2U, Inc.
Form 10-Q/A
May 17, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 2016

or

o 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.)
8201 Corporate Drive, Suite 900 **Landover, MD**	**20785**
(Address of principal executive offices)	(Zip Code)

(301) 892-4350

(Registrant s telephone number, including area code)

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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). x Yes o No

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

As of May 3, 2016, there were 46,441,871 shares of the registrant s common stock, par value $0.001 per share, outstanding.

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EXPLANATORY NOTE

2U, Inc. is filing this Amendment No. 1 on Form 10-Q/A to its Quarterly Report on Form 10-Q for the three months ended March 31, 2016, which report was filed with the Securities and Exchange Commission on May 5, 2016 (the Initial Filing), solely to correct an inadvertent transposition of two numbers within the description of the composition of the year-over-year change in revenue contained in the text of the Components of Operating Results and Results of Operations Section of Part I, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

Specifically, the Initial Filing included the following language: Of the increase, the six client programs launched more than three years ago resulted in higher period-over-period revenues of $7.2 million, while $4.1 million was primarily attributable to increases in period-over-period full course equivalent enrollments in the client programs that launched between two to three years ago. Increases in full-course equivalent enrollments in the programs that launched less than two years ago contributed additional revenues of $1.5 million.

The language has been amended to state the following: Of the increase, the six client programs launched more than three years ago resulted in higher period-over-period revenues of $1.5 million, while $4.1 million was primarily attributable to increases in period-over-period full course equivalent enrollments in the client programs that launched between two to three years ago. Increases in full-course equivalent enrollments in the programs that launched less than two years ago contributed additional revenues of $7.2 million.

This Form 10-Q/A restates the entire MD&A, as required by Rule 12b-15. This report on Form 10-Q/A has not been updated for events occurring after the filing of the Initial Filing and, other than the change set forth above, all information included in the Initial Filing is unchanged. This Form 10-Q/A should be read in conjunction with the Initial Filing.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q/A 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, pro 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/A, 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. Forward-looking statements include statements about:

- trends in the higher education market and the market for online education, and expectations for growth in those markets;
- the acceptance, adoption and growth of online learning by colleges and universities, faculty, students, employers, accreditors and state and federal licensing bodies;
- the potential benefits of our cloud-based software-as-a-service (SaaS) technology and technology-enabled services to clients and students;
- anticipated launch dates of new client programs;
- the predictability, visibility and recurring nature of our business model;
- our ability to acquire new clients and expand programs with existing clients, including in the international, undergraduate and doctoral markets;
- our ability to continue to acquire prospective students for our clients programs;
- our ability to affect or increase student retention in our clients programs;

- our growth strategy;
- the scalability of our cloud-based SaaS technology;
- our expected expenses in future periods and their relationship to revenue;
- potential changes in regulations applicable to us or our clients; and
- the amount of time that we expect our cash balances and other available financial resources to 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, 2015 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/A 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 timeframe, 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/A 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.

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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, 2015. 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 Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2015, 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.

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, 2015, which are included in our Annual Report on Form 10-K filed with the SEC on March 10, 2016.

Overview

We are a leading provider of an integrated solution comprised of cloud-based software-as-a-service, or SaaS, technology fused with technology-enabled services, which we refer to as our Platform. Our Platform enables leading nonprofit colleges and universities to deliver their high-quality education to qualified students anywhere. Our SaaS technology consists of an innovative online learning environment, which we refer to as Online Campus, and our operations applications. This technology is fused with technology-enabled services, to complete our Platform. Our Platform allows our clients programs to expand and operate at scale, providing the comprehensive infrastructure colleges and universities need to attract, enroll, educate, support and graduate their students. By leveraging our Platform, we believe our clients are able to expand their addressable markets while providing educational engagement, experiences and outcomes to their online students that match or exceed those of their on-campus offerings.

Our Business Model

The key elements of our business model are described below.

