

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2023

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-40956

Udemy, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

27-1779864

(I.R.S. Employer Identification No.)

**600 Harrison Street, 3rd Floor
San Francisco, California**

(Address of Principal Executive Offices)

94107

(Zip Code)

(415) 813-1710

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00001 par value	UDMY	The Nasdaq Stock Market

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of October 26, 2023, 153,329,434 shares of the registrant's common stock were outstanding.

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Summary of risk factors

Our business is subject to numerous risks and uncertainties, including those highlighted in the section of this report titled “Risk Factors.” The following is a summary of the principal risks we face, any of which could adversely affect our business, operating results, financial condition, or prospects:

- We have a history of losses, and we may not be able to generate sufficient revenue to achieve or maintain profitability in the future.
- We operate in an emerging and dynamic market, which makes it difficult to evaluate our future results of operations.
- Our results of operations may fluctuate significantly from period to period due to a wide range of factors, which makes our future results difficult to predict.
- Our rapid growth may not be sustainable and depends on our ability to attract new learners, instructors, and organizations and retain existing ones.
- Our platform relies on a limited number of instructors who create a significant portion of the most popular content on our platform, and the loss of these instructor relationships could adversely affect our business, financial condition, and results of operations.
- If we fail to maintain and expand our relationships with Udemy Business (“UB” or “Enterprise”) customers, our ability to grow our business and revenue will suffer.
- We operate in a highly competitive market, and we may not be able to compete successfully against current and future competitors.
- The market for online learning solutions is relatively new and may not grow as we expect, which may harm our business, financial condition, and results of operations.
- Adherence to our values and our focus on long-term sustainability may negatively impact our short- or medium-term financial performance.
- Failure to effectively leverage our strategic partnerships to market and sell our products could impact our ability to increase brand awareness and grow our revenue.
- Changes in laws or regulations relating to privacy, data protection, or cybersecurity, including those relating to the protection or transfer of data relating to individuals, or any actual or perceived failure by us to comply with such laws and regulations or any other obligations could adversely affect our business.
- We may be unable to adequately obtain, maintain, protect, and enforce our intellectual property and proprietary information, which could adversely affect our business, financial condition, and results of operations.
- We could face liability, or our reputation might be harmed, as a result of courses posted to our platform.
- Intellectual property litigation, including litigation related to content available on our platform, could result in significant costs and adversely affect our business, financial condition, results of operations, and reputation.
- The trading price of our common stock may be volatile, and you could lose all or part of your investment.

Special note regarding forward-looking statements

This Quarterly Report on Form 10-Q (“Form 10-Q”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts contained in this Form 10-Q, including statements regarding our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “would,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” or the negative of these terms or other similar expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Form 10-Q include, but are not limited to, statements about:

- our expectations regarding our financial and operating performance, including our expectations regarding our revenue, costs, monthly average buyers, number of UB customers, UB Annual Recurring Revenue, UB Net Dollar Retention Rate, UB Large Customer Net Dollar Retention Rate, segment revenue, segment gross profit, adjusted EBITDA, and adjusted EBITDA margin;
- our ability to successfully execute our business and growth strategy;
- our ability to attract and retain learners, instructors, and enterprise customers;
- the timing, impact, and success of new features, integrations, capabilities, and other platform enhancements by us, or by our competitors to their offerings, or any other changes in the competitive landscape of our markets and industry;
- anticipated trends, developments, and challenges in our industry, business, the markets in which we operate, and broader macroeconomic environment;
- the size of our addressable markets, market share, and market trends, including our ability to grow our business internationally;
- the sufficiency of our cash, cash equivalents, and investments to meet our liquidity needs;
- our ability to develop and protect our brand and reputation;
- our expectations and management of future growth;
- our expectations concerning relationships with third parties;
- our ability to attract, retain, and motivate our skilled personnel, including members of our senior management team;
- our expectations regarding the effects of existing and developing laws and regulations, including with respect to taxation and privacy, data protection, and cybersecurity;
- our ability to maintain the security and availability of our platform;
- our ability to successfully defend litigation brought against us;
- our ability to successfully identify, execute, and integrate any potential acquisitions or strategic investments;
- our expectations regarding our income and other tax liabilities;
- our ability to effectively manage our exposure to fluctuations in foreign currency exchange rates; and
- our ability to obtain, maintain, protect, and enforce our intellectual property and proprietary information.

Actual events or results may differ from those expressed in forward-looking statements. As such, you should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, prospects, strategy, and financial needs. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, assumptions, and other factors described in the section titled “Risk Factors” and elsewhere in this Form 10-Q. Moreover, we operate in a highly competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Form 10-Q. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Form 10-Q. While we believe that such information provides a reasonable basis for these statements, such information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Form 10-Q to reflect events or circumstances after the date of this Form 10-Q or to reflect new information, actual results, revised expectations, or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements.

Investors and others should note that we may announce material information to the public through filings with the Securities and Exchange Commission, our website (udemy.com), press releases, public conference calls, and public webcasts. We encourage our investors and others to review the information disclosed through such channels as such information could be deemed to be material information. Please note that this list may be updated from time to time.

Market and industry data

Certain market and industry data included in this Form 10-Q has been obtained from third party sources that we believe to be reliable. Market estimates are calculated by using independent industry publications, government publications, and third-party forecasts in conjunction with our assumptions about our markets. We have not independently verified such third-party information. While we are not aware of any misstatements regarding any market, industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed in this Form 10-Q in the section titled “Special Note Regarding Forward-Looking Statements” and in Part II, Item 1A, “Risk Factors.”

PART I.**Item 1. Condensed Consolidated Financial Statements (Unaudited)**

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

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 327,974	\$ 313,685
Marketable securities	151,466	151,687
Restricted cash, current	100	—
Accounts receivable, net	82,857	104,530
Prepaid expenses and other current assets	18,364	14,878
Deferred contract costs, current	40,953	30,234
Total current assets	621,714	615,014
Property and equipment, net	4,984	7,012
Capitalized software, net	30,924	27,412
Operating lease right-of-use assets	7,164	11,377
Restricted cash, non-current	3,429	3,629
Deferred contract costs, non-current	35,415	35,411
Strategic investments	10,311	12,104
Intangible assets, net	6,177	9,331
Goodwill	12,646	12,646
Other assets	3,730	3,632
Total assets	\$ 736,494	\$ 737,568
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 5,663	\$ 14,529
Accrued expenses and other current liabilities	31,040	31,247
Content costs payable	37,816	37,310
Accrued compensation and benefits	25,313	22,882
Operating lease liabilities, current	6,974	7,002
Deferred revenue, current	279,646	273,937
Total current liabilities	386,452	386,907
Operating lease liabilities, non-current	1,657	6,545
Deferred revenue, non-current	2,520	4,342
Other liabilities, non-current	26	464
Total liabilities	390,655	398,258
Note 8 – Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.00001 par value - 50,000,000 shares authorized; zero shares issued and outstanding as of September 30, 2023, and December 31, 2022.	—	—
Common stock, \$0.00001 par value - 950,000,000 shares authorized; 152,661,464 and 145,013,786 shares issued and outstanding as of September 30, 2023, and December 31, 2022, respectively.	2	1
Additional paid-in capital	1,045,349	951,946
Accumulated other comprehensive loss	(62)	(233)
Accumulated deficit	(699,450)	(612,404)
Total stockholders' equity	345,839	339,310
Total liabilities and stockholders' equity	\$ 736,494	\$ 737,568

See accompanying notes to condensed consolidated financial statements.

