to make adequate provision in cash for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or any Affiliate that arise in connection with your Award (the "***Withholding Taxes***"). Additionally, the Company or any Affiliate may, in its sole discretion, satisfy all or any portion of the Withholding Taxes obligation relating to your Award by any of the following means or by a combination of such means: (i) withholding from any compensation otherwise payable to you by the Company; (ii) causing you to tender a cash payment; (iii) provided that at the time of issuance the Common Stock is publicly traded, permitting or requiring you to enter into a "same day sale" commitment whereby you irrevocably elect to sell a portion of the shares to be delivered in connection with your Performance Stock Units to a registered broker to satisfy the Withholding Taxes and whereby the broker irrevocably commits to forward the proceeds necessary to satisfy the Withholding Taxes directly to the Company and/or its Affiliates; or (iv) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to you in connection with the Award with a Fair Market Value (measured as of the date shares of Common Stock are issued to pursuant to Section 7) equal to the amount of such Withholding Taxes; *provided, however*, that the number of such shares of Common Stock so withheld will not exceed the amount necessary to satisfy the Company's required tax withholding obligations using the maximum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income; and *provided, further*, that to the extent necessary to qualify for an exemption from application of Section 16(b) of the Exchange Act, if applicable, such share withholding procedure will be subject to the express prior approval of the Company's Compensation Committee.

(b) Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to deliver to you any Common Stock otherwise issuable with respect to the Award.

(c) In the event the Company's obligation to withhold arises prior to the delivery to you of Common Stock or it is determined after the delivery of Common Stock to you that the amount of the Company's withholding obligation was greater than the amount withheld by the Company, you agree to indemnify and hold the Company harmless from any failure by the Company to withhold the proper amount.

13. TAX CONSEQUENCES. The Company has no duty or obligation to minimize the tax consequences to you of this Award and shall not be liable to you for any adverse tax consequences to you arising in connection with this Award. You are hereby advised to consult with your own personal tax, financial and/or legal advisors regarding the tax consequences of this Award and by signing the Grant Notice, you have agreed that you have done so or knowingly and voluntarily declined to do so. You understand that you (and not the Company) shall be responsible for your own tax liability that may arise as a result of the Award.

14. UNSECURED OBLIGATION. Your Award is unfunded, and as a holder of a vested Award, you shall be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue shares or other property pursuant to this Agreement. You shall not have voting or any other rights as a stockholder of the Company with respect to the shares to be issued pursuant to this Agreement until such shares are issued to you pursuant to Section 7 of this Agreement. Upon such issuance, you will obtain full voting and other rights as a stockholder of the Company. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

15. NOTICES. Any notice or request required or permitted hereunder shall be given in writing to each of the other parties hereto and shall be deemed effectively given on the earlier of (i) the date of personal delivery, including delivery by express courier, or delivery via electronic means, or (ii) the date that is five (5) days after deposit in the United States Post Office (whether or not actually received by the addressee), by registered or certified mail with postage and fees prepaid, addressed at the following addresses, or at such other address(es) as a party may designate by ten (10) days' advance written notice to each of the other parties hereto:

COMPANY:	2U, Inc. Attn: Stock Administrator 7900 Harkins Road Lanham, MD 20706
PARTICIPANT:	Your address as on file with the Company at the time notice is given

16. HEADINGS. The headings of the Sections in this Agreement are inserted for convenience only and shall not be deemed to constitute a part of this Agreement or to affect the meaning of this Agreement.

17. MISCELLANEOUS.

(a) The rights and obligations of the Company under your Award shall be transferable by the Company to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by, the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(c) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award and fully understand all provisions of your Award.

(d) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Agreement shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

18. GOVERNING PLAN DOCUMENT. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. Your Award (and any compensation paid or shares issued under your Award) is subject to recoupment in accordance with The Dodd-Frank Wall Street Reform and Consumer Protection Act and any implementing regulations thereunder, any clawback policy adopted by the Company and any compensation recovery policy otherwise required by applicable law. No recovery of compensation under such a clawback policy will be an event giving rise to a right to voluntarily terminate employment upon a resignation for "good reason," or for a "constructive termination" or any similar term under any plan of or agreement with the Company.

19. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS. The value of the Award subject to this Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating benefits under any employee benefit plan (other than the Plan) sponsored by the Company or any Affiliate except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any or all of the employee benefit plans of the Company or any Affiliate.

20. CHOICE OF LAW. The interpretation, performance and enforcement of this Agreement shall be governed by the law of the State of Delaware without regard to that state's conflicts of laws rules.

21. SEVERABILITY. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

22. OTHER DOCUMENTS. You hereby acknowledge receipt or the right to receive a prospectus providing the information required by Rule 428(b)(1) promulgated under the Securities Act. In addition, you acknowledge receipt of the Company's *Insider Trading Policy*.