Revenue Drivers and Predictability

Substantially all of our revenue is derived from revenue-share arrangements with our clients, under which we receive a contractually specified percentage of the amounts students pay them in tuition and other fees. Accordingly, the primary driver of our revenue growth is the increase in the number of student course enrollments in our clients programs. This in turn is influenced primarily by three factors:

- our ability to increase the number of programs offered by our clients, either by adding new clients or by expanding the number of client programs;

- our ability to identify and acquire prospective students for our clients programs; and

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- our ability, and that of our clients, to retain the students who enroll in their programs.

In the near term, we expect the primary drivers of our financial results to continue to be our two programs with the University of Southern California, which are our longest running programs, which we launched in 2009 and 2010. For the three months ended March 31, 2016 and 2015, 38% and 51%, respectively, of our revenue was derived from these two programs. We expect the University of Southern California will continue to account for a large portion of our revenue even though that portion will likely continue to decline as other client programs become more mature and achieve higher enrollment levels. For example, our programs with Simmons College and the University of North Carolina at Chapel Hill accounted for 16% and 11%, respectively, of our revenue for the three months ended March 31, 2016.

A significant percentage of our revenue in any period is related to students returning to our clients programs after their first academic term. We believe this contributes to the predictability and recurring nature of our business.

Program Marketing and Sales Expense

Our most significant expense in each fiscal period has been program marketing and sales expense, which relates primarily to student acquisition activities. We do not spend significant amounts on new client or program acquisition and we do not maintain a sales force targeted at potential new clients or programs since our model is not dependent on launching a large number of new programs per year, either with new or existing clients. Instead, our new clients and programs are largely generated through a direct approach by our senior management to selected colleges and universities.

We have primary responsibility for identifying qualified students for our clients programs, generating potential student interest in the programs and driving applications to the programs. While our clients make all admissions decisions, the number of students who enroll in our clients programs in any given period is significantly dependent on the amount we have spent on these student acquisition activities in prior periods. Accordingly, although most of our clients programs span multiple academic terms and, therefore, generate continued revenue beyond the term in which initial enrollments occur, we expect that we will need to continue to incur significant program marketing and sales expense for existing programs going forward to generate a continuous pipeline of new enrollments. For new programs, we begin incurring program marketing and sales costs as early as nine months prior to the start of a new client program.

We typically identify prospective students for our clients programs between three months and two or more years before they ultimately enroll. For the students currently enrolled in our clients programs and those who have graduated, the average time from our initial prospective student acquisition to initial enrollment was seven months. For the students who have graduated from these programs, the average time from initial enrollment to graduation was 22 months. Based on the student retention rates and patterns we have observed in our clients programs, we estimate that, for our current programs, the average time from a student s initial enrollment to graduation will be approximately two years.

Accordingly, our program marketing and sales expense in any period is an investment we make to generate revenue in future periods. Likewise, revenue generated in any period is largely attributable to the investment made in student acquisition activities in earlier periods. Because program marketing and sales expense in any period is almost entirely unrelated to revenue generated in that period, we do not believe it is meaningful to directly compare the two. We believe that the total revenue we will receive in the future from students who enroll in our clients programs as a result of current period program marketing and sales expense will be significantly greater as a multiple of that expense than is implied by the multiple of current period revenue to current period program marketing and sales expense. Further, we believe that our program marketing and sales expense in future periods will generally decline as a percentage of the revenue reported in those same periods as our revenue base from returning students in existing programs increases.

We continually manage our program marketing and sales expense to ensure that across our portfolio of client programs, our cost to acquire students for these programs is appropriate for our business model. We use a ratio of attrition adjusted lifetime revenue of a student, or LTR, to the total cost to acquire that student, or TCA, as the measure of our marketing efficiency and to determine how much we are willing to spend to acquire an additional student for any program. The calculations included in this ratio include certain assumptions. For any period, we know what we spent on program sales and marketing and therefore, can accurately calculate the ratio s denominator. However, given the time lag between when we incur our program marketing and sales expense and when we receive revenue related to students enrolled based on that expense, we have to incorporate forecasts of student enrollments and retention into our calculation of the ratio s numerator, which is our estimate of future revenue related to that period s expense. We use the significant amount of data we have on the effectiveness of various marketing channels, student attrition and other factors to inform our forecasts and are continually testing the assumptions underlying these forecasts against actual results to give us confidence that our forecasts are reasonable. The LTR to TCA ratio may vary from program to program depending on the degree being offered, where that program is in its lifecycle and whether we enable the same or similar degrees at other universities.

