UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

ANNE M. CHINN, Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. 2U, INC., CHRISTOPHER J. PAUCEK and CATHERINE A. GRAHAM, Defendants.	Civil Action No. 1:19-cv-07479 <u>CLASS ACTION</u> COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS <u>DEMAND FOR JURY TRIAL</u>

Plaintiff Anne M. Chinn ("plaintiff"), individually and on behalf of all other persons similarly situated, by plaintiff's undersigned attorneys, for plaintiff's complaint against defendants, alleges the following based upon personal knowledge as to plaintiff and plaintiff's own acts, and upon information and belief as to all other matters based on the investigation conducted by and through plaintiff's attorneys, which included, among other things, a review of U.S. Securities and Exchange Commission ("SEC") filings by 2U, Inc. ("2U" or the "Company"), Company press releases and conference calls, and media reports about the Company. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a securities class action on behalf of all purchasers of the common stock of 2U, Inc. ("2U" or the "Company") between February 26, 2018 and July 30, 2019, inclusive (the "Class Period"). Plaintiff seeks to pursue remedies against 2U and certain of its most senior executives under §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Rule l0b-5 promulgated thereunder. The "Individual Defendants" include Christopher J. Paucek ("Paucek"), who was 2U's Chief Executive Officer ("CEO") throughout the Class Period, and Catherine A. Graham ("Graham"), who was 2U's Chief Financial Officer ("CFO") throughout the Class Period.

2. Defendant 2U, headquartered in Lanham, Maryland, is an educational technology company that partners with nonprofit colleges and universities to offer online degree programs through a cloud-based "software-as-a-service" platform.

3. During the Class Period, defendants issued materially false and misleading statements regarding 2U's business model and cash flows, as well as the competitive pressures facing 2U. Specifically, defendants failed to disclose that: (i) 2U's business model needed to undergo

substantial adjustment to compete in an increasingly saturated online education market and the Company's cash flows were inadequate for maintaining its purported growth trajectory; (ii) the Company would not be able to take advantage of promised economies of scale, as the cost of creating content and attracting and retaining students increased, rather than diminished, as the Company grew in size and complexity; (iii) the growth rate in revenue from enrollments was decelerating and had plateaued; and (iv) as a result of the foregoing, 2U was experiencing accelerating losses, its business plan was unsustainable, and defendants lacked any reasonable basis for 2U's Class Period projections and financial forecasts.

4. On February 26, 2018, 2U released its fourth quarter and fiscal year 2017 financial results and provided 2018 guidance. In the release announcing the results, defendant Paucek described the Company as being "'at the forefront of the digital transformation in higher education.'" A year later, in February 2019, 2U released its fourth quarter and fiscal year 2018 financial results and provided guidance for 2019. On the Company's conference call accompanying this release, defendant Paucek stated in unequivocal terms that the Company had a sound business model: "I'm telling you our business is resilient, it's diversified, and it's growing." Defendant Paucek also stated that "the company is fully funded," and defendant Graham represented that the Company was on track to grow revenues, from $411.8 million in fiscal 2018 to a range of $546.6 to $550.8 million in fiscal 2019.

5. On April 8, 2019, 2U announced that it was acquiring Trilogy Education Services, Inc. ("Trilogy"), "a workforce accelerator that prepares adult learners for high-growth careers in the digital economy, for $750 million in cash and stock" – a merger that was supposed to "'accelerate [2U's] path to [achieving] $1 billion in revenue.'" The merger closed on May 22, 2019.

6. Two months later, on July 30, 2019, 2U released its second quarter 2019 financial results. On the Company's conference call, defendant Paucek explained that 2U was "moderating [its] outlook for the business in the short term" and, "[e]xcluding the expected financial impact of Trilogy, this implies a step down in revenue expectations for the rest of the business." In addition, 2U stated that it expected to suffer losses of between $157.5 million and $151.5 million for the year, a ***300%*** year-over-year increase. Defendant Paucek also disclosed that the Company needed to significantly curtail expansion plans that had been announced only a few months earlier, in November 2018, stating that the growth story had been a "mistake" and he now needed to "level set" with the investment community.

7. On this news, the price of 2U stock collapsed, falling to a close of $12.80 per share, down 65% on extremely heavy trading volume. All told, the trading price of 2U stock fell from a high of over $98 per share during the Class Period to just $12.80 per share following the announcement of the Company's second quarter 2019 financial results and adjusted 2019 outlook, a decline of ***more than 86%***.

JURISDICTION AND VENUE

8. Jurisdiction is conferred by §27 of the Exchange Act. The claims asserted herein arise under §§10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. This Court has jurisdiction over the subject matter of this action under 28 U.S.C. §§1331 and 1337, and §27 of the Exchange Act.

9. Venue is proper in this District pursuant to §27 of the Exchange Act and 28 U.S.C. §1391(b) as the Company conducts business in this District, the stock that forms the subject of this dispute trades in this District, and the misconduct occurred in substantial part in this District, including the dissemination of materially false and misleading statements into this District.

10. In connection with the acts alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

PARTIES

11. Plaintiff Anne M. Chinn, as set forth in the accompanying certification, which is incorporated by reference herein, purchased the common stock of 2U during the Class Period and has been damaged thereby.

