

**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MARYLAND**

Individually and on Behalf of All  
Others Similarly Situated,

Plaintiff,

v.

**2U, INC.,**  
7900 Harkins Road  
Lanham, MD 20706  
(Prince George's County)

**Christopher Paucek**  
c/o 7900 Harkins Road  
Lanham, MD 20706  
(Prince George's County)

**Paul Lalljie**  
c/o 7900 Harkins Road  
Lanham, MD 20706  
(Prince George's County)

**Matt Norden**  
c/o 7900 Harkins Road  
Lanham, MD 20706  
(Prince George's County)

Defendants.

Case No.

**CLASS ACTION COMPLAINT FOR  
VIOLATIONS OF THE FEDERAL  
SECURITIES LAWS**

**DEMAND FOR JURY TRIAL**

Plaintiff \_\_ (“Plaintiff”), individually and on behalf of all others similarly situated, by and through his attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff’s information and belief is based upon, among other things, his counsel’s investigation, which includes without limitation: (a) review and analysis of regulatory filings made by 2U, Inc. (“2U” or the “Company”) with the United States (“U.S.”) Securities and Exchange Commission (“SEC”); (b) review and analysis of press releases and media reports issued by and disseminated by 2U; and (c) review of other publicly available information concerning 2U.

### **NATURE OF THE ACTION AND OVERVIEW**

1. This is a class action on behalf of persons and entities that purchased or otherwise acquired 2U securities between February 9, 2022 and February 12, 2024, inclusive (the “Class Period”). Plaintiff pursues claims against the Defendants under the Securities Exchange Act of 1934 (the “Exchange Act”).

2. 2U is an online education platform company which operates through two segments, the Degree Program and the Alternative Credentials segment. The Degree Program delivers content, in partnership with established colleges and universities to students seeking online undergraduate or graduate degree. The Alternative Credential segment offers online open courses, boot camps, and micro-credential programs, also in partnership with colleges and universities, for shorter duration and lower-priced non-degree offerings.

3. The Company’s longest running flagship programs were run through the University of Southern California (“USC”). Programs with USC represented 15% and 21% of the Company’s consolidated revenue respectively for the years ended December 31, 2019 and 2018.

4. For the majority of the Company’s offerings, the Company utilizes “edX,” an online learning platform which acts as a consumer marketplace for the Company’s catalog of courses

as well as an integrated hub for students to access coursework and learning modules. 2U acquired edX in 2021, paying \$800 million and, taking out an estimated \$475 million in short-term financing to do so.

5. On November 9, 2023, after the market closed, the Company announced that U2 and USC would wind down their 15-year collaboration in the Company's major programs, and that USC would pay approximately \$40 million in connection with this exit. The Company also announced it would recognize a total of \$80 million in the fourth quarter related to partners seeking a negotiated exit from certain degree programs, which the Company euphemistically referred to as "portfolio management activities." The Company disclosed these portfolio management activities would offset a 21% decrease in full course equivalent enrollment, which was primarily driven by "the impact of [its] transition to a new marketing framework in mid-2022." The Company also revealed fiscal quarterly results, showing Degree Program revenue was flat year over year, that total revenue had decreased 1%, and that the Alternative Credential Segment revenue decreased 3%.

6. On this news, 2U's share price fell \$1.35, or 56.72% to close at \$1.03 on November 10, 2023, on unusually heavy trading volume.

7. On February 12, 2024, after the market closed, 2U disclosed that due to the Company's debt, "there is substantial doubt about its ability to continue as a going concern." The Company further disclosed it recognized \$88.0 million of revenue from portfolio management activities (*i.e.*, fees negotiated for early partnership contract termination) in the year and it would assume another \$10 million from such activities in the first quarter of 2024 and at least \$15 million in full-year 2024. The Company also announced its full year revenue of \$946 million, significantly missing the Company's guidance of \$965 million to \$990 million, and revealed Degree Program

Segment revenue, Alternative Credential Segment Revenue, and total revenue, all decreased 2% year over year. The Company also issued full year 2024 guidance, estimating revenue would continue to decline from \$946 million, to \$805 million to \$815 million.