Udemy, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except share and per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 184,722	\$ 158,432	\$ 539,392	\$ 463,767
Cost of revenue	77,264	69,080	229,903	201,330
Gross profit	107,458	89,352	309,489	262,437
Operating expenses				
Sales and marketing	76,492	77,490	233,520	212,789
Research and development	30,307	28,062	90,829	74,595
General and administrative	22,155	27,051	71,112	72,147
Restructuring charges	—	—	10,263	—
Total operating expenses	128,954	132,603	405,724	359,531
Loss from operations	(21,496)	(43,251)	(96,235)	(97,094)
Other income (expense)				
Interest income	5,542	1,610	14,758	1,857
Interest expense	(124)	(1,018)	(464)	(895)
Other income (expense), net	122	(3,523)	(2,181)	(4,439)
Total other income (expense), net	5,540	(2,931)	12,113	(3,477)
Net loss before taxes	(15,956)	(46,182)	(84,122)	(100,571)
Income tax provision	(811)	(511)	(2,924)	(1,151)
Net loss	\$ (16,767)	\$ (46,693)	\$ (87,046)	\$ (101,722)
Net loss per share				
Basic and diluted	\$ (0.11)	\$ (0.33)	\$ (0.59)	\$ (0.73)
Weighted-average shares used in computing net loss per share				
Basic and diluted	151,307,963	140,951,605	148,392,636	140,116,156

See accompanying notes to condensed consolidated financial statements.

Udemy, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss	\$ (16,767)	\$ (46,693)	\$ (87,046)	\$ (101,722)
Foreign currency translation loss, net of tax	(32)	(32)	(48)	(50)
Change in unrealized gain (loss) on marketable securities, net of tax	18	(214)	219	(214)
Comprehensive loss	\$ (16,781)	\$ (46,939)	\$ (86,875)	\$ (101,986)

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance—June 30, 2023	149,845,546	\$ 1	\$ 1,015,851	\$ (48)	\$ (682,683)	\$ 333,121
Stock-based compensation	—	—	25,659	—	—	25,659
Exercise of stock options	1,178,316	—	3,839	—	—	3,839
Vesting of restricted stock units	1,637,602	1	—	—	—	1
Other comprehensive income (loss)	—	—	—	(14)	—	(14)
Net loss	—	—	—	—	(16,767)	(16,767)
Balance—September 30, 2023	152,661,464	\$ 2	\$ 1,045,349	\$ (62)	\$ (699,450)	\$ 345,839
Balance—June 30, 2022	140,622,937	\$ 1	\$ 888,522	\$ (19)	\$ (513,558)	\$ 374,946
Stock-based compensation	—	—	26,428	—	—	26,428
Exercise of stock options	427,684	—	2,019	—	—	2,019
Vesting of restricted stock units	209,553	—	—	—	—	—
Reclassification of stock appreciation rights	—	—	62	—	—	62
Other comprehensive income (loss)	—	—	—	(246)	—	(246)
Net loss	—	—	—	—	(46,693)	(46,693)
Balance—September 30, 2022	141,260,174	\$ 1	\$ 917,031	\$ (265)	\$ (560,251)	\$ 356,516
Balance—December 31, 2022	145,013,786	\$ 1	\$ 951,946	\$ (233)	\$ (612,404)	\$ 339,310
Stock-based compensation	—	—	79,922	—	—	79,922
Exercise of stock options	2,540,719	—	8,616	—	—	8,616
Vesting of restricted stock units	4,481,848	1	108	—	—	109
Issuance of common stock under employee stock purchase plan	625,111	—	4,757	—	—	4,757
Other comprehensive income (loss)	—	—	—	171	—	171
Net loss	—	—	—	—	(87,046)	(87,046)
Balance—September 30, 2023	152,661,464	\$ 2	\$ 1,045,349	\$ (62)	\$ (699,450)	\$ 345,839
Balance—December 31, 2021	139,164,693	\$ 1	\$ 848,229	\$ (1)	\$ (458,529)	\$ 389,700
Stock-based compensation	—	—	57,457	—	—	57,457
Exercise of stock options	1,273,968	—	5,653	—	—	5,653
Vesting of restricted stock units	294,759	—	67	—	—	67
Reclassification of stock appreciation rights	—	—	62	—	—	62
Issuance of common stock under employee stock purchase plan	526,754	—	5,563	—	—	5,563
Other comprehensive income (loss)	—	—	—	(264)	—	(264)
Net loss	—	—	—	—	(101,722)	(101,722)
Balance—September 30, 2022	141,260,174	\$ 1	\$ 917,031	\$ (265)	\$ (560,251)	\$ 356,516

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (87,046)	\$ (101,722)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,069	15,616
Amortization of deferred contract costs	34,482	22,558
Stock-based compensation	72,928	53,043
Allowance for credit losses	1,309	467
Accretion of marketable securities	(5,323)	(138)
Non-cash operating lease expense	4,468	4,643
Unrealized loss on strategic investments	1,793	2,896
Other	931	460
Changes in operating assets and liabilities:		
Accounts receivable	20,363	1,132
Prepaid expenses and other assets	(3,628)	1,375
Deferred contract costs	(45,205)	(40,203)
Accounts payable, accrued expenses and other liabilities	(7,102)	(14,257)
Content costs payable	505	(1,525)
Operating lease liabilities	(5,168)	(5,012)
Deferred revenue	3,887	30,395
Net cash provided by (used in) operating activities	5,263	(30,272)
Cash flows from investing activities:		
Purchases of marketable securities	(225,536)	(66,128)
Proceeds from maturities of marketable securities	231,300	—
Purchases of property and equipment	(435)	(1,397)
Capitalized software costs	(9,321)	(10,652)
Purchases of strategic investments	—	(5,000)
Payments related to business combinations	—	(1,500)
Net cash used in investing activities	(3,992)	(84,677)
Cash flows from financing activities:		
Net proceeds from exercise of stock options	8,277	5,785
Proceeds from share purchases under employee stock purchase plan	4,757	5,563
Payment of deferred offering costs	—	(1,586)
Net cash provided by financing activities	13,034	9,762
Effect of foreign exchange rates on cash flows	(116)	(38)
Net increase (decrease) in cash, cash equivalents and restricted cash	14,189	(105,225)
Cash, cash equivalents and restricted cash—Beginning of period	317,314	536,768
Cash, cash equivalents and restricted cash—End of period	\$ 331,503	\$ 431,543

	Nine Months Ended September 30,	
	2023	2022
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 327,974	\$ 427,914
Restricted cash, current	100	—
Restricted cash, non-current	3,429	3,629
Total cash, cash equivalents and restricted cash	\$ 331,503	\$ 431,543
Supplemental disclosures of cash flow information:		
Interest paid	\$ 3,186	\$ 13
Income taxes paid	\$ 1,337	\$ 516
Supplemental disclosure of non-cash investing and financing activities:		
Stock-based compensation in capitalized costs	\$ 6,966	\$ 4,310
Change in unrealized gain (loss) on marketable securities	\$ 218	\$ (215)

See accompanying notes to condensed consolidated financial statements.

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

1. Organization and description of business

Description of business

Udemy, Inc. (“Udemy” or the “Company”) was incorporated in January 2010 under the laws of the state of Delaware. The Company is headquartered in San Francisco, California.

Udemy is a global learning company whose online platform empowers organizations and individuals with flexible and effective skill acquisition and development. The Company’s learning marketplace platform enables tens of thousands of subject matter experts to develop, distribute and enhance content that reaches Udemy’s broad global audience of learners. Udemy leverages technology, data and insights to deliver personalized and effective learning experiences. The Company further curates its highest-quality content from the marketplace for Udemy Business, which enables companies around the world to offer engaging, effective, on-demand learning for all employees, immersive laboratory-style learning for tech teams, and cohort-based learning focused on leadership development.

2. Summary of significant accounting policies

Basis of consolidation and presentation— The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation, and all other normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results of the periods presented have been made.

Segment information— On March 1, 2023, Greg Brown became the Company’s new Chief Executive Officer and chief operating decision maker (“CODM”). The Company defines its segments as those operations the CODM regularly reviews to allocate resources and assess performance. For the nine months ended September 30, 2023 and 2022, the Company operated under two operating and reportable segments: Enterprise and Consumer. The Company continually monitors and reviews its segment reporting structure in accordance with Accounting Standards Codification (“ASC”) Topic 280, Segment Reporting, to determine whether any changes have occurred that would impact its reportable segments. For further information on the Company’s segment reporting, see Note 13 – Segment and geographic information.