23. AMENDMENT. This Agreement may not be modified, amended or terminated except by an instrument in writing, signed by you and by a duly authorized representative of the Company. Notwithstanding the foregoing, this Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Agreement, so long as a copy of such amendment is delivered to you, and provided that, except as otherwise expressly provided in the Plan, no such amendment materially adversely affecting your rights hereunder may be made without your written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to you, the provisions of this Agreement in any way it may deem necessary or advisable to carry out the purpose of the Award as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

24. COMPLIANCE WITH SECTION 409A OF THE CODE. This Award is intended to be exempt from Section 409A of the Code under the "short-term deferral" rule set forth in Treasury Regulation Section 1.409A-1(b)(4). Notwithstanding the foregoing, if it is determined that the Award fails to satisfy the requirements of the short-term deferral rule and is otherwise deferred compensation subject to Section 409A, and if you are a "***Specified Employee***" (within the meaning set forth in Section 409A(a)(2)(B)(i) of the Code) as of the date of your "separation from service" (within the meaning of Treasury Regulation Section 1.409A-1(h) and without regard to any alternative definition thereunder), then the issuance of any shares that would otherwise be made upon the date of the separation from service or within the first six (6) months thereafter will not be made on the originally scheduled date(s) and will instead be issued in a lump sum on the date that is six (6) months and one day after the date of the separation from service or, if earlier, as soon as practicable following the date of your death, with the balance of the shares issued thereafter in accordance with the original issuance schedule set forth above, but if and only if such delay in the issuance of the shares is necessary to avoid the imposition of adverse taxation on you in respect of the shares under Section 409A of the Code. Each installment of Performance Stock Units that vests is intended to constitute a "separate payment" for purposes of Treasury Regulation Section 1.409A-2(b)(2).

* * * * *

This Performance Stock Unit Award Agreement shall be deemed to be signed by the Company and the Participant upon the signing by the Participant of the Performance Stock Unit Grant Notice to which it is attached.

Appendix A

Performance Measure
The performance measure for the Award is the Company's total stockholder return ("***TSR***") compared to the TSR of a benchmark group of companies (the "***Benchmark Group***"). TSR combines share price appreciation and dividends paid to show the total return to the stockholder. The absolute size of the TSR will vary with the stock market, but the relative position to the Benchmark Group over each Performance Period is the performance metric for this Award.

TSR will be the sum of a company's ending stock price plus dividends over a Performance Period divided by a company's beginning stock price, as adjusted by the Committee as it may deem appropriate to account for stock splits and other similar corporate events. Both the beginning and ending stock prices will be calculated using the average closing price during the last 30 trading days prior to and including the calculation date. This calculation is used instead of the actual closing price on the given date to smooth volatility in the stock price and avoid single-day fluctuations.

$$\text{TSR} = \frac{\text{ending stock price + all dividends with a record date during the Performance Period}}{\text{beginning stock price}}$$

Benchmark Group
The Benchmark Group for purposes of this Award shall be the companies that comprise the Russell 3000 Index on the first day of a Performance Period. In the event that a company is no longer a part of the Russell 3000 Index on the last day of such Performance Period, such company will be removed from the Benchmark Group, provided that the Committee may provide for such other treatment as it determines in its sole discretion.

Achievement Percentage
At the end of a Performance Period, the Achievement Percentage will be determined based on the Company's TSR relative to the TSRs of the companies in the Benchmark Group over the Performance Period as set forth in the table below. The Company's TSR percentile ranking (the "***TSR Percentile Ranking***") is calculated as the percentage of members of the Benchmark Group (including the Company) with a TSR that is less than or equal to the Company's TSR. For the avoidance of doubt, each company in the Benchmark Group has an equal effect on the TSR Percentile Ranking.

TSR Percentile Ranking	Achievement Percentage

The Achievement Percentage will be determined based on the TSR Percentile Ranking, with linear interpolation for achievement between the [ ] and [ ] percentiles and between the [ ] and [ ] percentiles.

The actual payout of the Performance Stock Units, if any, at the end of a Performance Period will be made as provided under the Performance Stock Unit Agreement to which this Appendix A is attached.

Adjustments for Extraordinary Events

Notwithstanding the foregoing, if the Committee determines that due to unusual, extraordinary or nonrecurring transactions or events materially affecting the Award, an adjustment in the Benchmark Group, the payment schedule and/or other terms of the Award is necessary or appropriate to avoid the dilution or enlargement of the benefits or potential benefits intended to be made available under the Award, the Committee may adjust the Benchmark Group (including by removing constituent companies, substituting for existing constituent companies or selecting new constituent companies to replace withdrawn companies), the payment schedule and/or such other terms of the Award in such a manner as the Committee determines in good faith to be equitable to reflect such transactions or events.

* * * * *

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Christopher J. Paucek, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of 2U, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 12, 2019

By: /s/ Christopher J. Paucek

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

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Paul S. Lalljie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of 2U, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 12, 2019 By: /s/ Paul S. Lalljie

Name: Paul S. Lalljie
Title: Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION OF CEO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of 2U, Inc. (the "Company") for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Paucek, as Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019 By: /s/ Christopher J. Paucek

Name: Christopher J. Paucek
Title: Chief Executive Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATION OF CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of 2U, Inc. (the "Company") for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul S. Lalljie, as Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019 By: /s/ Paul S. Lalljie

Name: Paul S. Lalljie
Title: Chief Financial Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.