8. On this news, 2U's share price fell \$0.55 or 59.33%, to close at \$0.37 on February 13, 2024, on unusually heavy trading volume.

9. Throughout the Class Period, Defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) the Company was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships failed to materialize or were cancelled; (3) the Company's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources; and (5) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

10. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

### **JURISDICTION AND VENUE**

11. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

12. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

13. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein, including the dissemination of materially false and/or misleading information, occurred in substantial part in this Judicial District. In addition, the Company's principal executive offices are in this District.

14. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

### **PARTIES**

15. Plaintiff, as set forth in the accompanying certification, incorporated by reference herein, purchased 2U securities during the Class Period, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

16. Defendant 2U is incorporated under the laws of Delaware with its principal executive offices located in Lanham, Maryland. 2U's common stock trade on the NASDAQ stock market under the symbol "TWOU."

17. Defendant Christopher Paucek ("Paucek") was the Company's co-founder and Chief Executive Officer ("CEO") from 2012 until November 16, 2023.

18. Defendant Paul Lalljie ("Lalljie") was the Company's Chief Financial Officer ("CFO") from October 16, 2019 until November 16, 2023, and has subsequently served as the Company's CEO since November 16, 2023.

19. Defendant Matt Norden (“Norden”) has served as the Company’s dual Chief Legal Officer (“CLO”) and CFO since November 16, 2023.

20. Defendants Paucek, Lalljie, and Norden (together, the “Individual Defendants”), because of their positions with the Company, possessed the power and authority to control the contents of the Company’s reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. The Individual Defendants 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 and access to material non-public information available to them, 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 which were being made were then materially false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein.

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

21. 2U is an online education platform company which operates through two segments, the Degree Program and the Alternative Credentials segment. The Degree Program delivers content, in partnership with established colleges and universities to students seeking online undergraduate or graduate degree. The Alternative Credential segment offers online open courses, boot camps, and micro-credential programs, also in partnership with colleges and universities, for shorter duration and lower-priced non-degree offerings.

22. The Company’s longest running flagship programs were run through the University of Southern California (“USC”). Programs with USC represented 15% and 21% of the Company’s consolidated revenue respectively for the years ended December 31, 2019 and 2018.

23. For the majority of the Company’s offerings, the Company utilizes “edX,” an online learning platform which acts as a consumer marketplace for the Company’s catalog of courses as well as an integrated hub for students to access coursework and learning modules. 2U acquired edX in 2021, paying \$800 million and, taking out an estimated \$475 million in short-term financing to do so.

**Materially False and Misleading**  
**Statements Issued During the Class Period**

24. The Class Period begins on February 9, 2022. On that day, 2U announced its fourth quarter 2021 financial results in a press release for the year ended December 31, 2021 (the “FY 2021 Press Release”). The FY 2021 Press Release touted the Company’s “transformational acquisition of edX in the fourth quarter,” stating in relevant part:<sup>1</sup>

Additionally, we completed our transformational acquisition of edX in the fourth quarter and its successful integration is a key priority for us. ***Our outlook for 2022 reflects a disciplined growth strategy and continued progress towards profitability***, which is prudent given the digital marketing environment. ***With the addition of edX and our transition to a platform company, we have established a strategic and financial framework for achieving our mid-term goals and creating shareholder value.***

25. On March 1, 2022, the Company submitted its annual report for the Fiscal Year ended December 31, 2021 on a Form 10-K filed with the SEC (“FY21 10-K”). The FY21 10-K stated the following regarding the Company’s sources of revenue:

***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees***, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. ***Our contracts with university clients in this segment typically have terms of 10 to 15 years*** and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university

---

<sup>1</sup> Unless otherwise stated, all emphasis in bold and italics hereinafter is added, and all footnotes are omitted.

clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.