Use of estimates— The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the condensed consolidated financial statements and the results of operations during the reporting periods.

Significant estimates and assumptions reflected in the condensed consolidated financial statements include, but are not limited to, allowance for credit losses, capitalization of internally developed software and associated useful lives, stock-based compensation, determination of the income tax valuation allowance and the potential outcome of uncertain tax positions, estimated instructor withholding tax obligations, estimated service period for consumer single course purchases, the period of benefit for deferred commissions, the fair value and associated useful lives of intangible assets and goodwill acquired via business combinations, and the valuation of privately-held strategic investments, including impairments. Management periodically evaluates such estimates and assumptions for continued reasonableness.

Actual results may ultimately differ from management’s estimates and such differences could be material to the Company’s financial position and results of operations.

Concentration of credit risk— Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, restricted cash, and accounts receivable. For cash and restricted cash, the Company is exposed to credit risk in the event of default by the financial institutions to the extent the amounts recorded on the accompanying condensed consolidated balance sheets are in excess of federal insurance limits. The Company's investments that are classified as cash equivalents and marketable securities consist of high-credit-quality instruments and fixed-income securities.

The Company generally does not require collateral or other security in support of accounts receivable. To reduce credit risk, management performs ongoing evaluations of its customers' financial condition and maintains an allowance based upon expected credit losses of outstanding receivables. The Company had no customers who accounted for more than 10% of accounts receivable as of September 30, 2023, or December 31, 2022. No customer accounted for more than 10% of total revenue during the three and nine months ended September 30, 2023 or 2022.

Summary of significant accounting policies— Except as described below, there were no significant changes to the Company's significant accounting policies disclosed in Note 2 – Summary of significant accounting policies of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which was filed with the SEC on February 27, 2023 (the "Annual Report").

Stock-based compensation— The Company accounts for its stock-based compensation pursuant to ASC Topic 718, Compensation-Stock Compensation.

The Company granted performance-based restricted stock units ("PSUs") in the first quarter of 2023, which vest based on the achievement of predefined corporate performance metrics and are subject to ongoing service conditions. The Company determines the fair value of PSUs based on the fair value of the Company's common stock on the date of grant. Because PSUs have both performance and service-based vesting conditions, the Company separately attributes stock-based compensation expense for each vesting tranche of the award over their requisite service periods.

Management estimates the number of PSUs that are expected to vest based on the anticipated achievement of the specified performance metrics. If the performance-based vesting condition is considered probable of being achieved, the Company recognizes expense over the requisite service period based on the probable outcome of achievement. If the performance goals are not met, or are considered improbable, no compensation cost is recognized, and any previously recognized compensation cost is reversed.

Accounts receivable, net— Accounts receivable primarily represent amounts owed to the Company for Enterprise subscriptions. Also included in accounts receivable are amounts due from payment processors or mobile application store partners that settle over a period longer than five business days. Accounts receivable balances are recorded at the invoiced amount and are non-interest-bearing. Accounts receivable is presented net of allowance for credit losses in the accompanying condensed consolidated balance sheets.

The Company maintains an allowance based upon expected credit losses of outstanding receivables. Management derives its estimate using a variety of factors, including historical collection and loss patterns; the current aging of receivables; geographic and other customer-specific credit risk factors; and reasonable and supportable forecasts of future economic conditions which inform adjustments to historical loss patterns. The provision for expected credit losses is recorded in general and administrative expenses in the accompanying condensed consolidated statements of operations. Accounts receivable deemed to be uncollectible are written off, net of expected or actual recoveries.

	Balance at Beginning of Period	Charged to Expenses	Charges Utilized/Written-off, Net of Recoveries	Balance at End of Period
Allowance for credit losses (in thousands)				
Nine Months Ended September 30, 2023	\$ 1,528	\$ 1,309	\$ (1,370)	\$ 1,467
Nine Months Ended September 30, 2022	\$ 678	\$ 467	\$ (73)	\$ 1,072

Self-insurance— Beginning in 2023, the Company became self-insured for medical benefits offered to certain employees, up to certain stop-loss limits. Such costs are accrued based on known claims and estimates of incurred but not reported (“IBNR”) claims. IBNR claims are estimated using historical claim information and actuarial estimates. As of September 30, 2023, the accrued liability for self-insurance totaled \$1.2 million and is included in accrued compensation and benefits on the condensed consolidated balance sheets.

Recently Adopted Accounting Pronouncements

Recently Issued Accounting Pronouncements Not Yet Adopted

There are no recently issued accounting pronouncements that are expected to have a material impact on the Company’s condensed consolidated financial statements.

3. Revenue recognition

Deferred revenue— Revenue recognized for the three months ended September 30, 2023, from amounts included in deferred revenue as of June 30, 2023 was \$143.4 million. Revenue recognized for the three months ended September 30, 2022, from amounts included in deferred revenue as of June 30, 2022 was \$122.5 million.

Revenue recognized for the nine months ended September 30, 2023, from amounts included in deferred revenue as of December 31, 2022 was \$242.9 million. Revenue recognized for the nine months ended September 30, 2022, from amounts included in deferred revenue as of December 31, 2021 was \$187.4 million.

The below table presents a summary of deferred revenue balances by reportable segment (in thousands):

	September 30, 2023	December 31, 2022	December 31, 2021
Deferred revenue:			
Enterprise	\$ 224,096	\$ 219,030	\$ 148,966
Consumer	58,070	59,249	61,588
Total deferred revenue	<u>\$ 282,166</u>	<u>\$ 278,279</u>	<u>\$ 210,554</u>

Remaining performance obligations— Remaining performance obligations represent the aggregate amount of the transaction price in contracts for performance obligations not delivered, or partially undelivered, as of the end of the reporting period. Remaining performance obligations primarily relate to unearned and unbilled revenue from multi-year Enterprise subscription contracts with future installment payments, as well as unearned revenue from Consumer single course purchases and subscriptions at the end of any given period. As of September 30, 2023, the aggregate transaction price for remaining performance obligations was \$516.9 million, of which 72% is expected to be recognized over the next twelve months and the remainder thereafter.

Deferred contract costs— The following table represents a roll forward of the Company’s deferred contract costs (in thousands):

	Balance at Beginning of Period		Additions		Amortization Expense		Balance at End of Period
Nine Months Ended September 30, 2023	\$ 65,645	\$	45,205	\$	(34,482)	\$	76,368
Nine Months Ended September 30, 2022	\$ 44,545	\$	40,203	\$	(22,558)	\$	62,190

4. Investments and fair value measurements

The Company's assets and liabilities that are measured at fair value on a recurring or nonrecurring basis within the fair value hierarchy are as follows (in thousands):

As of September 30, 2023	Level 1	Level 2	Level 3
Cash equivalents:			
Money market funds	\$ 267,036	\$ —	\$ —
U.S. government securities	—	14,881	—
Total cash equivalents	267,036	14,881	—
Marketable securities:			
U.S. government securities	\$ —	\$ 151,466	\$ —
Non-current assets:			
Strategic investments	\$ —	\$ —	\$ 10,311
Non-current liabilities:			
Cash settled stock appreciation rights	\$ —	\$ —	\$ 26
As of December 31, 2022			
Cash equivalents:			
Money market funds	\$ 130,377	\$ —	\$ —
U.S. government securities	—	48,900	—
Total cash equivalents	130,377	48,900	—
Marketable securities:			
U.S. government securities	\$ —	\$ 151,687	\$ —
Non-current assets:			
Strategic investments	\$ —	\$ —	\$ 12,104
Non-current liabilities:			
Cash settled stock appreciation rights	\$ —	\$ —	\$ 462

The Company's money market funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices in active markets. The Company's investments in U.S. government securities are classified within Level 2 of the fair value hierarchy because they have been valued using inputs other than quoted prices in active markets that are directly or indirectly observable. The Company's strategic investment and stock appreciation rights ("SARs") are classified within Level 3 of the fair value hierarchy because they have been valued using significant unobservable inputs for which the Company has been required to develop its own assumptions.