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Period-to-Period Fluctuations

Our revenue, cash position, accounts receivable and deferred revenue can fluctuate significantly from quarter to quarter due to variations driven by the academic schedules of our clients programs. These programs generally start classes for new and returning students an average of four times per year. Class starts are not necessarily evenly spaced throughout the year, do not necessarily correspond to the traditional academic calendar and may vary from year to year. As a result, the number of classes our client programs have in session, and therefore the number of students enrolled, will vary from month to month and quarter to quarter, leading to variability in our revenue.

Our clients programs often have academic terms that straddle two fiscal quarters. Our clients generally pay us when they have billed tuition and specified fees to their students, which is typically early in the academic term, and once the drop/add period has passed. We recognize the related revenue ratably over the course of the academic term, beginning on the first day of classes through the last. Because we generally receive payments from our clients prior to our ability to recognize the majority of those amounts as revenue, we record deferred revenue at each balance sheet date equal to the excess of the amounts we have billed or received from our clients over the amounts we have recognized as revenue as of that date. For these reasons, our cash flows typically vary considerably from quarter to quarter and our cash position, accounts receivable and deferred revenue typically fluctuate between quarterly balance sheet dates.

Our expense levels also fluctuate from quarter to quarter, driven primarily by our program marketing and sales activity. We typically reduce our paid search and other program marketing and sales efforts during late November and December because these efforts are less productive during the holiday season. This generally results in lower total program marketing and sales expense during the fourth quarter. In addition, because we begin spending on program marketing and sales, and, to a lesser extent, services and support as much as nine months prior to the start of classes for a new client program, these costs as a percentage of revenue fluctuate, sometimes significantly, depending on the timing of new client programs and anticipated program launch dates.

Components of Operating Results and Results of Operations

First Quarter 2016 Highlights

- Revenue was $47.4 million, an increase of 37.1% from $34.6 million in the first quarter of 2015.

- Net loss was $(3.4) million, or $(0.07) per share, compared to $(5.5) million or $(0.13) per share, in the first quarter of 2015.

- Adjusted EBITDA was $2.2 million, compared to an adjusted EBITDA loss of $(1.6) million in the first quarter of 2015.

Revenue

Substantially all of our revenue consists of a contractually specified percentage of the amounts our clients bill to their students for tuition and fees, less credit card fees and other specified charges we have agreed to exclude in certain of our client contracts, which we refer to as net program proceeds. Most of our contracts have 10 to 15 year initial terms. We recognize revenue ratably over the service period, which we define as the first through the last day of classes for each academic term in a client s program.

We establish a refund allowance for our share of tuition and fees ultimately uncollected by our clients.

We also offered rebates to a limited group of students who enrolled in a specific client program between 2009 and 2011, which we will be required to pay to such students if they complete their degrees and pre-specified, post-graduation work requirements within a defined period of time after graduation. For students in this group who are still enrolled in the program, we accrue the rebate liability as they continue through the program towards graduation. In addition, all students in this group are required to certify to us each September as to their continuing eligibility for these rebates. For those students who do not make such certification and are therefore no longer eligible for the rebate, because, for example, they have failed to meet their post-graduation work requirements, we reduce the allowance accordingly at that time. As of March 31, 2016 and December 31, 2015, 85 and 81 students, respectively, remained eligible to receive these rebates. These rebates and refunds offset the net program proceeds that we recognize as revenue.