26. The FY21 10-K purported to warn of the risk caused by factors including, in relevant part, the Company's "ability to acquire new university clients and expand our degree programs, executive education offerings and boot camps with existing university clients."

27. On May 5, 2022, the Company issued a press release announcing its results for the quarter ended March 31, 2022, which touted the Company's partnership success with edX and key business drivers, stating in relevant part:

"As we transition to a platform company under the edX brand, ***our partnerships help make institutions sustainable*** and help individuals unlock the livelihoods they want now and in the future."

\* \* \*

Paul Lalljie, 2U's Chief Financial Officer, added, "Our first quarter results demonstrated ***resilience in enrollments and revenue***, as well as continued improvement in operating efficiency. Based on these results and the outlook for key business drivers, we are affirming our revenue guidance and increasing our adjusted EBITDA guidance for the full year. ***We remain focused on unlocking the potential of edX, continuing to invest in our degree programs, and improving the profitability of the Alternative Credential Segment.***"

28. On May 10, 2022, the Company submitted its quarterly report for the period ended March 31, 2022 on a Form 10-Q filed with the SEC ("1Q22 10-Q"). The 1Q22 10-Q stated the following regarding the Company's sources of revenue and contract duration with university clients:

***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees***, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. ***Our contracts with university clients in this segment typically have terms of 10 to 15 years and have a single performance obligation***, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.



29. The 1Q22 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "ability to acquire new university clients and expand our degree programs, executive education offerings and boot camps with existing university clients."

30. On May 17, 2022, the Company announced the launch of a new Master of Professional Studies (MPS) in Product Management in partnership with the University of Maryland's A. James Clark School of Engineering in a press release which stated in relevant part:

"I'm delighted to expand our partnership with the *University of Maryland with this degree program*, informed by the success of their Product Management Professional Certificate program on edX," said Anant Agarwal, edX Founder and 2U Chief Open Education Officer. "Not only was the development of the degree program truly market-led, it is also being delivered at a price point that will make the in-demand product management career path more accessible for students worldwide."

\* \* \*

The A. James Clark School of Engineering will offer the *MPS in Product Management starting in August 2022. The program is now accepting applications, with a deadline of July 29, 2022.*

31. On July 28, 2022, the Company submitted its quarterly report for the period ended June 30, 2022, on a Form 10-Q filed with the SEC ("2Q22 10-Q"). The 2Q22 10-Q stated the following regarding the Company's sources of revenue and contract duration with university clients:

*Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. Our contracts with university clients in this segment typically have terms of 10 to 15 years and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.*

32. The 2Q22 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "ability to acquire new university clients and expand our degree programs, executive education offerings and boot camps with existing university clients."

33. On November 7, 2022, the Company issued a press release announcing its results for the quarter ended September 30, 2022 which touted the Company's alleged sustained program offering success, stating in relevant part:

***"We completed our strategic realignment and accelerated 2U's transition to a platform company under the edX platform during the quarter,"*** said 2U Co-Founder and CEO Christopher "Chip" Paucek. "We realigned our organization around a single platform, ***streamlined our cost structure and implemented a new, more efficient marketing framework.*** We believe these ***structural changes will not only strengthen our bottom line,*** but also supercharge our ability to match millions of learners with accessible, best-in-class learning experiences from top institutions that help them advance their careers and transform their lives."

***Paul Lalljie, 2U's Chief Financial Officer, added, "Our third quarter results demonstrate early returns from our platform strategy and execution of our Strategic Realignment Plan.*** We delivered record adjusted EBITDA of \$32.5 million, a 121% increase versus the prior year driven by ***improvements from both segments.*** As a result, we are increasing our adjusted EBITDA outlook for 2022 and remain committed to delivering further profitability improvements and positive free cash flow in 2023."