12. Defendant 2U, headquartered in Lanham, Maryland, is an educational technology company that partners with nonprofit colleges and universities to offer online degree programs through a cloud-based "software-as-a-service" platform coupled with a suite of technology-enabled services, including coursework design, infrastructural support, and capital to deliver instruction to students. The Company generates revenue from two different types of segments: a Graduate Program segment, which targets students seeking a full graduate degree; and an Alternate Credential Segment, which targets working professionals seeking advancement through skills attainment. The Company's common stock is listed on the Nasdaq, an efficient market, under the ticker symbol "TWOU," and as of July 26, 2019 there were more than 63 million shares outstanding.

13. Defendant Christopher J. Paucek ("Paucek") is and was the CEO and a director of 2U throughout the Class Period.

14. Defendant Catherine A. Graham ("Graham") is and was CFO of 2U throughout the Class Period.

15. The defendants referenced above in ¶¶13-14 are referred to herein as the "Individual Defendants." The Company and the Individual Defendants are referred to herein, collectively, as "Defendants."

16. The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of 2U's quarterly reports, shareholder letters, press releases, and presentations to securities analysts, money and portfolio managers, and institutional investors, *i.e.*, the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false and misleading statements pleaded herein.

17. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about 2U. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of 2U stock was a success, as it: (i) deceived the investing public regarding 2U's prospects and business; (ii) artificially inflated the price of 2U common stock; and (iii) caused plaintiff and other members of the Class (defined below) to purchase 2U common stock at artificially inflated prices.

SUBSTANTIVE ALLEGATIONS

Background

18. At the beginning of the Class period, the Company derived revenue from two segments: a "Graduate Program" segment and a "Short Course" segment. The Graduate Program segment targets students seeking a full graduate degree. The Graduate Program segment derives revenue primarily from a contractually specified percentage of the amounts 2U's university clients receive from their students in the 2U-enabled graduate program for tuition and fees, less credit card

fees and other specified charges that 2U has agreed to exclude in its contracts. The Company launched the Graduate Program in 2009, shortly after its incorporation in 2008.

19. The Short Course segment targets working professionals seeking career advancement through skills attainment. The Short Course segment derives revenue directly from students for the tuition and fees paid to enroll in and progress through 2U's short courses. The Company launched its Short Course segment in July 2017 with the acquisition of GetSmarter (incorporated as Get Educated International Proprietary Limited). The Company has rebranded the "Short Course" segment as the "Alternative Credential" segment.

DEFENDANTS' MATERIALLY FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

20. The Class Period begins on February 26, 2018. On that date, the Company released its fiscal year 2017 financial results and provided financial projections and guidance for fiscal year 2018. The press release stated in pertinent part:

> "A decade into our journey, 2U is now at the forefront of the digital transformation in higher education and the strength of our business performance and the high-quality student outcomes in our partner programs prove it," CEO and Co-Founder Christopher "Chip" Paucek said. "The positive momentum in our GetSmarter short course business combined with the organic growth in our graduate program business produced strong fourth quarter and full-year 2017 financial results and sets us up nicely for 2018."
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> **Financial Outlook**
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> Based on information available as of today, 2U is issuing the following guidance for first quarter and full-year of 2018. This guidance assumes foreign exchange rates as of December 31, 2017, including a U.S. Dollar/South African Rand rate of 12.39.

	1Q 2018	FY 2018
	(in millions, except per share amounts)	
Revenue	$91.1 - $91.6	$397.7 - $402.7
Net loss	$(14.9) - $(14.5)	$(45.0) - $(42.8)
Net loss per share, basic and diluted	$(0.28) - $(0.27)	$(0.84) - $(0.80)

Adjusted net loss	\$(7.3) - \$(6.9)	\$(7.7) - \$(5.6)
Adjusted net loss per share	\$(0.14) - \$(0.13)	\$(0.14) - \$(0.10)
Weighted-average shares of common stock outstanding, basic	52.8	53.5
Adjusted EBITDA (loss)	\$(2.3) - \$(1.9)	\$15.0 - \$17.3
Stock-based compensation expense	\$6.2 - \$6.3	\$31.6 - \$32.1

21. On the conference call accompanying the Company's release of its fiscal year 2017 financial results, defendant Paucek stated that 2U was operating "in a very large market that is undergoing transformation, and 2U is the company leading that transformation." He further stated that the "power of our purpose-driven business model is evident in those results," and that the Company's success was in large part due to its having "built a ton of impressive technology across the business, and that includes the online campus we built back in 2009." Defendant Paucek further explained that 2U was insulated from competition in part because "we believe that we're the only company right now that is – that goes very deep on both depth and breath." He also stated that 2U was in "heavy growth mode" and was successfully investing in the long-term health of the business.

22. On May 3, 2018, the Company released its first quarter 2018 financial results and adjusted its guidance for 2018. The press release announcing these results stated, in pertinent part:

> "Our short course business has emerged as a powerful contributor to our growth story. When combined with the expected growth of our Graduate Program Segment, revenue guidance is up about \$8 million over our prior guidance," said CEO and Co-Founder Christopher "Chip" Paucek. "In addition, the annual number of launched graduate programs has increased substantially over the past few years and shows no signs of slowing down. Our pipeline also continues to be strong, giving us confidence in our revenue expectations in that core segment in future years."
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> **Financial Outlook**
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> Based on information available as of today, 2U is issuing the following guidance for second quarter and full-year of 2018. This guidance assumes foreign exchange rates as of March 31, 2018, including a U.S. dollar/South African rand rate of 11.83.