A summary of the changes in the fair value of Level 3 financial instruments, of which remeasurement of SARs and impairment of strategic investments are recognized in the condensed consolidated statements of operations, is as follows (in thousands):

	Stock Appreciation Rights	Strategic Investments
Balance— June 30, 2023	\$ 30	\$ 10,311
Vesting and remeasurement of SARs	(4)	—
Balance— September 30, 2023	<u>\$ 26</u>	<u>\$ 10,311</u>
Balance— June 30, 2022	\$ 419	\$ 15,000
Vesting and remeasurement of SARs, net of exercises	165	—
Amount reclassified from liability to equity upon exchange	(62)	—
Unrealized loss on strategic investments	—	(2,896)
Balance— September 30, 2022	<u>\$ 522</u>	<u>\$ 12,104</u>
Balance— December 31, 2022	\$ 462	\$ 12,104
Vesting and remeasurement of SARs	(183)	—
Exercises of SARs	(253)	—
Unrealized loss on strategic investments	—	(1,793)
Balance— September 30, 2023	<u>\$ 26</u>	<u>\$ 10,311</u>
Balance— December 31, 2021	\$ 818	\$ 10,000
Vesting and remeasurement of SARs, net of exercises	(234)	—
Purchases of strategic investments	—	5,000
Amount reclassified from liability to equity upon exchange	(62)	—
Unrealized loss on strategic investments	—	(2,896)
Balance— September 30, 2022	<u>\$ 522</u>	<u>\$ 12,104</u>

The Company evaluates its strategic investment for impairment at each reporting period. This evaluation consists of several potential qualitative and quantitative impairment indicators including, but not limited to, the investee's financial metrics, whether there were any significant adverse changes in the economic environment or general market conditions of the geographies and industries in which the investee operates, and any other publicly available information that may affect the value of the investment. No impairment indicators were identified as part of the assessment performed as of September 30, 2023.

The difference between the strategic investment's cost basis of \$15.0 million and the carrying value of \$10.3 million is due to cumulative impairment charges of \$4.7 million, of which \$1.8 million was recorded during the second quarter of 2023, and \$2.9 million was recorded during the third quarter of 2022.

5. Consolidated balance sheet components

Cash, cash equivalents, and marketable securities— The amortized cost, unrealized gains and losses, and estimated fair value of cash, cash equivalents, and marketable securities consisted of the following (in thousands):

As of September 30, 2023	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash	\$ 46,057	\$ —	\$ —	\$ 46,057
Money market funds	267,036	—	—	267,036
U.S. government securities	14,879	2	—	14,881
Total cash and cash equivalents	327,972	2	—	327,974
Marketable securities:				
U.S. government securities	151,461	9	(4)	151,466
Total cash, cash equivalents, and marketable securities	\$ 479,433	\$ 11	\$ (4)	\$ 479,440

As of December 31, 2022	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash	\$ 134,408	\$ —	\$ —	\$ 134,408
Money market funds	130,377	—	—	130,377
U.S. government securities	48,899	4	(3)	48,900
Total cash and cash equivalents	313,684	4	(3)	313,685
Marketable securities:				
U.S. government securities	151,900	30	(243)	151,687
Total cash, cash equivalents, and marketable securities	\$ 465,584	\$ 34	\$ (246)	\$ 465,372

Cash equivalents and marketable securities in an unrealized loss position consisted of the following (in thousands):

	September 30, 2023		December 31, 2022	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Cash equivalents:				
U.S. government securities	\$ —	\$ —	\$ 24,960	\$ (3)
Marketable securities:				
U.S. government securities	43,420	(4)	59,057	(243)
Total securities in an unrealized loss position	\$ 43,420	\$ (4)	\$ 84,017	\$ (246)

Realized gains and losses reclassified from accumulated other comprehensive loss to other income (expense), net were zero for the three and nine months ended September 30, 2023 and 2022.

No securities had been in a continuous unrealized loss position for twelve months or longer as of September 30, 2023 or December 31, 2022. The Company does not intend to sell available-for-sale marketable debt securities in unrealized loss positions, and it is more likely than not that the Company will hold these securities until maturity or recovery of the cost basis. As of September 30, 2023 and December 31, 2022, the Company did not have an allowance for credit losses related to its available-for-sale debt securities due to a zero loss expectation for the portfolio which consists solely of U.S. government securities.

As of September 30, 2023, the entirety of the Company's marketable securities portfolio had remaining contractual maturities of one year or less.

Property and equipment, net— Property and equipment, net consisted of the following (in thousands):

	September 30,	December 31,
	2023	2022
Leasehold improvements	\$ 19,041	\$ 19,109
Computers and equipment	7,896	7,820
Furniture and fixtures	4,678	4,870
Purchased software	383	383
Construction in progress	27	—
Total property and equipment	32,025	32,182
Less accumulated depreciation and amortization	(27,041)	(25,170)
Property and equipment, net	\$ 4,984	\$ 7,012

Depreciation expense was \$0.7 million and \$1.1 million for the three months ended September 30, 2023 and 2022, respectively, and \$2.3 million and \$3.4 million for the nine months ended September 30, 2023 and 2022, respectively.

Capitalized software, net— Capitalized software, net consisted of the following (in thousands):

	September 30,	December 31,
	2023	2022
Capitalized software	\$ 79,865	\$ 63,748
Less accumulated amortization	(48,941)	(36,336)
Capitalized software, net	\$ 30,924	\$ 27,412

Amortization expense of capitalized software was \$4.5 million and \$3.3 million for the three months ended September 30, 2023 and 2022, respectively, and \$12.7 million and \$9.0 million for the nine months ended September 30, 2023 and 2022, respectively.

As of September 30, 2023, expected amortization expense for capitalized software over the remaining asset lives was as follows (in thousands):

Remainder of 2023	\$ 4,503
2024	15,009
2025	9,169
2026	2,243
Total expected amortization	\$ 30,924

Intangible assets, net and goodwill— As of September 30, 2023, intangible assets, net acquired as part of the CorpU business combination were as follows (in thousands):

	Estimated Useful Lives	Intangible Assets, Gross	Accumulated Amortization	Intangible Assets, Net
Customer relationships	6 years	\$ 5,500	\$ (1,927)	\$ 3,573
Vendor relationships	3 years	4,500	(3,153)	1,347
Developed technology	3 years	4,200	(2,943)	1,257
Tradename	2 years	900	(900)	—
Total		\$ 15,100	\$ (8,923)	\$ 6,177

As of December 31, 2022, intangible assets, net acquired as part of the CorpU business combination were as follows (in thousands):

	Estimated Useful Lives	Intangible Assets, Gross	Accumulated Amortization	Intangible Assets, Net
Customer relationships	6 years	\$ 5,500	\$ (1,239)	\$ 4,261
Vendor relationships	3 years	4,500	(2,028)	2,472
Developed technology	3 years	4,200	(1,893)	2,307
Tradename	2 years	900	(609)	291
Total		\$ 15,100	\$ (5,769)	\$ 9,331

Amortization expense of intangible assets was \$1.0 million and \$1.1 million for the three months ended September 30, 2023 and 2022, respectively, and \$3.1 million and \$3.2 million the nine months ended September 30, 2023 and 2022, respectively.

The expected future amortization expense for intangible assets as of September 30, 2023 was as follows (in thousands):

Remainder of 2023	\$ 954
2024	2,795
2025	917
2026	917
2027	594
Total expected amortization	\$ 6,177

Goodwill in the amount of \$12.6 million was established as part of the CorpU acquisition on August 24, 2021, and allocated to the Enterprise segment. This amount represents the excess of the purchase price over the fair value of net assets acquired. There have been no adjustments to the carrying amount of goodwill as of September 30, 2023.