34. On November 7, 2022, the Company submitted its quarterly report for the period ended September 30, 2022, on a Form 10-Q filed with the SEC ("3Q22 10-Q"). The 3Q22 10-Q stated the following regarding the Company's sources of revenue and contract duration with university clients:

***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees,*** less credit card fees and other specified charges we have agreed to exclude in certain university contracts. ***Our contracts with university clients in this segment typically have terms of 10 to 15 years*** and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.

35. The 3Q22 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "ability to acquire new university clients and expand our degree programs, executive education offerings and boot camps with existing university clients."

36. On January 9, 2023, the Company announced that it has entered into an agreement to refinance its term loan, extending the maturity date from December 2024 to December 2026, amending other terms, and securing approximately \$127 million, and simultaneously issued a press release which stated in relevant part:

"We are excited to start 2023 with this important first step to optimize our balance sheet," said 2U Chief Financial Officer Paul Lalljie. "The transactions announced today will provide us with the *flexibility to execute on our platform strategy and further strengthen our global market position*. We are grateful for the support we've received from our lenders and Greenvale throughout this process, which we believe is an indicator of the financial community's confidence in our business. Today, we are operating as a leaner, more agile company that remains fully focused on delivering cash flow and profitability."

Mr. Lalljie continued, "*We continue to see returns from our platform strategy and the implementation of our Strategic Realignment Plan*. As a result, today we affirm the full-year 2022 guidance we provided on our November 7, 2022 earnings call and reiterate the 2023 adjusted EBITDA target provided on that call, as we continue to execute on our platform strategy."

37. On February 2, 2023, the Company issued a press release announcing its results for the fourth quarter and year ended December 31, 2022 which stated in relevant part:

"Platforms are the future of education and we are becoming increasingly confident in our platform strategy," said 2U Co-Founder and CEO Christopher "Chip" Paucek. "*We're attracting new partners and content, driving revenue growth from enterprise clients, radically improving our marketing efficiency, and delivering significant EBITDA growth*. We now expect our Alternative Credential Segment to contribute to our profitability for the first time in 2023, while continuing to deliver life-changing outcomes for students."

\* \* \*

#### **Business Outlook for Fiscal Year 2023**

The company provided guidance for the full-year 2023 for the following metrics:

- ***Revenue to range from \$985 million to \$995 million, representing growth of 3% at the midpoint***
- ***Net loss to range from \$95 million to \$90 million***
- Adjusted EBITDA to range from \$155 million to \$160 million, representing growth of 26% at the midpoint

38. On February 16, 2023, the Company announced a partnership with Cabrini University to bring existing online Doctorate in Educational Leadership and Master of Education in Curriculum, Instruction, and Assessment programs to edX under the platform's flexible degree model, the press release stated in relevant part:

"Together, Cabrini and edX are helping to build the next-generation of school administrators and teachers at a time when demand for both professions is growing tremendously," said Andrew Hermalyn, president of partnerships at edX, a 2U company. ***"Cabrini's new MicroBachelors and MicroMasters programs on edX, along with the online master's and doctoral degrees, will help elevate and sustain Cabrini's position as a trusted partner that those learners can turn to regardless of where they are in their careers—and continue to rely on well into their professions."***

\* \* \*

Cabrini expects to launch the MicroMasters program and ***transition its online Doctorate in Educational Leadership and Master of Education in Curriculum, Instruction, and Assessment on the edX platform in Fall 2023. The MicroBachelors program will be announced in early 2024.***

39. On February 21, 2023, the Company submitted its quarterly report for the fiscal year ended December 31, 2022 on a Form 10-K filed with the SEC ("FY22 10-K"). The FY22 10-K stated the following regarding the Company's sources of revenue and contract duration with university clients:

***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. Our contracts with university clients in this segment typically have terms of 10 to 15 years and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.***

40. The FY22 10-K purported to warn of the risk caused by factors including, in relevant part, the Company's "our ability to acquire new clients and expand our offerings with existing university clients."