	2Q 2018	FY 2018
	(in millions, except per share amounts)	
Revenue	$95.1 - $96.1	$406.6 - $410.6
Net loss	$(22.1) - $(21.6)	$(46.6) - $(44.7)
Net loss per share, basic and diluted	$(0.42) - $(0.41)	$(0.87) - $(0.84)
Adjusted net loss	$(11.6) - $(11.1)	$(7.2) - $(5.3)
Adjusted net loss per share	$(0.22) - $(0.21)	$(0.13) - $(0.10)
Weighted-average shares of common stock outstanding, basic	53.4	53.5
Adjusted EBITDA (loss)	$(6.2) - $(5.7)	$16.1 - $18.0
Stock-based compensation expense	$9.3 - $9.5	$34.0 - $34.5

23. On the conference call accompanying the Company's release of its first quarter 2018 financial results, defendant Paucek stated that 2U's "short course business is thriving," that 2U was "opening up new market channels for short courses," and that 2U had "enough confidence in the short course business to raise full year revenue guidance significantly by over $8 million." Defendant Paucek also reaffirmed 2U's commitment to its Graduate Program approach and explained that 2U provided technology that was plainly superior to any of its competitors:

> We're pacing well ahead of last year on announcements and that's on a higher target. But even more are coming, and it's pretty fast and furious. I'm very pleased.
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> ***Other companies in this space might like to argue they can compete, but our business model is robust for our partners and in turn for 2U***. No other companies in the space invest like 2U. No one builds the scale like 2U. No one has a comprehensive approach to quality like 2U. We do a ton of work for our schools that others in the space simply don't and often can't do. And you don't need to take my word for it. Our clients are saying it.
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> At Investor Day, Kent Syverud, the Chancellor of Syracuse University, stated his strong belief that Syracuse received significant value from the investments we make with the portion of the rev share the 2U takes, providing world-class technology support and care in areas that the university shouldn't really be focused on. And in doing so, we drive incredible student outcomes. But financial sustainability is also critical. ***Our long-term relationships, which are really like partnership expressed through a revenue share, are producing a powerful business model for our partners that they simply can't find elsewhere***.

24. Once again, Defendants highlighted 2U's purported growth story and explained away lower short-term margins by investments that they were making to increase the Company's

revenues. Defendant Graham described 2U as the educational version of "Amazon" and stated that 2U was "reinvesting to take advantage of momentum." Similarly, when defendant Paucek was asked by an analyst whether 2U was gaining significant efficiencies as a result of growing its scale, he agreed, stating: "I would argue that sort of overall ecosystem that we operate now is at scale. ***And we're seeing real benefit from that.***"

25. On August 2, 2018, the Company released its second quarter 2018 financial results and adjusted its guidance for 2018. The press release stated, in pertinent part:

> "In the three months since our last earnings report, we've announced a total of eight new graduate programs, putting us on pace to complete our 2019 launch cohort this quarter, the earliest in 2U's history" said CEO and Co-Founder Christopher "Chip" Paucek. "Ten years in, we have a proven and unparalleled track record of delivering for our partners and their students, which continues to drive exceptional momentum in both degree and short course pipeline as well as long-term contract extensions by existing clients."
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> **Financial Outlook**
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> Based on information available as of today, 2U is issuing the following guidance for third quarter and full-year of 2018. This guidance assumes foreign exchange rates as of June 30, 2018, including a U.S. dollar/South African rand rate of 13.72.

	3Q 2018	**FY 2018**
	(in millions, except per share amounts)	
Revenue	\$106.0 - \$107.0	\$409.7 - \$412.2
Net loss	\$(11.6) - \$(11.0)	\$(42.7) - \$(41.5)
Net loss per share, basic and diluted	\$(0.20) - \$(0.19)	\$(0.77) - \$(0.75)
Adjusted net loss	\$(1.7) - \$(1.1)	\$(5.8) - \$(4.6)
Adjusted net loss per share	\$(0.03) - \$(0.02)	\$(0.10) - \$(0.08)
Weighted-average shares of common stock outstanding, basic	57.5	55.7
Adjusted EBITDA	\$4.2 - \$4.8	\$16.9 - \$18.1
Stock-based compensation expense	\$8.7 - \$8.8	\$33.9 - \$34.2

26. On the conference call accompanying the Company's release of its second quarter 2018 financial results, defendant Paucek once again reaffirmed 2U's commitment to its high-growth

business model, explaining that 2U was "confident in the reacceleration over the next few years: enrollments and pipeline," and that 2U's investors need not worry about competition in the marketplace because of 2U's superior technology. He also stated that 2U was "scaling it at quality" and "2U has a track record of scaling enrollments that's better than anyone in the space." Later, in response to an analyst's question, defendant Paucek responded: "Our marketing has gotten more efficient. We don't have a marketing efficiency problem." Similarly, in a response to a question about whether the cost to acquire students was rising, he stated that, "as we get greater scale, we are able to be more effective there, not less." In addition, he stated the following in pertinent part:

> As far as the bears go, honestly, we're focused on the long term. This is not a short-term play. ***This is a big opportunity, and it's a worldwide opportunity, and we're the market leader. And it's a growth story. So we're focused on delivering a long-term sustainable business that drives high-quality student outcomes worldwide, and we're not slowing down***.
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> So I will tell you that we think it's early days, and we consider most of this fellow travelers, like you're talking about improving preconceived notions of online education by having high-quality schools go online. ***Now we happen to like our model. We think our model is the right model***. We think our MPV strategy is working brilliantly. We think that's evidenced by the number of school signing. I mean, you don't have to believe me, look at the proof.
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> ***And so what has happened as of late is we are starting to see contracts come to us either from schools that were running them themselves or from competitors. This is now becoming a thing, and certainly, we like it***. But once again, I would emphasize that, regardless of the sort of notion of the competition ultimately, when we power a program, we scale it, and we do it equality.
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> ***So it's not just about being big, it's being good. And we do both. And to do that, you have to invest. And we invest heavily in this full system, that I just don't think anybody is close to comparable***. So net-net, we feel really good about our competitive position.
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> And so we just keep improving the operating system for social mobility. We keep improving 2UOS on a consistent basis, doing things like our acquisition of CritiqueIt to drive technology, our WeWork deal, which has been a phenomenal hit with the student body.

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Now we happen to think that this model provides long-term sustainability. We think it provides a program that runs sufficiently on its own, not being subsidized either by the campus program or by an outside entity of some kind. ***And so we do indeed like our model***.

27. On November 5, 2018, the Company released its third quarter 2018 financial results and adjusted its guidance for 2018. The press release stated, in pertinent part:

"Strong year-over-year growth combined with our stepped-up program launch targets for 2019, 2020 and 2021, have put 2U on the path to $1.0 billion in revenue, which we expect to hit in a little over three years," Co-Founder and CEO Christopher "Chip" Paucek said. "Higher education is fully embracing the power of online, and 2U's size, scale and track record put us in the pole position to seize new growth opportunities and further solidify our market leadership globally."

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Financial Outlook

Based on information available as of today, 2U is issuing the following guidance for fourth quarter and full-year of 2018. This guidance assumes foreign exchange rates as of September 30, 2018, including 14.14 for U.S. dollar/South African rand and 0.7675 for the U.S. dollar/British pound.

	4Q 2018	**FY 2018**
	(in millions, except per share amounts)	
Revenue	\$114.4 - \$115.3	\$411.0 - \$411.9
Net income (loss)	\$2.4 - \$3.0	\$(40.7) - \$(40.1)
Net income (loss) per share, basic	—	\$(0.73) - \$(0.72)
Net income (loss) per share, diluted	\$0.04 - \$0.05	—
Adjusted net income (loss)	\$12.3 - \$12.9	\$(4.9) - \$(4.3)
Adjusted net income (loss) per share, basic	—	\$(0.09) - \$(0.08)
Adjusted net income (loss) per share, diluted	\$0.20 - \$0.21	—
Weighted-average shares of common stock outstanding, basic	57.9	55.9
Weighted-average shares of common stock outstanding, diluted	61.9	—
Adjusted EBITDA	\$19.8 - \$20.4	\$17.4 - \$18.0
Stock-based compensation expense	\$8.7 - \$8.9	\$32.8 - \$ 33.0

28. On the conference call accompanying the Company's release of its third quarter 2018 financial results, Defendants stated that 2U's growth would only accelerate, as they continued to invest in expanding 2U's university partners, developing new content, and attracting students. Defendant Paucek stated in pertinent part:

> Now looking ahead to 2019. We're expecting consolidated revenue growth of 33.2% at the midpoint of our range. ***We're pleased with the resiliency of our grad portfolio and the power of our short course business, resulting in the type of expected growth that puts us in rarefied air among software companies***. Look, it isn't common that a company keeps growing north of 30% off of a base of over $400 million in revenue. We said in the past that we expect to keep revenue growth above 30% for the "foreseeable future". We're now confident enough in the overall portfolio and the strength of the pipeline to put a timeline on it. We think we can keep consolidated revenue growth above 30% for at least the next 5 years. Based on these current growth expectations, 2U expects to hit $1 billion in revenue in a little over 3 years. That used to be a long-range goal. Now it's right in front of us. We can see it. You'll hear more about the path to $1 billion in the coming quarters.

29. Defendants Paucek and Graham also reaffirmed 2U's commitment to its scaling approach, which they claimed was sustainable, and represented that 2U was not being negatively affected by competition or cash flow issues:

> [Paucek:] Before I turn it over to Cathy, I wanted to quickly touch on competition. Higher education is one of the largest markets you could operate in. There are clearly more programs being launched, both by universities doing it themselves as well as with other companies. This should not surprise you, but this does not mean we're not getting the programs we want. Quite the opposite, in fact, we are in our standard contract ranges. We signed all of the programs for our initial 2019 target much earlier than for previous years. And due to the strength of the pipeline, we increased our annual launch targets for the next 3 years. ***Competition is and always will be relevant, but we believe increased adoption is an opportunity for us, not a challenge. We're winning. Higher education as a whole is fully embracing online education. They're realizing this is something they need to do and do it soon***. Our current partners are asking us for more, and it's clear to me, we need to be in a position to say yes.
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> ***That means investing more today to drive scale over the long term. Powering more educational offerings at scale creates more options for students, which ultimately drives more outcomes and it will make us a much larger and stronger company in the long run***.