The Company tests for impairment at least annually, or whenever events or changes in circumstances occur that could impact the recoverability of these assets. No such triggering events were noted for the nine months ended September 30, 2023 or 2022.

6. Leases

The Company applies the guidance under Topic 842 for leases of real estate facilities under non-cancelable operating leases with various expiration dates through fiscal year 2026. The Company recognized the following amounts related to its operating leases in its condensed consolidated statements of operations and cash flows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease costs	\$ 1,519	\$ 1,696	\$ 4,753	\$ 5,095
Variable lease costs	\$ 271	\$ 189	\$ 816	\$ 596
Cash paid for amounts included in the measurement of operating lease liabilities, net of lease incentives			\$ 5,481	\$ 4,853

Future minimum lease payments under noncancellable operating leases with initial lease terms in excess of one year as of September 30, 2023, were as follows (in thousands):

2023	\$	1,796
2024		5,886
2025		809
2026		410
Gross lease payments		8,901
Less imputed interest		(270)
Present value of operating lease liabilities	\$	8,631

7. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	September 30, 2023	December 31, 2022
Accrued expenses	\$ 17,463	\$ 8,494
Indirect tax reserves	1,327	6,627
Indirect tax payables	7,471	9,137
Other current liabilities	4,779	6,989
Accrued expenses and other current liabilities	\$ 31,040	\$ 31,247

Indirect tax payables relate to amounts collected from customers on behalf of third-party taxing authorities, primarily on sales in the U.S. and in international jurisdictions. Indirect tax payables also include withholding taxes on payments made to the Company's instructors before remitting these amounts to the taxing authorities.

Instructor withholding tax reserves—

Prior to March 2020, the Company had not obtained appropriate taxpayer identification forms from instructors, nor remitted applicable tax withholding amounts to the U.S. Internal Revenue Service ("IRS") where required. In accordance with GAAP, the Company recorded a provision for its tax exposure when it was both probable that a liability had been incurred and the amount of the exposure could be reasonably estimated.

Beginning in March 2020, the Company began collecting appropriate taxpayer identification forms from its instructors, assessing whether the forms justified a reduced rate of withholding or withholding exemption, and remitting withholding tax payments to the IRS where required. The Company also began reporting payments to its non-U.S. instructors and the IRS annually where required to do so.

In 2020, the Company approached the IRS to address the historical tax withholding amounts for instructors and engaged in a voluntary disclosure program. As of September 30, 2023, the Company has filed all outstanding withholding tax returns and has paid the associated tax obligation and corresponding interest to the IRS. The Company considered the matter resolved as of September 30, 2023.

Changes to the instructor withholding tax reserve are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 2,617	\$ 15,850	\$ 2,528	\$ 17,036
Amounts charged to (released from) expense	—	201	89	(985)
Net payments and settlements	(2,617)	—	(2,617)	—
Balance, end of period	\$ —	\$ 16,051	\$ —	\$ 16,051

8. Commitments and contingencies

Noncancellable purchase commitments— The Company has contractual commitments with its cloud infrastructure provider, network service providers and paid advertising vendors that are noncancellable. As of September 30, 2023, the Company had \$47.6 million worth of future minimum payments under the Company's noncancellable purchase commitments which are expected to be paid through 2026.

Indemnification— The Company enters into indemnification provisions under agreements with other parties in the ordinary course of business, including certain business partners, investors, contractors, and the Company's officers, directors, and certain employees. The Company has agreed to indemnify and defend the indemnified party's claims and related losses suffered or incurred by the indemnified party resulting from actual or threatened third-party claims because of the Company's activities or, in some cases, non-compliance with certain representations and warranties made by the Company. In general, the Company does not record any liability for these indemnities in the accompanying condensed consolidated balance sheets as the amounts cannot be reasonably estimated and are not considered probable. The Company does, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable. To date, losses recorded in the Company's condensed consolidated statements of operations in connection with the indemnification provisions have not been material.

Litigation— From time to time, in the ordinary course of business, the Company is subject to legal proceedings, claims, investigations, and other proceedings, including claims of alleged infringement of third-party patents and other intellectual property rights, and commercial, employment, and other matters. In accordance with generally accepted accounting principles, the Company makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least annually and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. The outcome of such litigation is not expected to have a material effect on the financial position, results of operation and cash flows of the Company. The Company has recorded an immaterial amount related to all outstanding litigation matters in the accompanying condensed consolidated balance sheets, within accrued expenses and other current liabilities as of September 30, 2023, and December 31, 2022.

9. Income taxes

The provision for income taxes for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items, if any, that are taken into consideration in the relevant period. Each quarter, the Company updates the estimate of the annual effective tax rate, and if the estimated tax rate changes, the Company records a cumulative adjustment to the provision.

The Company had an effective tax rate of (5.08)% and (1.11)% for the three months ended September 30, 2023, and 2022 respectively, and (3.48)% and (1.14)% for the nine months ended September 30, 2023 and 2022, respectively. The difference between the 21% statutory federal tax rate and the effective tax rate was primarily a result of income earned in jurisdictions with higher statutory tax rates, foreign withholding taxes, and tax credits offset by change in valuation allowance.

As of September 30, 2023 and December 31, 2022, the Company has provided a valuation allowance against U.S. federal and state deferred tax assets. Management continues to evaluate the realizability of deferred tax assets and the related valuation allowance. If management's assessment of the deferred tax assets or the corresponding valuation allowance were to change, the Company would record the related adjustment to income during the period in which management makes the determination.

The Company recognizes interest and penalties associated with uncertain tax positions as part of the income tax provision. To date, the Company has not recognized any interest and penalties in its condensed consolidated statements of operations, nor has it accrued for or made payments for interest and penalties.

The Company is subject to taxation in the U.S. and various foreign jurisdictions. Due to NOL carryforwards and tax credit carryforwards, the statutes of limitations remain open for tax years from inception of the Company through 2022. There are currently no income tax audits underway by U.S. federal or state tax authorities. In October 2023, the Company's subsidiary, Udemy India LLP received a tax notice from the India Income Tax Department, for the fiscal year ended March 31, 2021. The notice challenged the transfer pricing methodology used by Udemy India LLP. At this time, the amount of the proposed tax assessment is not reasonably estimable. The Company believes the proposed adjustment is without merit and will vigorously defend its position; however, it could take a number of years to reach resolution of this matter.

10. Related party transactions

Naspers Ltd. ("Naspers"), through an investment entity controlled by Prosus N.V. ("Prosus"), beneficially owns more than 5% of the Company's outstanding capital stock. A current member of the Company's Board of Directors is the Chief Executive Officer of a Prosus operating subsidiary, OLX Global B.V. A former member of the Company's Board of Directors, who resigned in September 2022, was an executive officer of Prosus. Naspers and certain entities directly and indirectly controlled by Naspers are customers of the Company's Enterprise subscription offering. The Company recorded \$0.7 million and \$0.3 million of revenue from services provided to these customers during the three months ended September 30, 2023 and 2022, respectively, and \$1.4 million and \$1.1 million during the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023 and December 31, 2022, the Company had an accounts receivable balance of \$0.1 million with these customers.

Insight Partners, where a member of the Company's Board of Directors is a Managing Director, has certain affiliates who are customers of the Company's Enterprise subscription offering. The Company recorded \$0.5 million of revenue from services provided to these customers during the three and nine months ended September 30, 2023. As of September 30, 2023 the Company had an accounts receivable balance of \$0.2 million with these customers. Insight Partners is also affiliated with certain vendors that the Company has contracted to provide technology and software solutions. The Company recorded \$0.3 million and \$0.2 million of operating expenses with these vendors during the three months ended September 30, 2023 and 2022, respectively, and \$0.6 million and \$0.7 million during the nine months ended September 30, 2023 and 2022, respectively. The Company did not have an accounts payable balance with these vendors as of September 30, 2023, and December 31, 2022.