41. On April 26, 2023, the Company issued a press release announcing its results for the quarter ended March 31, 2023, which stated in relevant part:

**"Our platform strategy has contributed to these strong results, creating a sound financial foundation and setting the stage for *future top-line growth and sustained value creation for our shareholders*," added Paul Lalljie, 2U's Chief Financial Officer. "This leads us to affirm our revenue guidance and increase our adjusted EBITDA guidance for the full year."**

\* \* \*

### **Business Outlook for Fiscal Year 2023**

The company affirmed its revenue guidance provided on February 2, 2023 and updated its guidance for net loss and adjusted EBITDA as follows:

- ***Revenue to range from \$985 million to \$995 million, representing growth of 3% at the midpoint***
- ***Net loss to range from \$93 million to \$87 million***
- **Adjusted EBITDA to range from \$157 million to \$163 million, representing growth of 28% at the midpoint**

42. On April 28, 2023, the Company submitted its quarterly report for the period ended March 31, 2023 on a Form 10-Q filed with the SEC ("1Q23 10-Q"). The 1Q23 10-Q stated the following regarding the Company's sources of revenue and contract duration with university clients:

***Our Degree Program Segment derives revenue primarily from contractually specified percentages of the amounts our university clients receive from their students in 2U-enabled degree programs for tuition and fees, less credit card fees and other specified charges we have agreed to exclude in certain university contracts. Our contracts with university clients in this segment typically have terms of 10 to 15 years and have a single performance obligation, as the promises to provide a platform of tightly integrated technology and services that university clients need to attract, enroll, educate and support students are not distinct within the context of the contracts.***

43. The 1Q23 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "our ability to acquire new clients and expand our offerings with existing university clients."

44. On August 2, 2023, the Company announced a partnership with Arcadia University "to create a *new online Doctor of Education in Educational Leadership (EdD) program*" a "*doctorate-level micro-credential*" in a press release which stated in relevant part:

Doctor of Education in Educational Leadership (EdD) program and will also be introducing a first-of-its-kind doctorate-level microcredential that can stack into the EdD, creating affordable, flexible on-ramps to the full degree. *The EdD is expected to launch in January 2024.*

45. On August 8, 2023, the Company issued a press release announcing its results for the quarter ended June 30, 2023, which stated in relevant part:

"2U's platform strategy is thriving and delivering sustainable double-digit margins driven by content velocity, product innovation, marketing effectiveness and operational efficiency," said Christopher "Chip" Paucek, Co-Founder and CEO of 2U.

\* \* \*

*Notably, in 2024 we plan to nearly triple our new degree launches* compared to our highest launch year with at least 50 new, capital-efficient programs. *We expect this momentum to continue in future years given the strength of our pipeline,* popularity of our flex degree model, and promise of our flat fee model."

\* \* \*

#### **Business Outlook for Fiscal Year 2023**

The company reaffirmed its revenue guidance provided on February 2, 2023 and updated its guidance for net loss and adjusted EBITDA provided on April 26, 2023 as follows:

- *Revenue to range from \$985 million to \$995 million, representing growth of 3% at the midpoint*
- *Net loss to range from \$225 million to \$220 million*
- Adjusted EBITDA to range from \$160 million to \$165 million, representing growth of 30% at the midpoint

46. On August 8, 2023, the Company submitted its quarterly report for the period ended June 30, 2023, on a Form 10-Q filed with the SEC ("2Q23 10-Q"). The 2Q23 10-Q stated the

following regarding the Company's sources of revenue and contract duration with university clients:

In our Degree Program Segment, *we derive substantially all of our revenue from revenue-share arrangements with our university clients* under which we receive a contractually specified percentage of the amounts students pay them to enroll in degree programs. *Our contracts generally have 10 to 15 year terms and do not include termination rights for convenience.*

47. The 2Q23 10-Q purported to warn of the risk caused by factors including, in relevant part, the Company's "our ability to acquire new clients and expand our offerings with existing university clients."