> Our bottom line preview for 2019 shows we'll be investing more with our expected adjusted EBITDA margin for the year at 2% to 2.5%. Investor alignment in this effort is critical. ***So I say to you, if you're an investor interested in long-term growth and long-term cash generation, 2U is for you. If you're an investor that believes in plowing cohort profitability back into growth, 2U is for you***. If on the other hand, you're an investor looking for a CEO who will sacrifice future growth to build free cash flow in the short term, look elsewhere. ***The TAM is too large, the opportunity is too big and we have to keep digging the moat***.
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> [Graham:] I'd like to point out that the 2019 margin declines we expect to incur to fund additional investments in marketing, and to a lesser extent, in technology improvements and content scaling, represent only a small portion of the year-over-year revenue growth we expect to generate in 2019.
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> At the midpoint to the full year revenue and adjusted EBITDA ranges we've provided, it implies that we will invest only slightly more than 6.5% of our expected 2019 year-over-year revenue increase in rightsizing our marketing spend, making a significant technology transition, matching course production to our increasing launch cadence and driving continued growth in quality in years to come.
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> ***I'll also note that these additional expenditures have no impact on our belief that our current business plan is fully funded***.
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> Off the end of '18. We are – I want to reiterate that nothing about what we're talking about in terms of margins or in terms of additional investment in 2019 in any way has us believe that we're not fully funded through self-sustaining on our current business model.

30. On February 25, 2019, the Company released its full year 2018 financial results and provided financial projections and guidance for fiscal 2019. The press release stated, in pertinent part:

> "The strength and resilience of 2U's business is clear from our 2018 fourth quarter and full-year results, and reflects the continued expansion and increasing diversity of our degree and short course portfolios, both domestically and internationally," Co-Founder and CEO Christopher "Chip" Paucek said. "Our commitment to investing in sustained growth not only sets 2U apart in the education technology industry, but will allow us to better meet the evolving needs of our partners and the marketplace."
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Financial Outlook

Based on information available as of today, 2U is issuing the following guidance for first quarter and full-year of 2019. This guidance assumes foreign exchange rates as of December 31, 2018 for the U.S. dollar/South African rand and the U.S. dollar/British pound.

	1Q 2019	FY 2019
	(in millions, except per share amounts)	
Revenue	\$121.5 - \$122.1	\$546.6 - \$550.8
Net loss	\$(22.0) - \$(21.6)	\$(80.2) - (\$77.8)
Net loss per share	\$(0.38) - (0.37)	\$(1.37) - \$(1.33)
Adjusted net loss	\$(10.8) - \$(10.4)	\$(21.8) - \$(19.4)
Adjusted net loss per share	\$(0.19) - \$(0.18)	\$(0.37) - \$(0.33)
Weighted-average shares of common stock outstanding, basic	58.2	58.7
Adjusted EBITDA (loss)	\$(4.6) - \$(4.2)	\$11.8 - \$14.2
Stock-based compensation expense	\$10.0 - \$10.2	\$53.7 - \$54.1

31. On the Company's conference call accompanying these results, defendant Paucek opened by stating in unequivocal terms that the Company had a sound business model: "I'm telling you our business is resilient, it's diversified, and it's growing." Defendant Paucek also reaffirmed that "the company is fully funded," and defendant Graham explained that the Company's revenue was on track to further grow, from \$411.8 million in fiscal 2018 to \$546.6 to \$550.8 million in fiscal 2019.

32. Defendant Paucek went on to represent that the Company's "diversified Grad portfolio" was "strong" and "continuing to drive growth," stating in pertinent part:

> ***Our diversified grad portfolio is strong***. You can see the power of the portfolio at work in the additional disclosures we shared at the end of the year, including our cohort margins and our list of grad programs by annual new student enrollment. Both can be found in our earnings deck. Cathy will address cohort margins in her section. I'll cover the list of top grad programs by annual new student enrollment now.
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> As we did last year, we've again expanded the list by 5 spots, this time from 15 programs to 20 programs. We believe the expanded list better demonstrates the progress of our newer programs and the strength of the overall portfolio. While we don't give the exact enrollment numbers, that's the partners' call, I can share that the entire top 20 is above 200 new student enrollments and so are some of the programs

> outside of the top 20. Notably, there's a program from every single cohort in the top 20. Mature programs continue to enroll new students. ***Newer programs are scaling well***, and the 2018 cohort continues to be excellent. In fact, 7 programs on the list were launched in the past 2 years. Let that land for a second. 7. So much for the theory that all of the new ones will be small and suboptimal.
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> We're not only seeing strength across our cohorts, but across verticals. There are 10 verticals represented on the list. 10. It's also across geographies. There are programs from every major region of the U.S. We told you verticals matter and geography matters. ***Our . . . expanding selection of programs continues to drive growth in the grad segment***.

33. Defendant Paucek also stated that there was no need to be concerned about oversaturation and competition in the online education sector, stating in pertinent part:

> This is my 5th year as a public company CEO. I can easily say last quarter was the most complicated we had. ***It was a whirlwind. But this whirlwind was not related to fundamental issues with our business model or overstated fears of competitive pressures***.