In addition to providing access to the SaaS technology within our Platform, we provide technology-enabled services that support the complete lifecycle of a higher education program, including attracting students, advising prospective students through the admissions application process, providing technical, success coaching and other support, facilitating accessibility to individuals with disabilities and facilitating in-program field placements. We have determined that no individual deliverable has standalone value upon delivery and, therefore, the multiple deliverables within our arrangements do not qualify for treatment as separate units of accounting. Accordingly, we consider all deliverables to be a single unit of accounting, and we recognize revenue from the entire arrangement over the term of the service period.

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We generally receive payments from our clients early in each academic term, prior to completion of the service period. We record these advance payments as deferred revenue until the services are delivered or until our obligations are otherwise met, at which time we recognize the revenue. As of each balance sheet date, deferred revenue is a current liability and represents the excess amounts we have billed or received over the amounts we have recognized as revenue in the consolidated statements of operations as of that date.

The components of revenue for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,				Period-to-Period Change	
	2016		2015			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
			(dollars in thousands)			
Revenue:						
Net program proceeds	$ 47,974	101.1%	$ 35,063	101.3%	$ 12,911	36.8%
Rebates	(15)	(0.0)	(2)	(0.0)	(13)	*
Refunds	(202)	(0.4)	(384)	(1.1)	182	(47.4)
Other	(313)	(0.7)	(65)	(0.2)	(248)	*
Total revenue	$ 47,444	100.0%	$ 34,612	100.0%	$ 12,832	37.1

* Not meaningful for comparison purposes.

Revenue. Revenue for the three months ended March 31, 2016 was $47.4 million, an increase of $12.8 million, or 37.1%, from $34.6 million for the same period of 2015. Of the increase, the six client programs launched more than three years ago resulted in higher period-over-period revenues of $1.5 million, while $4.1 million was primarily attributable to increases in period-over-period full course equivalent enrollments in the client programs that launched between two to three years ago. Increases in full-course equivalent enrollments in the programs that launched less than two years ago contributed additional revenues of $7.2 million.

Costs and Expenses

Costs and expenses consist of servicing and support costs, technology and content development costs, program marketing and sales expenses and general and administrative expenses. To support our anticipated growth, we expect to continue to hire new employees (which will increase both our cash and non-cash equity compensation costs), increase our program promotion and student acquisition efforts, expand our technology infrastructure and increase our other program support capabilities. As a result, we expect our costs and expenses to increase in absolute dollars, but to decrease as a percentage of revenue over time as we achieve economies of scale through the expansion of our business.

Servicing and support. Servicing and support expense consists primarily of cash and non-cash stock-based compensation costs related to program management and operations, as well as costs for technical support for our SaaS technology and faculty and student support. It includes costs to facilitate in-program field placements, student immersions and other student enrichment experiences and costs to assist our clients with their state compliance requirements. It also includes software licensing, telecommunications and other costs to provide access to the SaaS technology within our Platform for our clients and their students.

Technology and content development. Technology and content development expense consists primarily of cash and non-cash stock-based compensation and outsourced services costs related to the ongoing improvement and maintenance of the SaaS technology within our Platform and the developed content for our client programs. It also includes the costs to support our internal infrastructure, including our cloud-based server usage. Additionally, it includes the associated amortization expense related to capitalized technology and content development costs, as well as hosting and other costs associated with maintaining the SaaS technology within our Platform in a cloud environment.

Program marketing and sales. Program marketing and sales expense consists primarily of costs related to student acquisition. This includes the cost of online advertising and prospective student generation, as well as cash and non-cash stock-based compensation costs for our program marketing, search engine optimization, marketing analytics and admissions application counseling personnel. We expense all costs related to program marketing and sales as they are incurred.

General and administrative. General and administrative expense consists primarily of cash and non-cash stock-based compensation costs for employees in our executive, administrative, finance and accounting, legal, communications and human resources functions. Additional expenses include external legal, accounting and other professional fees, telecommunications charges and other corporate costs such as insurance and travel that are not related to another function.