48. On October 3, 2023, the Company filed a Form 8-K which represented that the Company anticipated launching an additional *eighty degree programs* in the coming fiscal year, stating in relevant part:

At an October 2, 2023 meeting with business partners, a *2U, Inc. ("Company") spokesperson disclosed that the Company plans to launch approximately 80 degree programs in 2024*, an increase from the 50 degree programs the Company previously disclosed it planned to launch in 2024 on August 8, 2023, in the context of discussing demand for its flex model.

49. The above statements identified in ¶¶ 24-48 were materially false and/or misleading, and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) the Company was unable to sustain relationships with key universities and organizations; (2) as a result, certain degree programs and partnerships failed to materialize or were cancelled; (3) the Company's transition to a platform company would lead to a decrease in full course equivalent enrollments; (4) accordingly, the Company had overstated the stability and/or longevity of its contractual agreements and/or revenue sources; and (5) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

### **Disclosures at the End of the Class Period**

50. On November 9, 2023, after the market closed, the truth started to emerge when the Company announced that U2 and USC would wind down their 15-year collaboration in the Company's major programs, and that USC would pay approximately \$40 million in connection with this exit. The Company also announced it would recognize a total of \$80 million in the fourth quarter related to partners seeking a negotiated exit from certain degree programs, which the Company euphemistically referred to as "portfolio management activities." The Company disclosed these portfolio management activities would offset a 21% decrease in full course equivalent enrollment, which was primarily driven by "the impact of [its] transition to a new marketing framework in mid-2022." The Company also revealed fiscal quarterly results, showing Degree Program revenue was flat year over year, that total revenue had decreased 1%, and that the Alternative Credential Segment revenue decreased 3%.

51. Specifically, the Company issued a press release which announced the Company and University of Southern California would wind down online degree programs from the USC Rossier School of Education, USC Suzanne Dworak-Peck School of Social Work, and the USC Iovine and Young Academy. During an earnings call held on that date, Defendant Paucek, revealed USC paid approximately \$40 million in connection with the end of its USC relationship, stating, in relevant part:

Early in the fourth quarter, we also mutually agreed to transition out of certain degree programs with USC. This will result in revenue in the fourth quarter of approximately \$40 million.

52. On the same day, the Company also reported financial and operating results for the quarter ended September 30, 2023 (the "3Q23 Press Release"). The 3Q23 Press Release revealed the Company's third quarter 2023 results, including that the Company's revenue would be, in part, derived from "portfolio management," i.e., fees paid by university clients to exit contractual degree



programs. The 3Q23 Press Release revealed full course enrollment fell by over a quarter, primarily driven by the same “portfolio management” and “the impact of [the Company’s] transition to a new marketing framework in mid-2022”. The 3Q23 Press Release stated in relevant part:

### **Discussion of Third Quarter 2023 Results**

Revenue for the quarter totaled \$229.7 million, a 1% decrease from \$232.2 million in the third quarter of 2022. *Revenue from the Degree Program Segment was flat and included \$25.8 million of revenue from portfolio management activities related to the mutually negotiated exit of certain degree programs. Portfolio management activities typically result in current period revenue recognition of the fees paid by university clients, which the company typically collects over 12 to 24 months. Average revenue per full course equivalent (“FCE”) enrollment increased by 26%, primarily driven by the revenue acceleration from fees received in connection with portfolio management activities. This increase was offset by a 21% decrease in FCE enrollments, primarily driven by portfolio management and the impact of our transition to a new marketing framework in mid-2022.* Revenue from the Alternative Credential Segment decreased \$2.9 million, or 3%, primarily due to lower enrollments in coding boot camp offerings, partially offset by 18% growth in FCE enrollments in executive education offerings.

53. The 3Q23 Press Release provided an updated Business Outlook, which stated, in relevant part:

### **Business Outlook**

The company updated its guidance provided on August 8, 2023 as follows:

- *Revenue to range from \$965 million to \$990 million, representing growth of 1.5% at the midpoint, including expected revenue of \$80 million in the fourth quarter related to portfolio management activities;*
- *Net loss to range from \$250 million to \$240 million; and*
- Adjusted EBITDA to range from \$165 million to \$175 million, representing growth of 36% at the midpoint.