34. Defendants similarly stated that investors need not be concerned with cash flows as the Company continued its growth plans. For example, defendant Graham pointed to "higher margin[s]" in more mature cohorts as a "significant part of our decision to expand marketing spend and take somewhat lower margins for 2019 to attract additional students and drive additional revenue." She continued by stating that historical and observable data and industry trends had "validate[d]" the Company's recent decision to expand its growth strategy, stating in pertinent part:

> ***What we're seeing now across all our program cohorts strongly validates the typical program economic life cycle we've consistently discussed with you and makes us very comfortable that to drive growth, increasing our investments in both new program launches and current program marketing are wise strategic decisions***.
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> But despite that cautionary note, we remain excited and energized by the opportunity we have in front of us, not only for 2019 but beyond. Our revenue and adjusted earnings measure expectations for the year are up, but more importantly, ***we remain confident in our ability to continue delivering 30%-plus top line growth, get to $1 billion in revenue within 3 years and leverage a business model that we've proven can deliver profitability as programs mature***.

35. Later, in response to an analyst question about the Company's margin trajectory, defendant Graham stated that the Company had control over its profit-making ability and that margins would increase over time once the new programs matured, stating in pertinent part:

> So kind of what we have said is that you shouldn't think of this as being a continual degradation of margins on a year-over-year and continuing basis. This is kind of getting us back onto the right glide path from where such a number of our programs should be. And I can't tell you, at this point, whether 2020 will sort of flatten out in margin or step up a little. But over time, I would say that our intention is to return to the kind of patterns that we had been seeing, which is you will see slow and – slow but perhaps steady increases in margin over time as we move towards steady state. ***You should keep in mind that for us, margins are, in many ways, a matter of choice as to how much investment we're making in growth, and I just want you guys to remember that, that this is very much within our control based on how quickly we decide to grow and what opportunities there are in front of us***.

36. On April 8, 2019, the Company announced that it was acquiring Trilogy, an adult-focused online educational company, for $750 million in cash and stock. When the Company announced the Trilogy acquisition, defendant Paucek represented: "We expect the addition of Trilogy to accelerate our path to $1 billion in revenue by one year from 2022 to 2021 . . . ."

37. The statements referenced in ¶¶20-36 above were materially false and/or misleading when made because they failed to disclose the following adverse facts pertaining to the Company's business, operations, and financial condition, which were known to or recklessly disregarded by Defendants:

(a) that 2U's business model was fundamentally flawed because the Company's costs were growing disproportionately as it grew in size and complexity;

(b) that 2U could not take advantage of the promised economies of scale because its costs to attract each marginal student were actually increasing, not decreasing, as represented;

(c) that 2U was facing heightened competitive headwinds as alternative offerings flooded the marketplace and universities developed online courses in-house;

(d) that 2U's growth rate in student enrollment was decelerating and was poised to decline as the Company reached market saturation;

(e) that 2U's growth strategy was unsustainable, as the Company faced accelerating costs and had insufficient capital to achieve positive cash flows, improve margins or continue its revenue growth; and

(f) that, as a result of (a)-(e), above, Defendants lacked any reasonable basis to issue 2U's projections and financial forecasts.

38. On May 7, 2019, 2U reported disappointing first quarter 2019 financial results and lowered the Company's financial guidance. The Company stated that it was on track to achieve $13 million less in revenues than previously represented. The press release stated, in pertinent part:

Financial Outlook

Based on information available as of today, 2U is issuing the following guidance for second quarter and full-year of 2019. This guidance assumes foreign currency exchange rates as of March 31, 2019 for the U.S. dollar/South African rand and the U.S. dollar/British pound. . . .

	2Q 2019	FY 2019
	(in millions, except per share amounts)	
Revenue	$124.3 - $125.0	$534.0 - $537.0
Net loss	$(36.0) - $(35.5)	$(79.0) - ($77.2)
Net loss per share	$(0.61) - (0.60)	$(1.35) - $(1.32)
Adjusted net loss	$(20.8) - $(20.3)	$(20.0) - $(18.2)
Adjusted net loss per share	$(0.36) - $(0.35)	$(0.34) - $(0.31)
Weighted-average shares of common stock outstanding, basic	58.6	58.7
Adjusted EBITDA (loss)	$(13.1) - $(12.6)	$12.5 - $14.3
Stock-based compensation expense	$14.0 - $14.2	$52.2 - $52.6

2U expects that of the revenue it recognizes in the second half of 2019, approximately 48% will be recognized in the third quarter.

Note that 2U's previously announced intention to increase marketing spend in the first half of 2019 is reflected in this guidance and has the effect of driving larger second quarter losses than would be expected under typical performance patterns. Further note that cost seasonality in the second and fourth quarters typically reduces margins in the first half of each year and improves margins in the second half of each

> year, so second-half margins should not be viewed as being a run rate for the first half of the following year.

39. On a conference call to discuss the results, Defendants blamed tougher admission standards at its college partners and stated that average spending was increasing for each new student. They also revealed that 2U was experiencing declines in expected graduate program enrollments. Defendant Paucek stated that he should have "taken some air out of the balloon" on 2U's growth story.