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The costs and expenses for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31, 2016		2015		Period-to-Period Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage
			(dollars in thousands)			
Costs and expenses:						
Servicing and support	$ 9,512	20.0%	$ 7,550	21.8%	$ 1,962	26.0%
Technology and content development	7,275	15.3	6,134	17.7	1,141	18.6
Program marketing and sales	23,656	49.9	19,587	56.6	4,069	20.8
General and administrative	10,447	22.0	6,711	19.4	3,736	55.7
Total costs and expenses	$ 50,890	107.2%	$ 39,982	115.5%	$ 10,908	27.3
Loss from operations	$ (3,446)	(7.2)%	$ (5,370)	(15.5)%	$ 1,924	(35.8)

Servicing and support. Servicing and support costs for the three months ended March 31, 2016 were $9.5 million, an increase of $2.0 million, or 26.0%, from $7.5 million for the same period of 2015. This increase was due primarily to a $1.1 million increase in cash compensation costs, a $0.3 million increase in non-cash stock-based compensation costs and a $0.3 million increase in travel and related expenses as we increased our headcount in this area by 29% to serve a growing number of students and faculty in existing and new client programs. Additionally, other servicing and support costs increased $0.3 million. As a percentage of revenue, servicing and support costs decreased from 21.8% for the three months ended March 31, 2015 to 20.0% for the same period of 2016, as revenue grew at a higher rate than the increase in expense.

Technology and content development. Technology and content development costs for the three months ended March 31, 2016 were $7.3 million, an increase of $1.2 million, or 18.6%, from $6.1 million for the same period of 2015. This increase was due primarily to a $0.6 million increase in cash compensation costs (net of amounts capitalized for technology and content development) and a $0.2 million increase in non-cash stock-based compensation costs, as we increased our headcount in this area by 35% to support scaling of existing client programs. Further, an increase of $0.3 million resulted from higher amortization expense associated with our capitalized technology and content development costs, primarily as a result of an increase in the number of courses that have been developed for our client programs. Additionally, costs related to our cloud-based server usage increased by $0.1 million. As a percentage of revenue, technology and content development costs decreased from 17.7% for the three months ended March 31, 2015 to 15.3% for the same period of 2016, as revenue grew at a higher rate.

Program marketing and sales. Program marketing and sales expense for the three months ended March 31, 2016 was $23.7 million, an increase of $4.1 million, or 20.8%, from $19.6 million for the same period of 2015. This increase was due primarily to a $1.8 million increase in cash compensation costs and a $0.1 million increase in non-cash stock-based compensation costs as we increased our headcount in this area by 22% to acquire students for, and drive revenue growth in, new client programs. Additionally, direct internet marketing costs to acquire students for our clients programs increased by $1.6 million, and other program marketing and sales expenses increased by $0.6 million to support our program marketing efforts. As a percentage of revenue, program marketing and sales expense decreased from 56.6% for the three months ended March 31, 2015 to 49.9% for the same period of 2016, reflecting a higher year-over-year percentage increase in revenue than the increase in expense.

General and administrative. General and administrative expense for the three months ended March 31, 2016 was $10.4 million, an increase of $3.7 million, or 55.7%, from $6.7 million for the same period of 2015. This was due primarily to a $1.1 million increase in cash compensation costs and a $0.9 million increase in non-cash stock-based compensation costs as we increased in our headcount in this area by 35% to support our growing business. Further, accounting services primarily related to Sarbanes-Oxley compliance and other professional fees increased by $0.5 million, employee education benefits increased by $0.5 million, travel and related expenses increased by $0.1 million, while other general and administrative costs increased by $0.6 million. As a percentage of revenue, general and administrative expense increased from 19.4% for the three months ended March 31, 2015 to 22.0% for the same period of 2016, reflecting a higher year-over-year percentage increase in expense than the increase in revenue.