Certain members of the Company's Board of Directors also serve as executive officers for customers of the Company's Enterprise subscription offering. The Company recorded during \$0.1 million and \$0.2 million of revenue from services provided to these customers during the three months ended September 30, 2023 and 2022, respectively, and \$0.3 million and \$0.4 million of revenue during the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023 and December 31, 2022, the Company had an accounts receivable balance with these customers of zero and \$0.4 million, respectively.

11. Stockholders' equity

Preferred stock— In connection with the IPO, the Company's amended and restated certificate of incorporation became effective, which authorized the issuance of 50,000,000 shares of undesignated preferred stock with a par value of \$0.00001 per share with rights and preferences, including voting rights, designated from time to time by the board of directors.

Common stock— Common stockholders are entitled to one vote per share. Shares of common stock reserved for future issuance consisted of the following:

	September 30, 2023	December 31, 2022
2010 Equity Incentive Plan:		
Stock options outstanding	7,569,747	10,333,771
2021 Equity Incentive Plan:		
RSUs outstanding and PSUs ⁽¹⁾	18,270,292	16,178,101
Shares available for future issuance under:		
2021 Equity Incentive Plan	3,714,081	2,814,126
2021 Employee Stock Purchase Plan	2,754,604	1,929,578
Total shares of common stock reserved	32,308,724	31,255,576
<small>(1) The number of PSUs reserved for issuance is based on the maximum achievement of the corporate performance metric.</small>		

Equity incentive plans— In 2010, the Company adopted the 2010 Equity Incentive Plan (the “2010 Plan”). The 2010 Plan provided for incentive stock options (“ISOs”), non-statutory stock options (“NSOs”, collectively with ISOs, “stock options”), SARs, restricted stock, and restricted stock units (“RSUs”) to be granted to eligible employees, directors, and consultants. The 2010 Plan was terminated in October 2021 in connection with the IPO but continues to govern the terms and conditions of the outstanding awards granted pursuant to the 2010 Plan. No further equity awards will be granted under the 2010 Plan.

The Company adopted the 2021 Equity Incentive Plan (the “2021 Plan”) in September 2021, which became effective on October 28, 2021 (collectively with the 2010 Plan, the “Equity Incentive Plans”) and was approved by the Company’s stockholders. The 2021 Plan provides for the granting of ISOs, NSOs, SARs, restricted stock, RSUs, and performance awards to eligible employees, directors, and consultants.

The Company initially reserved 13,800,000 shares for issuance under the 2021 Plan. The amount available for issuance is subject to an annual increase on the first day of each calendar year, beginning on January 1, 2023, in an amount equal to 5% of the outstanding shares of the Company’s common stock on the last day of the immediately preceding calendar year or a lesser amount determined by the Company’s Board of Directors or compensation committee. The amount available for issuance shall also include Returning Shares, which are any shares subject to awards granted under the 2010 Plan that, on or after October 29, 2021, expire or otherwise terminate without having been exercised in full, are tendered to or withheld by the Company for payment of an exercise price or for tax withholding obligations, or are forfeited to or repurchased by the Company due to failure to vest. On January 1, 2023, the shares available for future grants under the 2021 Plan automatically increased by 7,250,689 pursuant to the above evergreen provision of the 2021 Plan.

Stock options— The Company may grant stock options at exercise prices not less than the fair market value at the date of grant. These options generally expire 10 years from the date of grant. The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period for each award, which is generally even over four years.

The following is a summary of activity for stock options having only service-based vesting conditions under the Equity Incentive Plans:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Balance - December 31, 2022	10,283,771	\$ 4.18	6.38	\$ 66,234
Granted	—	—		
Exercised	(2,540,719)	3.40		
Canceled	(223,305)	7.60		
Balance - September 30, 2023	7,519,747	\$ 4.35	2.55	\$ 39,357
Vested & expected to vest as of September 30, 2023	7,519,747	\$ 4.35	2.55	\$ 39,357
Exercisable as of September 30, 2023	7,181,202	\$ 4.20	2.51	\$ 38,489

There were no stock options granted during the nine months ended September 30, 2023 or 2022. The decrease in weighted average remaining contractual term during the period is due to stock options held by the Company's former CEO, Mr. Coccari, which will expire if not exercised by the end of the 90-day post-termination exercise window that begins upon completion of his transition agreement in February 2024. Refer to further discussion below under other equity transactions.

As of September 30, 2023, total unrecognized stock-based compensation expense related to unvested stock options was \$0.9 million, which will be recognized over a weighted average period of 0.6 years.

Stock appreciation rights— The Company may grant SARs at exercise prices not less than the fair market value at the date of grant. The SARs are liability-classified awards that generally expire 10 years from the date of grant. The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period for each award, which is generally even over four years.

The following is a summary of activity for SARs under the Equity Incentive Plans:

	SARs Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Balance - December 31, 2022	81,770	\$ 5.44	6.90	\$ 418
Granted	—	—		
Exercised	(67,781)	5.30		
Canceled	(9,289)	6.58		
Balance - September 30, 2023	4,700	\$ 5.11	6.23	\$ 21
Vested & expected to vest as of September 30, 2023	4,700	\$ 5.11	6.23	\$ 21
Exercisable as of September 30, 2023	4,389	\$ 5.00	6.21	\$ 20

There were no SARs granted during the nine months ended September 30, 2023 or 2022.

As of September 30, 2023, total unrecognized stock-based compensation expense related to unvested SARs was immaterial.

Restricted stock units and performance-based restricted stock units— The fair value of RSUs is determined using the fair value of the Company's common stock on the date of grant. The Company recognizes stock-based compensation expense for RSUs with service-based vesting conditions on a straight-line basis over the requisite service period for each award, which typically vest over a three or four-year period.

During the first quarter of 2023, the Company granted 645,833 PSUs to certain executives at target. Each PSU conveys a right to receive one share of the Company's common stock on the date it vests, provided that the number of PSUs that will ultimately vest may vary from 0% to 150% of target based upon the achievement of the corporate performance metric at the end of the performance period. One quarter of the eligible PSUs vest upon certification of the corporate performance metric in the first quarter of 2024, and the remaining 75% will vest equally over the following 12 quarters thereafter, subject to continual service by the grantee. Total stock-based compensation expense to be recognized may fluctuate during the performance period due to changes in forecasted achievement. The corporate performance metric associated with these awards has been considered probable of being achieved since the grant date, and as of September 30, 2023, management estimated a payout rate equal to 79% of the number of target shares granted.

A summary of RSU and PSU activity under the 2021 Plan is as follows:

	RSUs Outstanding	Weighted Average Grant Date Fair Value	PSUs Outstanding	Weighted Average Grant Date Fair Value
Unvested - December 31, 2022	16,178,101	\$ 17.37	—	\$ —
Granted	7,615,860	\$ 9.62	645,833	\$ 8.89
Released	(4,481,848)	\$ 16.58	—	\$ —
Canceled	(2,010,553)	\$ 16.11	—	\$ —
Unvested - September 30, 2023	<u>17,301,560</u>	<u>\$ 14.31</u>	<u>645,833</u>	<u>\$ 8.89</u>

As of September 30, 2023, total unrecognized stock-based compensation expense related to unvested RSUs was \$212.7 million, which will be recognized over a weighted average period of 2.8 years.

As of September 30, 2023, total unrecognized stock-based compensation expense related to unvested PSUs was \$3.1 million, which will be recognized over a weighted average period of 1.7 years.

Performance-based stock options— There have been no other changes to the Company's performance-based stock options compared to those described in Note 14— Stockholders' equity, included in Part II, Item 8 of the Company's Annual Report.

As of September 30, 2023, there were 50,000 performance-based stock options outstanding, of which 22,916 were exercisable. As of September 30, 2023, total unrecognized stock-based compensation expense related to unvested performance-based stock options was immaterial.