40. On this news, the price of 2U stock declined over 25% in a single trading day, on abnormally high volume of over 7 million shares traded, to close at $44.77 per share on May 8, 2019. However, the price of 2U stock remained artificially inflated because Defendants had not disclosed the true state of 2U's business and prospects. For example, Defendants insisted that the Company's business model had no fundamental defects. Defendant Paucek stated on the earnings call he saw no "challenges . . . attributable to weakness in [2U's] efficiency" and reassured investors that "***2U is still very much a growth story***."

41. On May 22, 2019, the Company announced that it had closed its acquisition of Trilogy.

42. Two months later, on July 30, 2019, after the close of trading, 2U shocked the investing public by revealing that the Company's growth plans were failing and needed to be abandoned as costs ballooned, and that the Company was significantly reducing its 2019 guidance. The press release stated, in pertinent part:

> "With the close of our Trilogy acquisition, 2U's business is evolving to better meet marketplace demand and the transforming needs of our university partners and lifelong learners," Co-Founder and CEO Christopher "Chip" Paucek said. "As we deliver our full portfolio of educational offerings to new and existing partners, we are also setting 2U on a defined path to profitability by tempering short-term growth projections and leveraging our scale to drive greater operational efficiencies across the business."

* * *

Financial Outlook

Based on information available as of today, 2U is issuing the following guidance for the third quarter and full-year of 2019. This guidance assumes foreign currency exchange rates as of June 30, 2019 remain constant, including the U.S. dollar/South African rand and the U.S. dollar/British pound.

	3Q 2019	**FY 2019**
	(in millions, except per share amounts)	
Revenue	$147.6 - $152.6	$565.7 - $575.7
Net loss	$(69.3) - $(66.3)	$(157.5) - $(151.5)
Net loss per share	$(1.10) - $(1.05)	$(2.57) - $(2.47)
Adjusted net loss	$(33.8) - $(30.8)	$(76.9) - $(70.9)
Adjusted net loss per share	$(0.53) - $(0.49)	$(1.25) - $(1.16)
Weighted-average shares of common stock outstanding, basic	63.2	61.3
Adjusted EBITDA (loss)	$(18.4) - $(15.4)	$(28.0) - $(22.0)
Stock-based compensation expense	$18.9 - $19.9	$56.0 - $58.0

The revenue reflected in this guidance includes a deferred revenue fair value purchase accounting adjustment related to the Trilogy acquisition. Adding back revenue eliminated as a part of purchase accounting, our revenue guidance ranges would be $153.6 million to $158.6 million and $576.9 million to $586.9 million for the third quarter and full year, respectively.

In giving third quarter and full-year guidance, the Company's expectations for the fourth quarter are implied. Note that the cost seasonality driven by reduced marketing spend during the holiday period in the fourth quarter typically improves margins in that quarter; fourth quarter margins therefore should not be viewed as a run rate for the first quarter of the following year.

43. These projected losses for the year, which included certain costs related to the Trilogy acquisition, represented a ***300%*** year-over-year increase. On the Company's conference call accompanying the release, defendant Paucek disclosed that 2U was "moderating [its] outlook for the business in the short term" and, "[e]xcluding the expected financial impact of Trilogy, this implies a ***step down in revenue expectations for the rest of the business***," despite the Company's vaunted growth efforts.

44. In addition, defendant Paucek revealed that the Company's business model would need to undergo substantial adjustment to compete in an increasingly saturated online education market and that the Company's cash flow was inadequate for purposes of maintaining the

Company's present strategies. He described the Company's prior growth story as a "mistake" and stated that he needed to "level set" with the investment community. He continued in pertinent part:

> Over the past 11 years, we built the most important business in the online higher education ecosystem. When we started 2U, the market was in its infancy. The core thesis of the company was that online programs could drive a similar quality to campus programs and that the company's scale and unique platform characteristics would build a competitive moat around the business over time.
>
> Today, the online education market is evolving. Secular forces are pushing more schools online. Indeed, it's becoming obvious that all schools are going online. We're calling it the mainstreaming of online education. ***We believe this represents a new reality in the marketplace and requires us and others to adjust to it***. We also believe that this new reality is one that 2U is uniquely positioned to benefit from due to our size and comprehensive product set. So we're adjusting our executional model against the dynamic of this mainstreaming of online education in a way that meets this new market dynamic.
>
> Competition for students has increased. Programs will be slightly smaller than they were in the past, but the scale benefits of 2U's overall operating model, a combination of 2UOS and products across the career curriculum continuum become even more important as more schools come online.

45. On this news, the price of 2U stock declined 65% in a single trading day, on extremely high volume of over 54 million shares traded, to close at $12.80 per share on July 31, 2019. All told, the trading price of 2U's stock fell from its Class Period high of more than $98 per share to just $12.80 per share following the announcement of 2U's second quarter 2019 financial results and adjusted outlook for 2019, a decline of ***over 86%***. The sharp declines in the price of 2U stock caused significant economic losses and damages to plaintiff and the Class.

46. A July 31, 2019 article in Marketwatch.com, entitled "2U loses two thirds of its value on uncertainty over its business model," summarized the following analyst reactions to the Company's decline:

> "This is clearly a breaking of the company's model and we expect shares to be under material near-term pressure as the company readjusts for a more competitive world," wrote Macquarie's Sarah Hindlian, who downgraded the stock to neutral from outperform. "It remains difficult to find even slowing-teens growth and scaling margins for this price."