54. On this news, 2U’s share price fell \$1.35, or 56.72% to close at \$1.03 on November 10, 2023, thereby injuring investors.

55. Then, on February 12, 2024, after the market closed, 2U disclosed that due to the Company's debt, "there is substantial doubt about its ability to continue as a going concern." The Company further disclosed it recognized \$88.0 million of revenue from portfolio management activities (*i.e.*, fees negotiated for early partnership contract termination) in the year and it would assume another \$10 million from such activities in the first quarter of 2024 and at least \$15 million in full-year 2024. The Company also announced its full year revenue of \$946 million, significantly missing the Company's guidance of \$965 million to \$990 million, and revealed Degree Program Segment revenue, Alternative Credential Segment Revenue, and total revenue, all decreased 2% year over year. The Company also issued full year 2024 guidance, estimating revenue would continue to decline from \$946 million, to \$805 million to \$815 million.

56. Specifically, on February 12, 2024, 2U, the Company issued a press release announcing its results for the quarter and year ended December 31, 2023 (the "FY23 Press Release"). The FY23 Press Release stated in relevant part:

**Results for Full-Year 2023 compared to Full-Year 2022**

- *Revenue decreased 2% to \$946.0 million*
- *Degree Program Segment revenue decreased 2% to \$561.0 million*
- *Alternative Credential Segment revenue decreased 2% to \$384.9 million*
- Net loss was \$317.6 million, or \$3.93 per share, and includes non-cash impairment charges of \$196.9 million

\* \* \*

**Discussion of 2023 Results**

Revenue for the quarter totaled \$255.7 million, an 8% increase from \$236.0 million in the fourth quarter of 2022. Revenue from the Degree Program Segment increased \$26.4 million, or 19%, and *included \$54.6 million of revenue recognized from the mutually negotiated exit of certain degree programs, also referred to as portfolio management activities.*

\* \* \*

Revenue for the year totaled \$946.0 million, a 2% decrease from \$963.1 million in 2022. Revenue from the Degree Program Segment decreased \$10.6 million, or 2%, and ***included \$88.0 million of revenue recognized from portfolio management activities.***

\* \* \*

### **Liquidity and Cash Flow**

As of December 31, 2023, the company's cash, cash equivalents, and restricted cash totaled \$73.4 million, a decrease of \$109.2 million from \$182.6 million as of December 31, 2022. As of December 31, 2023, the company's total debt was \$904.7 million, including borrowings of \$40.0 million under the company's revolving credit facility.

\* \* \*

The company expects that if it does not amend or refinance its term loan, or raise capital to reduce its debt in the short term, and in the event the obligations under its term loan accelerate or come due within twelve months from the date of its financial statement issuance in accordance with its current terms, ***there is substantial doubt about its ability to continue as a going concern.***

57. On this news, 2U's share price fell \$0.55 or 59.33%, to close at \$0.37 on February 13, 2024, on unusually heavy trading volume.

### **CLASS ACTION ALLEGATIONS**

58. 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 persons and entities that purchased or otherwise acquired 2U securities between February 9, 2022 and February 12, 2024, inclusive and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, 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.

59. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, 2U's shares 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 at least hundreds or thousands of members in the proposed Class. Millions of 2U shares were traded publicly during the Class Period on the NASDAQ. Record owners and other members of the Class may be identified from records maintained by 2U 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.

60. 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 that is complained of herein.

61. 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.

62. 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 federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period omitted and/or misrepresented material facts about the business, operations, and prospects of 2U; and

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

63. 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 makes 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.

### **UNDISCLOSED ADVERSE FACTS**

64. The market for 2U's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, 2U's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired 2U's securities relying upon the integrity of the market price of the Company's securities and market information relating to 2U, and have been damaged thereby.

65. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of 2U's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. The statements and omissions were materially false and/or misleading because they failed to disclose material adverse information and/or misrepresented the truth about 2U's business, operations, and prospects as alleged herein.

66. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about 2U's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or

misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein when the truth was revealed.

### **LOSS CAUSATION**

67. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

68. During the Class Period, Plaintiff and the Class purchased 2U's securities at artificially inflated prices and were damaged thereby. The price of the Company's securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

### **SCIENTER ALLEGATIONS**

69. As alleged herein, Defendants acted with scienter since Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or 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. As set forth elsewhere herein in detail, 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 misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning 2U, participated in the fraudulent scheme alleged herein.

## **APPLICABILITY OF PRESUMPTION OF RELIANCE**

### **(FRAUD-ON-THE-MARKET DOCTRINE)**

70. The market for 2U's securities was open, well-developed and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, 2U's securities traded at artificially inflated prices during the Class Period. On February 9, 2022, the Company's share price closed at a Class Period high of \$17.98 per share. Plaintiff and other members of the Class purchased or otherwise acquired the Company's securities relying upon the integrity of the market price of 2U's securities and market information relating to 2U, and have been damaged thereby.

71. During the Class Period, the artificial inflation of 2U's shares was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about 2U's business, prospects, and operations. These material misstatements and/or omissions created an unrealistically positive assessment of 2U and its business, operations, and prospects, thus causing the price of the Company's securities to be artificially inflated at all relevant times, and when disclosed, negatively affected the value of the Company shares. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at such artificially inflated prices, and each of them has been damaged as a result.

72. At all relevant times, the market for 2U's securities was an efficient market for the following reasons, among others:

(a) 2U shares met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, 2U filed periodic public reports with the SEC and/or the NASDAQ;

(c) 2U regularly communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and/or

(d) 2U was followed by securities analysts employed by brokerage firms who wrote reports about the Company, and these reports were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

73. As a result of the foregoing, the market for 2U's securities promptly digested current information regarding 2U from all publicly available sources and reflected such information in 2U's share price. Under these circumstances, all purchasers of 2U's securities during the Class Period suffered similar injury through their purchase of 2U's securities at artificially inflated prices and a presumption of reliance applies.

74. A Class-wide presumption of reliance is also appropriate in this action under the Supreme Court's holding in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the Class's claims are, in large part, grounded on Defendants' material misstatements and/or omissions. Because this action involves Defendants' failure to disclose material adverse information regarding the Company's business operations and financial prospects—information that Defendants were obligated to disclose—positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered them important in making investment decisions. Given the



importance of the Class Period material misstatements and omissions set forth above, that requirement is satisfied here.

### **NO SAFE HARBOR**

75. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as “forward-looking statements” when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of 2U who knew that the statement was false when made.

### **FIRST CLAIM**

#### **Violation of Section 10(b) of The Exchange Act and**

#### **Rule 10b-5 Promulgated Thereunder**

#### **Against All Defendants**

76. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

77. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing

public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase 2U's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each defendant, took the actions set forth herein.

78. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for 2U's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

79. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about 2U's financial well-being and prospects, as specified herein.

80. Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of 2U's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about 2U and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein,

and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

81. Each of the Individual Defendants' primary liability and controlling person liability arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

82. Defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing 2U's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to obtain

such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

83. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of 2U's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired 2U's securities during the Class Period at artificially high prices and were damaged thereby.

84. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that 2U was experiencing, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their 2U securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

85. By virtue of the foregoing, Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

86. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

## **SECOND CLAIM**

### **Violation of Section 20(a) of The Exchange Act**

#### **Against the Individual Defendants**

87. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

88. Individual Defendants acted as controlling persons of 2U within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions and their ownership and contractual rights, participation in, and/or awareness of the Company's operations and intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

89. In particular, Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

90. As set forth above, 2U and Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their position as controlling persons, Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members

of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

**PRAYER FOR RELIEF**

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

- (a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;
- (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) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated:

\_\_\_\_\_