Non-cash stock-based compensation expense is a component of compensation cost within each of the four cost and expense categories described above. In early 2014, the Compensation Committee of our Board of Directors approved a framework for granting equity awards under our 2014 Equity Incentive Plan. Under this framework, the majority of our equity awards are made on or around April 1 of each year and typically have four-year vesting periods. As such, non-cash stock-based compensation expense is expected to continue to increase year-over-year until four years after the initial mid-2014 grants.

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Other Income (Expense)

Other income (expense) consists of interest income, interest expense and other expenses. Interest income is derived from interest received on our cash and cash equivalents. Interest expense consists primarily of the amortization of deferred financing costs associated with our line of credit.

Income Tax (Expense) Benefit

Income tax expense consists of U.S. federal, state and foreign income taxes. To date, we have not been required to pay U.S. federal income taxes because of our current and accumulated net operating losses. We incurred immaterial state and foreign income tax liabilities for the three months ended March 31, 2016 and 2015.

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, we discuss revenue and the components of operating loss in the section above entitled Components of Operating Results and Results of Operations. Additionally, we utilize other key metrics to evaluate the success of our growth strategy, including measures we refer to as Platform revenue retention rate and full course equivalent enrollments in our clients programs.

Platform Revenue Retention Rate

We measure our Platform revenue retention rate for a particular period by first identifying the group of programs that our clients launched before the beginning of the prior year comparative period. We then calculate our Platform revenue retention rate by comparing the revenue we recognized for this group of programs in the reporting period to the revenue we recognized for the same group of programs in the prior year comparative period, expressed as a percentage of the revenue we recognized for the group in the prior year comparative period.

The following table sets forth our Platform revenue retention rate for the periods presented, as well as the number of programs included in the Platform revenue retention rate calculation. For all of these periods, our Platform revenue retention rate was greater than 100% because we had no programs terminate and full course equivalent enrollments in the aggregate increased year-over-year. There is no direct correlation between the Platform revenue retention rate and the number of programs included in the calculation of that rate. However, there may be a correlation between the Platform revenue retention rate and the average maturity of the programs included in the calculation of that rate because newer programs tend to have higher percentage growth rates.

	Three Months Ended March 31, 2016	2015
Platform revenue retention rate	123.3%	122.7%
Number of programs included in comparison (1)	12	9

(1) Reflects the number of programs operating both in the reported period and in the prior year comparative period.

Full Course Equivalent Enrollments in Our Clients Programs

We measure full course equivalent enrollments in our clients programs by determining, for each of the courses offered during a particular period, the number of students enrolled in that course multiplied by the percentage of the course completed during that period. We use this metric to account for the fact that many courses offered by our clients straddle two or more 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 in our client programs during a period. This number is derived by dividing our total revenue for a period by the number of full course equivalent enrollments during that same period. This amount may vary from period to period depending on the academic calendars of our clients, the relative growth rates of programs with varying tuition levels, the launch of new programs with higher or lower than average net tuition costs and annual tuition increases instituted by our clients. As a part of our growth strategy, we are actively targeting new graduate-level clients in academic disciplines for which we have existing programs. Over time, this strategy is

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likely to reduce our average revenue per full course equivalent. However, we believe this approach will enable us to leverage our program marketing investments across multiple client programs within specific academic disciplines, significantly decreasing student acquisition costs within those disciplines and more than offsetting any decline in average revenue per full course equivalent enrollment.

The following table sets forth the full course equivalent enrollments and average revenue per full course equivalent enrollment in our clients programs for the periods presented.

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Full course equivalent enrollments in our clients programs	17,709	13,093
Average revenue per full course equivalent enrollment in our clients programs	$ 2,679	$ 2,644

Adjusted EBITDA

Adjusted EBITDA represents our earnings before net interest (income) expense, income taxes, depreciation and amortization, adjusted to eliminate stock-based compensation expense, which is a non-cash item. 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 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 for each of the periods indicated.