Employee stock purchase plan— The 2021 Employee Stock Purchase Plan (the "ESPP") became effective on October 29, 2021. The Company initially reserved 2,800,000 shares of the Company's common stock under the ESPP. Shares reserved for issuance shall increase on the first day of the fiscal year, beginning in fiscal 2023, in an amount equal to the least of 1% of the outstanding shares of common stock on the last day of the immediately preceding fiscal year, three times the initial number of shares reserved under the ESPP, or a lesser amount determined by the Company's Board of Directors or compensation committee. On January 1, 2023, the shares available for future grants under the ESPP automatically increased by 1,450,137 pursuant to the above evergreen provision of the 2021 ESPP.

During the nine months ended September 30, 2023, 625,111 shares of common stock were issued under the ESPP.

On May 20, 2023, the Company's ESPP purchase price was reset for both the May 2022 and November 2022 offering periods. Under the reset provision, if the closing stock price on the purchase date falls below the closing stock price on the offering date of an ongoing offering period, the ongoing offering terminates immediately following the purchase of ESPP shares on the purchase date. Participants in the terminated offering are then automatically enrolled in the new offering period. The ESPP reset resulted in incremental compensation cost of \$5.9 million which, along with the unrecognized expense remaining from the original grant date fair value, will be recognized on a straight-line basis over the new offering period ending in May 2025.

The following table summarizes the weighted-average assumptions used in the Black-Scholes option-pricing model to estimate the fair value of employee stock purchase rights granted under the new ESPP offering period:

	Nine Months Ended September 30, 2023
Risk-free interest rate	4.5%
Expected volatility	69.7%
Expected life (in years)	1.6
Expected dividend yield	—%

As of September 30, 2023, total unrecognized compensation cost for the ESPP was \$9.2 million, which will be recognized on a straight-line basis over the next 1.6 years.

Other equity transactions— On February 28, 2023, the Company entered into a transition agreement with Mr. Coccarri under which he will provide transition advice through February 28, 2024. During the transition period, he will continue to meet the definition of a service provider under the 2021 Plan, and his equity incentive awards will continue to vest in accordance with their original vesting schedules. Because the scope of services to be provided under the transition period represent a substantive reduction in services being provided by the former CEO, the Company recognized \$3.1 million in stock-based compensation expense during the three months ended March 31, 2023, that would have otherwise been recognized from April 2023 to February 2024.

On August 24, 2021, the Company issued 61,300 shares of Udemy restricted common stock to a former executive of CorpU at a grant date fair value per share of \$34.14. The total compensation cost recognized during both the three months ended September 30, 2023 and 2022 was \$0.2 million, and \$0.5 million for both the nine months ended September 30, 2023 and 2022. As of September 30, 2023, total compensation cost related to the restricted stock not yet recognized was \$0.6 million, which will be recognized on a straight-line basis over the next 0.9 years.

Total stock-based compensation expense included in the condensed consolidated statements of operations was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenue	\$ 1,788	\$ 1,611	\$ 5,130	\$ 3,440
Sales and marketing	7,646	9,372	23,022	18,516
Research and development	7,045	6,258	19,762	13,303
General and administrative	7,005	7,728	23,806	17,784
Restructuring charges	—	—	1,208	—
Total stock-based compensation expense	<u>\$ 23,484</u>	<u>\$ 24,969</u>	<u>\$ 72,928</u>	<u>\$ 53,043</u>

The Company capitalized \$2.1 million and \$1.6 million of stock-based compensation expense as capitalized software during the three months ended September 30, 2023 and 2022, respectively, and \$6.8 million and \$4.2 million during the nine months ended September 30, 2023 and 2022, respectively.

12. Net loss per share

The following table presents the calculation of basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator:				
Net loss	\$ (16,767)	\$ (46,693)	\$ (87,046)	\$ (101,722)
Denominator:				
Weighted-average shares used in computing net loss per share				
Basic and diluted	151,307,963	140,951,605	148,392,636	140,116,156
Net loss per share				
Basic and diluted	\$ (0.11)	\$ (0.33)	\$ (0.59)	\$ (0.73)

The following potentially dilutive securities were excluded from the computation of diluted net loss per share calculations, because the impact of including them would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
RSUs, PSUs, and restricted stock	17,858,035	16,760,346	17,858,035	16,760,346
Stock options	7,569,747	10,728,915	7,569,747	10,728,915
Contingently issuable shares under ESPP	372,763	296,205	372,763	296,205
Total potentially dilutive securities	25,800,545	27,785,466	25,800,545	27,785,466

13. Segment and geographic information

The Company's Chief Executive Officer is its CODM. The CODM reviews separate financial information presented for the Company's two segments, Enterprise and Consumer, in order to allocate resources and evaluate the Company's financial performance.

Financial information for each reportable segment was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Enterprise	\$ 109,101	\$ 83,865	\$ 305,962	\$ 223,403
Consumer	75,621	74,567	233,430	240,364
Total revenue	184,722	158,432	539,392	463,767
Segment cost of revenue				
Enterprise	34,784	27,448	101,603	74,293
Consumer	35,371	35,901	107,999	111,909
Total segment cost of revenue	70,155	63,349	209,602	186,202
Segment gross profit				
Enterprise	74,317	56,417	204,359	149,110
Consumer	40,250	38,666	125,431	128,455
Total segment gross profit	114,567	95,083	329,790	277,565
Reconciliation of segment gross profit to gross profit				
Amortization of capitalized software	4,494	3,261	12,667	9,000
Amortization of intangible assets	725	725	2,175	2,175
Depreciation	102	134	329	513
Stock-based compensation	1,788	1,611	5,130	3,440
Total reconciling items	7,109	5,731	20,301	15,128
Total gross profit	\$ 107,458	\$ 89,352	\$ 309,489	\$ 262,437

Geographic information

Revenue: The following table summarizes the revenue by region based on the billing address of the Company's customers (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
North America	\$ 73,787	\$ 65,809	\$ 217,308	\$ 189,284
Europe, Middle East, Africa	55,048	45,788	164,139	139,729
Asia Pacific	42,505	35,210	120,006	101,125
Latin America	13,382	11,625	37,939	33,629
Total revenue	\$ 184,722	\$ 158,432	\$ 539,392	\$ 463,767

During the three months ended September 30, 2023, revenue from the United States and Japan each exceeded 10% of the Company's total revenue. During the three months ended September 30, 2022, and nine months ended September 30, 2023 and 2022, the United States was the only country to exceed 10% of the Company's total revenue.

Long-lived assets: The following table presents the Company's long-lived assets, which consist of tangible property and equipment, net of depreciation, and operating lease ROU assets, by geographic region (in thousands):

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
North America	\$ 8,467	\$ 12,782
Rest of world	3,658	5,556
Total long-lived assets	<u>\$ 12,125</u>	<u>\$ 18,338</u>

14. Restructuring charges

On February 13, 2023, the Company communicated to its employees that in response to current macroeconomic conditions and to further streamline its operations and cost structure, it would reduce its global workforce by approximately 10%. As a result, the Company recognized restructuring charges of \$10.1 million in the first quarter of 2023, primarily consisting of \$8.9 million of personnel expenses such as salaries and wages, one-time severance payments, and other benefits. The Company also recognized \$1.2 million of stock-based compensation expense on the communication date, resulting from impacted employees having no future substantive service requirement but continuing to vest into their equity awards during legally required retention periods as well as certain modifications to enable additional vesting after impacted employees' termination dates. The restructuring plan was completed in the third quarter of 2023.

Restructuring charges are presented as separate operating expenses within the Company's condensed consolidated statements of operations. The following table summarizes the activity related to the restructuring liability recorded in accrued compensation and benefits in the accompanying condensed consolidated balance sheets (in thousands):

Beginning balance— June 30, 2023	\$ 344
Restructuring charges	—
Settlements	(344)
Ending balance— September 30, 2023	<u>\$ —</u>
Beginning balance— January 1, 2023	\$ —
Restructuring charges	9,055
Settlements	(9,055)
Ending balance— September 30, 2023	<u>\$ —</u>

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q. In addition to historical unaudited condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. You should review the sections titled "Special Note Regarding Forward-Looking Statements" for a discussion of forward-looking statements and in Part II, Item 1A, "Risk Factors" for a discussion of factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis and elsewhere in this Form 10-Q.

