

POWERING THE WORLD'S BEST ONLINE DEGREE PROGRAMS

2015 2U ANNUAL REPORT



2U[®]



WHAT WE DO

Education is one of the most powerful drivers of change and upward mobility. At 2U, we empower forward-thinking universities to reimagine education, ensuring that students everywhere can dream bigger, reach their highest potential and fulfill their aspirations through life-changing educational experiences. We help universities become the best possible digital versions of themselves so they can offer more students than ever access to transformative education. Our integrated Platform, a fusion of cloud-based software-as-a-service (SaaS) technology and technology-enabled services, provides schools with the comprehensive operating infrastructure they need to attract, enroll, educate and support students globally.

2U BY THE NUMBERS

Number of university partners: **14**

Number of verticals: **20**

Number of programs: **29**

Total students enrolled inception to date: **17,862**

Average class size: **12**

Retention Rate:
**84% enrolled or graduated
as of 12/31/2015**

Attrition-adjusted tuition bookings inception to date:
\$1 billion



CEO LETTER TO STOCKHOLDERS

Fellow Stockholders,

I have stated early and often that the long-term financial success of 2U is tied to student outcomes. In 2008, that meant getting the student experience right from the very beginning. Live, face-to-face classes. Real professors. Real connections. Real networks. Real-world experiences. And no asterisk on the degree.

One student enrolled. Then another. Then a thousand.

We worked tirelessly with our university partners to build online degree programs that deliver world-class outcomes. We improved the delivery of asynchronous content. We added Mobile Offline Mode, giving our road warriors more flexibility. We constantly iterated the 2U Platform.

Then five thousand enrolled. Then ten thousand.

Student outcomes made converts of universities like Northwestern, Berkeley, Yale, and NYU. We are able to leverage each new program into a more robust 2U Platform that single schools just can't touch. By the end of 2015, a total of 17,862 people had enrolled in or graduated from a 2U-powered program. Student retention rate improved to 84%. And those student enrollments should generate over \$1 billion in tuition and fees for our university partners.

Outcomes matter. Truly.

And we are nowhere near done with the 2U Platform. In 2015, we expanded our bundle to make 2U even more indispensable to our partners.

For example, in 2015, we began offering faculty recruitment as part of our bundle. Many of our programs scale at a rate that makes it challenging for the school to locate and hire high-caliber faculty. While 2U will never choose or employ faculty, we do know something about recruiting talented employees with unique skill sets.

We also introduced Campus Scaffold, which gives our partners the flexibility to offer their online programs to on-campus students. This is a critical strategic step with long-term implications that we love. Students in 2U-powered programs learn from the same faculty, study the same curriculum, and earn the same degree as on-campus students. If the online student is equal to the on-campus student, then every student should be able to take courses in either modality.

Finally, we introduced what we call the Enterprise Program. Our business is the rare type where you say no to potential clients much more often than you say yes. This is much harder when the potential client is already a customer. But seven years in, the 2U Platform had the capabilities to cost-effectively aggregate smaller, multi-disciplinary degrees from one university into a single program. Last year we announced our first Enterprise Program at Simmons College. If successful, Enterprise has the ability to further expand our addressable market.

The total market for U.S. higher education is \$555 billion. Of this, the graduate market is roughly \$80 billion. It's massive, but we've known that since 2008. What has continuously evolved is the understanding of our ability to penetrate that market.

We segment graduate education into verticals, which we define as an academic discipline with students working towards similar outcomes. Think business, nursing, social work. Since the beginning, 2U has remained focused on launching and scaling new programs, which are courses of study in a single vertical at a particular university.

When we started 2U, our strategy was to launch single programs in select verticals with elite universities. Do them well, make them big, and the company will succeed. Had that strategy not evolved, you would not be reading this letter. Within a vertical,

not every school or every program is right for every student. When we operate multiple programs in the same vertical at different schools, it gives prospective students options and increases the likelihood they will enroll. We call this the Multiple Program Vertical, or MPV, strategy.

At the time of IPO, we had one vertical with two programs. Those two programs gave us the confidence to believe that the MPV strategy would allow us to launch two programs in 30 different verticals.

By the end of 2014, we were operating two verticals, each with two programs. The MPV strategy was working, and in the beginning of 2015 we believed we could launch an average of three programs in 60 different verticals.

In 2015 we were operating four MPVs, with three programs in business, two in nursing, two in social work, and two in data science. The results exceeded our expectations. Last year revenue grew 36%, an increase over 2014 growth. And we expect revenue growth above 30% for the foreseeable future. Adjusted EBITDA loss improved by 55%. The fourth quarter was the first adjusted EBITDA positive quarter in the history of the company and we remain on a path to profitability for full-year 2017.

MPV is clearly working, and with more history, it will evolve our understanding of how many verticals and programs are possible. As our view of the addressable market develops, we'll tell you. What we have already learned is that MPV is not only a strategy for financial leverage – it has become a competitive advantage for 2U and our partners.

Within every degree program at all universities, there is a point at which the cost to acquire the next incremental student will be greater than the school would expect to receive in tuition from that student. This creates a natural limit to the enrollment size for each program – schools aren't going to lose money to increase enrollment. By sharing the marketing costs to attract students across multiple programs, 2U lowers the cost to reach each student, which enables us to spend more on overall marketing across our portfolio. This drives financial leverage for 2U.