* * *

> Oppenheimer's Brian Schwartz joined the chorus of downgrades, saying that 2U's stock is now "uninvestable" given the uncertainty over its business model. "We believe 2U's business has been secularly challenged after giving high expectations at its investor days that never really materialized, and we do not expect meaningful change to this near term," Schwartz wrote.
>
> He's concerned about 2U's high cash-burn rates and says that the company's path to profitability remains unclear. Schwartz lowered his rating to perform from outperform.

ADDITIONAL SCIENTER ALLEGATIONS

47. As alleged herein, the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. The Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding 2U, their control over, and/or receipt and/or modification of 2U's allegedly materially misleading statements and/or their associations with the Company which made them privy to confidential proprietary information concerning 2U, participated in the fraudulent scheme alleged herein. Indeed, the Individual Defendants, as the Company's top executives, held themselves out to investors and the market as the individuals most knowledgeable about 2U's business, repeatedly claiming that the Company's financial performance was predictable and that they possessed high visibility into ongoing and future trends impacting the business.

LOSS CAUSATION/ECONOMIC LOSS

48. During the Class Period, as detailed herein, Defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of 2U stock and operated as a fraud or deceit on Class Period purchasers of 2U

stock by misrepresenting the Company's business model and cash flows. As Defendants' misrepresentations and fraudulent conduct became apparent to the market, the price of 2U stock fell precipitously, as the prior artificial inflation came out of the stock's price. As a result of their purchases of 2U stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

NO SAFE HARBOR

49. 2U's "Safe Harbor" warnings accompanying its reportedly forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability. To the extent that projected revenues and earnings were included in the Company's financial reports prepared in accordance with Generally Accepted Accounting Principles, they are excluded from the protection of the statutory Safe Harbor. 15 U.S.C. §78u-5(b)(2)(A).

50. Defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of the Company who knew that the FLS was false. None of the historic or present tense statements made by Defendants were assumptions underlying or relating to any plan, projection, or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by Defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

APPLICATION OF PRESUMPTION OF RELIANCE AND FRAUD ON THE MARKET

51. Plaintiff will rely upon the presumption of reliance established by the fraud-on the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's securities traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

(e) Plaintiff and other members of the Class purchased 2U common stock between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

52. At all relevant times, the market for 2U stock was efficient for the following reasons, among others:

(a) 2U stock trades on the Nasdaq, which is regularly found to be an efficient market;

(b) As of July 26, 2019, there were more than 63 million shares of 2U common stock issued and outstanding, representing a very broad and active trading market;

(c) As a regulated issuer, 2U filed periodic public reports with the SEC; and

(d) 2U regularly communicated with public investors via established market communication mechanisms, including through the regular dissemination of press releases on major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts, and other similar reporting services.

CLASS ACTION ALLEGATIONS

53. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all purchasers of the common stock of 2U during the Class Period (the "Class"). Excluded from the Class are Defendants and their

immediate families, the officers and directors of the Company, at all relevant times, and members of their immediate families, and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

54. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, 2U common stock was actively traded on the Nasdaq. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by the Company or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

55. Plaintiff's claims are typical of the claims of the members of the Class, as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law as complained of herein.

56. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

57. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the Exchange Act was violated by Defendants as alleged herein;

(b) whether statements made by Defendants misrepresented material facts about the business and operations of the Company; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

58. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

COUNT I

For Violation of §10(b) of the Exchange Act and Rule 10b-5
Against All Defendants

59. Plaintiff incorporates ¶¶1-58 by reference.

60. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

61. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of 2U common stock during the Class Period.

62. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for 2U common stock. Plaintiff and the Class would

not have purchased 2U common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

COUNT II

For Violation of §20(a) of the Exchange Act Against All Defendants

63. Plaintiff incorporates ¶¶1-62 by reference.

64. The Individual Defendants acted as controlling persons of 2U within the meaning of §20(a) of the Exchange Act. By reason of their positions with the Company, and their ownership of 2U stock, the Individual Defendants were culpable participants in the fraud and had the power and authority to cause 2U to engage in the wrongful conduct complained of herein. The Company controlled the Individual Defendants and all of its employees. By reason of such conduct, Defendants are liable pursuant to §20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff, and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Awarding such equitable/injunctive or other relief as deemed appropriate by the Court.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: August 9, 2019

ROBBINS GELLER RUDMAN
& DOWD LLP
SAMUEL H. RUDMAN

s/ Samuel H. Rudman
SAMUEL H. RUDMAN

58 South Service Road, Suite 200
Melville, NY 11747
Telephone: 631/367-7100
631/367-1173 (fax)
srudman@rgrdlaw.com

ROBBINS GELLER RUDMAN
& DOWD LLP
BRIAN E. COCHRAN
200 South Wacker Drive, 31st Floor
Chicago, IL 60606
Telephone: 312/674-4674
312/674-4676 (fax)
bcochran@rgrdlaw.com

ADEMI & O'REILLY, LLP
GURI ADEMI
JESSE FRUCHTER
3620 East Layton Avenue
Cudahy, WI 53110
Telephone: 414/482-8000
414/482-8001 (fax)
gademi@ademilaw.com
jfruchter@ademilaw.com

Attorneys for Plaintiff