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	(in thousands)	
Net loss	$ (3,380)	$ (5,468)
Adjustments:		
Interest expense	26	126
Interest income	(92)	(28)
Depreciation and amortization expense	2,149	1,713
Stock-based compensation expense	3,544	2,048
Total adjustments	5,627	3,859
Adjusted EBITDA (loss)	$ 2,247	$ (1,609)

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Critical Accounting Policies and Significant Judgments and Estimates

This management s discussion and analysis of financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reported period. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates if conditions differ from our assumptions. During the three months ended March 31, 2016, there were no material changes to our critical accounting policies and use of estimates, which are disclosed in our audited consolidated financial statements for the year ended December 31, 2015 included in our Annual Report on Form 10-K filed with the SEC on March 10, 2016.

Liquidity and Capital Resources

Sources of Liquidity

On December 31, 2013, we entered into a credit agreement with Comerica Bank for a revolving line of credit, under which we could borrow up to $37.0 million from a syndicate of lenders including Comerica Bank and Square 1 Bank, with a maturity date of December 31, 2015. On January 21, 2014, we borrowed $5.0 million under this line of credit and repaid this borrowing in full on February 18, 2014. On December 31, 2015, we amended our credit agreement with Comerica Bank to reduce the aggregate amount we may borrow to $25.0 million, remove Square 1 Bank as a lender and extend the maturity date through April 29, 2016. On April 27, 2016, we amended our credit agreement to extend the maturity date through June 28, 2016. There have been no subsequent borrowings under this line of credit.

In connection with entering into an operating lease agreement on December 23, 2015, to lease our new office facility in Lanham, Maryland, we entered into a standby letter of credit on January 22, 2016 in the amount of $6.0 million as a security deposit for the new leased facilities. This letter of credit reduced the aggregate amount we may borrow under our revolving line of credit to $19.0 million.

Under this revolving line of credit, we have the option of borrowing funds subject to (i) a base rate, which is equal to 1.5% plus the greater of Comerica Bank s prime rate, the federal funds rate plus 1% or the 30 day LIBOR plus 1%, or (ii) LIBOR plus 2.5%. For amounts borrowed under the base rate, we may make interest-only payments quarterly, and may prepay such amounts with no penalty. For amounts borrowed under LIBOR, we may make interest-only payments in periods of one, two and three months and will be subject to a prepayment penalty if we repay such borrowed amounts before the end of the interest period.

Borrowings under the line of credit are collateralized by substantially all of our assets. The availability of borrowings under this credit line is subject to our compliance with reporting and financial covenants, including, among other things, that we achieve specified minimum three-month trailing revenue levels during the term of the agreement and specified minimum six-month trailing profitability levels for some of our client programs, measured quarterly. In addition, we are required to maintain a minimum adjusted quick ratio, which measures our short-term liquidity, of at least 1.10 to 1.00. As of March 31, 2016 and December 31, 2015, our adjusted quick ratios were 8.59 and 7.90, respectively.

The covenants under the line of credit also place limitations on our ability to incur additional indebtedness or to prepay permitted indebtedness, grant liens on or security interests in our assets, carry out mergers and acquisitions, dispose of assets, declare, make or pay dividends, make capital expenditures in excess of specified amounts, make investments, loans or advances, enter into transactions with our affiliates, amend or modify the terms of our material contracts, or change our fiscal year. If we are not in compliance with the covenants under the line of credit, after any opportunity to cure such non-compliance, or we otherwise experience an event of default under the line of credit, the lenders may require repayment in full of all principal and interest outstanding. If we fail to repay such amounts, the lenders could foreclose on the assets we have pledged as collateral under the line of credit. We are currently in compliance with all such covenants.