It also allows our clients to scale their enrollments to a level mathematically impossible on their own. In 2015, six of our top eight programs for new student enrollments were from MPVs. But the impact runs deeper than student enrollments.

Last year the business vertical became the first to operate with more than two programs. We saw the expected financial leverage from MPV, but we also saw something more powerful. For these programs, we were able to deploy previously unprofitable marketing channels. Our partners now have a reach simply unavailable to non-2U business programs, which is improving their brands in a big way – in a way that they could not achieve on their own.

Our university partners recognize this and are asking for more programs. In 2015, NYU announced four programs before launching a single one. Syracuse grew to five programs. USC, Simmons, and GWU each announced a new program.

Online is no longer an option in higher education. Universities that choose to partner with 2U will continue to deliver world-class outcomes through high-quality online education, but the reality is that we are no longer launching single online degree programs. We are now working with our partners to build great digital universities.

Great digital universities will blur the line between in-person and online. Great digital universities will seamlessly provide their students the flexibility to study from anywhere on the globe while making them a part of a real community. Great digital universities will teach classes live over the Internet, place students locally in clinical sites, and hold classes on campus. Great digital universities will be one of the most powerful vehicles for change and upward mobility.

People have been claiming that higher education as we know it is about to be disrupted and that graduate programs will be unnecessary in the future. Higher education is undergoing radical transformation. We're proving that. But the graduate programs aren't going anywhere and great universities that embrace this transformation and act accordingly will not only survive, but thrive in this new era.

We are still in the early stages of this transformation. I am asking you, as stockholders of 2U and believers in the transformation, to help spread the word. Information on all of our partner programs can be found on 2U.com. There are many people in your lives – at your companies, in your communities, and even in your families – who could benefit from our flexible yet rigorous partner programs. Tell them that great universities are offering real degrees through a digital platform. Send them to us.



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

FORM 10-K

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-36376



2U, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

8201 Corporate Drive, Suite 900 Landover, MD
(Address of principal executive offices)

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

20785
(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:

Name of exchange on which registered:

Common Stock, \$0.001 par value per share

NASDAQ Global Select Market

None

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting company)

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

The aggregate market value of the 27,893,620 shares held by non-affiliates as of June 30, 2015 (computed based on the closing price on such date as reported on the NASDAQ Global Select Market) was \$897,895,628.

As of March 3, 2016, there were 45,962,954 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, for its 2016 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>File No.</u>	<u>Exhibit Number</u>	<u>Filing Date</u>
10.15	Sublease, by and between the Registrant and Noodle Education, Inc., dated as of November 16, 2011.	S-1	333-194079	10.17	February 21, 2014
21.1	Subsidiaries of the Registrant.				
23.1	Consent of KPMG LLP, independent registered public accounting firm.				
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.				
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.				
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.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				

* Portions of this exhibit, indicated by asterisks, have been omitted pursuant to a request for confidential treatment and have been separately filed with the Securities and Exchange Commission.

† Indicates management contract or compensatory plan.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Christopher J. Paucek

Chief Executive Officer and
Co-Founder

Paul A. Maeder

Board Chair and Compensation
Committee Member
General Partner of Highland
Capital Partners

Mark J. Chernis

Audit Committee Member
SVP of Strategic Partnerships
and Investments at Pearson plc

Timothy M. Haley

Nominating and Governance
Committee Chair
Founding Partner and Managing
Director of Redpoint Ventures

John M. Larson

Compensation Committee Chair
Executive Chairman and CEO
of Triumph Higher Education
Group, Inc., and President of
Triumph Group, Inc.

Michael T. Moe

Audit Committee Member
Co-Founder, CEO and CIO of
GSV Capital Corp.

Robert M. Stavis

Compensation Committee
Member
Partner at Bessemer Venture
Partners

Sallie L. Krawcheck

Audit Committee Chair
CEO and Co-Founder of Ellevest
and Owner and Chair of Ellevate
Network

Earl Lewis

Nominating and Governance
Committee Member
President of the Andrew W.
Mellon Foundation

Edward S. Macias

Nominating and Governance
Committee Member
Provost Emeritus and Barbara
and David Thomas Distinguished
Professor in Arts & Sciences
at Washington University in
St. Louis

LEGAL COUNSEL

Skadden, Arps, Slate, Meagher &
Flom LLP and Affiliates
New York, New York

AUDITORS

KPMG LLP
McLean, Virginia

TRANSFER AGENT

American Stock Transfer & Trust
Company
6201 15th Avenue
Brooklyn, NY 11219

SHAREHOLDER INFORMATION

Copies of the Company's Form
10-K filed with the Securities and
Exchange Commission for the
year ended December 31, 2015,
committee charters, Code of
Business Conduct and Ethics,
and other documents may be
obtained free of charge on
investor.2u.com or by contacting:

2U, Inc.
Investor Relations
8201 Corporate Drive
Suite 900
Landover, MD 20785

ANNUAL MEETING

The annual meeting of
stockholders will be held
on June 7, 2016 at 3:30 p.m.,
at 2U Headquarters
8201 Corporate Drive, Suite 900,
Landover, MD 20785





2U, Inc.
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Landover, MD 20785
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