Cash Flows

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

	Three Months Ended March 31,	
	2016	**2015**
	(in thousands)	
Cash provided by (used in):		
Operating activities	$ 6,278	$ (1,287)
Investing activities	(3,967)	(3,355)
Financing activities	670	790

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Operating Activities

For the three months ended March 31, 2016, net cash provided by operating activities of $6.3 million consisted of $5.7 million in non-cash items and a $4.0 million net cash inflow from changes in working capital, partially offset by a net loss of $3.4 million. Non-cash items consisted of non-cash stock-based compensation charges of $3.5 million and depreciation and amortization expense of $2.1 million. The increase in cash resulting from changes in working capital consisted of a $7.4 million increase in deferred revenue, a $2.3 million increase in accrued expenses and other liabilities, a $1.8 million increase in accounts payable and a $0.4 million change in other assets and other liabilities. These increases were partially offset by a $6.5 million decrease in accrued compensation and related benefits and a $1.4 million increase in prepaid expenses and other current assets.

For the three months ended March 31, 2015, net cash used in operating activities was $1.3 million, consisting of a net loss of $5.5 million, partially offset by $3.8 million in non-cash items and a $0.4 million change in working capital. Non-cash items consisted of non-cash stock compensation charges of $2.1 million and depreciation and amortization expense of $1.7 million. The increase in cash resulting from changes in working capital consisted of increases in accounts payable of $4.8 million and deferred revenue of $4.2 million and refunds payable of $0.4 million, partially offset by an increase in accounts receivable of $4.0 million, a $2.5 million increase in prepaid expenses, a $2.3 million decrease in accrued expenses and other current liabilities due to lower accrued program marketing costs and a $0.2 million outflow related to advances to clients.

Investing Activities

For the three months ended March 31, 2016 and 2015, net cash used in investing activities was $4.0 million and $3.3 million, respectively. These expenditures were primarily for the development of internal-use software and asynchronous content developed for client programs, and equipment.

Financing Activities

For the three months ended March 31, 2016, net cash provided by financing activities was $0.7 million, consisting of $1.0 million of proceeds received from the exercise of stock options, partially offset by $0.3 million of cash used for the payment of employee withholding taxes related to the release of restricted stock units.

For the three months ended March 31, 2015, net cash provided by financing activities was $0.8 million, consisting of $1.2 million of proceeds received from the exercise of stock options, partially offset by $0.4 million of cash used for the payment of employee withholding taxes related to the release of restricted stock units.

Contractual Obligations and Commitments

We have non-cancelable operating leases for our office space, and we are also contractually obligated to make fixed payments to certain of our university clients in exchange for contract extensions and various marketing and other rights.

We have a $25.0 million line of credit from Comerica Bank. On January 21, 2014, we borrowed $5.0 million under this line of credit and repaid this borrowing in full on February 18, 2014. There have been no subsequent borrowings under this line of credit, and therefore, no amounts were outstanding as of March 31, 2016.

See Note 5 in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 and Legal Proceedings contained in Part II, Item 1 of this Quarterly Report on Form 10-Q for additional information regarding contingencies.

Off-Balance Sheet Arrangements

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

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 FASB s recent accounting pronouncements and their effect on us.

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PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit Number	**Description of the Document**
3.1 (1)	Amended and Restated Certificate of Incorporation of the Registrant.
3.2 (2)	Amended and Restated Bylaws of the Registrant.
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.
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.
101.INS (3)	XBRL Instance
101.SCH (3)	XBRL Taxonomy Extension Schema Document
101.CAL (3)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (3)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (3)	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE (3)	XBRL Taxonomy Extension Presentation Linkbase Document

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(1) Previously filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 001-36376), filed with the Commission on April 4, 2014, and incorporated by reference herein.

(2) Previously filed as Exhibit 3.2 to the Registrant s Current Report on Form 8-K (File No. 001-36376), filed with the Commission on April 4, 2014, and incorporated by reference herein.

(3) Previously filed with the Registrant's Quarterly Report on Form 10-Q (File No. 001-36376), filed with the Commission on May 5, 2016

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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.	
May 16, 2016	By: Christopher J. Paucek Chief Executive Officer	/s/ Christopher J. Paucek
May 16, 2016	By: Catherine A. Graham Chief Financial Officer	/s/ Catherine A. Graham