Overview

Our mission is to improve lives through learning.

We believe traditional education and training methods are fast becoming outdated. Technological advancements and novel industries have significantly altered the types of skills required of workers, and lifelong training and continuous skills acquisition are becoming the norm. There is a clear need to expand access to learning across traditional barriers such as geography and social demographics. Our online platform empowers organizations and individuals with flexible and effective skill acquisition and development, connecting global learners with relevant and up-to-date knowledge from experts and practitioners around the world.

Udemy's consumer marketplace has attracted over 67 million learners in over 180 countries who are looking for the knowledge and skills they need to attain in-demand jobs, further their career, and improve their well-being. We curate the highest-quality content from our marketplace for Udemy's enterprise SaaS platform, Udemy Business, which enables companies around the world to offer effective on-demand learning for employees, immersive laboratory-style learning for tech teams, and cohort-based learning focused on leadership development. Our network of over 75,000 instructors have created over 210,000 courses in 75 languages that cover a wide range of topics, including technology, business, soft skills, and personal development.

Workforce reduction

In February 2023, in response to current macroeconomic conditions and to further streamline our operations and cost structure, we enacted a plan to reduce our global workforce by approximately 10%. As a result, we recognized restructuring charges of \$10.3 million, primarily consisting of personnel expenses such as salaries and wages, one-time severance payments, and other benefits, as well as stock-based compensation expense. The restructuring plan was completed in the third quarter of 2023.

Key factors impacting our performance

We believe that the growth of our business and our future success are dependent upon many factors. While each of these factors presents significant opportunities for us, these factors also pose challenges that we must successfully address in order to sustain the growth of our business and enhance our results of operations.

Ability to attract and engage new learners and Udemy Business customers

To grow our business, we must attract new learners and UB customers efficiently and increase engagement on our platform over time. We acquire a substantial portion of our learners via organic channels and also use paid marketing to further enhance the growth of our learner base. Our organic channels include those outside of our paid market efforts, such as a Udemy brand name internet search. Once we bring new learners onto our platform, we work to create a best-in-class experience to encourage engagement and drive learning and career outcomes.

Ability to retain and expand our existing learner and customer relationships

Our business and results of operations will depend on our ability to continue to drive higher usage of our platform within our existing customer base and our ability to add new customers.

Our efforts to grow our existing relationships with our consumer learners are focused on increasing their engagement and converting free learners into buyers. New learners to our platform typically begin to engage with our free courses, which serve as a funnel to grow our total learner base and drive referrals to our paid offerings.

Our efforts to grow our UB offering are focused primarily on corporate and government customers. Historically, we have expanded from individual to department to multi-department to enterprise-wide sales as our value is proven. Building upon this success, we believe a significant opportunity exists for us to acquire new UB customers and expand our existing UB customers' use of our platform by identifying new use cases and increasing the size of existing deployments.

We often enter into customized contractual arrangements with our UB customers in which we offer more favorable pricing terms in exchange for larger total contract values that accompany larger deployments. As we drive a greater portion of our revenue through our deployments with UB customers, we expect that our revenue will continue to grow significantly, but the price we charge UB customers per seat may decline, which could reduce margins in the future.

Ability to source in-demand content from our instructors

We believe that learners and UB customers are attracted to Udemy largely because of the high quality and wide selection of content our instructors offer. Continuing to source in-demand content and credentials from our instructors will be an important factor in attracting learners and UB customers and growing our revenue over time. When we offer content as part of the UB and consumer subscription offerings, our instructors agree to contribute such content exclusively through our platform, which we believe demonstrates our ability to increase the value of our platform through unique content.

We view the breadth and diverse expertise of our instructor base and the content they create as one of our competitive advantages. Our ability to expand the instructor payment pool while optimizing the revenue share structure is a key element of supporting the long-term growth of our business. Furthermore, a significant portion of the most popular content on our platform, and as a result a significant portion of our revenue, is attributable to a limited number of our instructors. We experienced minimal turnover among top instructors during the three and nine months ended September 30, 2023.

Impact of mix of Enterprise and Consumer segments

Our mix of business among our Enterprise and Consumer segments is shifting, and this shift will continue to affect our financial performance. Enterprise segment gross margin is higher than that of Consumer, primarily driven by comparably lower content costs which are partially offset by higher customer support costs. The mix of customer acquisition methods in our Consumer segment will substantially impact our financial performance. We presently expect that revenue from our Enterprise segment will continue to grow faster than our Consumer segment, which will be beneficial to our overall margins.

Ability to expand our international footprint

We currently generate a significant portion of our revenue outside North America. We see a significant opportunity to expand our offerings into regions with large underserved adult learning populations. We have invested, and plan to continue to invest, in personnel and marketing efforts to support our international growth and expand our international operations as part of our strategy to grow our customer and learner base, particularly among our UB customers. We also plan to continue investing in strategic partnerships that either extend our marketing reach or the capabilities and reach of our global go-to-market sales team.

Our investment in growth

We are actively investing in our business as we believe that we are only beginning to penetrate our market opportunity, and we intend to continue to invest in our future growth. We anticipate that our operating expenses will increase as we continue to build our sales and marketing efforts, expand our course catalog, develop our immersive learning capabilities, and invest in our technology development, including investments in generative artificial intelligence. Any investments we make in our sales and marketing organization, in encouraging the development of new content, and in expanding our platform offerings and capabilities, whether organically or through acquisitions or strategic partnerships, will occur in advance of the benefits from such investments, making it difficult to determine if we are efficiently allocating our resources in these areas.

Pace of adoption of cloud-based skill development solutions

Our ability to grow our learner base and drive market adoption of our platform is affected by the overall demand for cloud-based skill development solutions. The market for cloud-based skill development is less mature than the market for in-person, instructor-led-training, and potential customers may be slow or unwilling to migrate from these legacy approaches. We believe that as technology becomes increasingly critical to business operations, the need for cloud-based skill development solutions, particularly an integrated enterprise-grade platform such as ours, will increase, and our customer base and the breadth and deployment of usage in our customer base will also increase. However, it is difficult to predict customer adoption rates and demand, the future growth rate and size of the market for cloud-based skill development solutions, or the entry of competitive solutions.

Components of results of operations

Revenue

We recognize revenue from contracts with UB customers and paid consumer learners by delivering access to our online learning platform.

Enterprise revenue primarily relates to enterprise license subscription contracts with annual or multi-year subscription terms. Enterprise license subscriptions include Team Plan, Enterprise Plan, Udemy Business Pro, and Leadership Academy. Enterprise subscriptions are typically billed in advance on a quarterly or annual basis. Subscription revenue excludes any taxes to be remitted to governmental authorities. Access to the Udemy platform represents a series of distinct services as we continually provide access to course content and fulfill our obligation to the UB customer over the subscription term. Because the series of distinct services represents a single performance obligation that is satisfied over time, we recognize revenue ratably over the contractual subscription term. Enterprise revenue recognized from professional services was immaterial for the periods presented.

Consumer revenue consists of individual course content purchases made by individual learners, as well as our consumer subscription offerings. Consumer revenue includes the gross transaction value paid by the learner at checkout, net of (a) actual and estimated refunds and (b) passthrough taxes collected from learners and remitted to governmental authorities. After a successful checkout, consumer learners receive a non-exclusive license to the digital course content in addition to stand-ready access to the Udemy platform hosting services needed to access the content. Access to the online content on the Udemy platform represents a series of distinct services as we continually provide access to and fulfill our hosting obligation to the learner. This series of distinct services represents a single performance obligation that is satisfied over time. Revenue from single course purchases is recognized ratably over the estimated service period, which is four months from the date of enrollment, while revenue from consumer subscriptions is recognized ratably over the contractual subscription term.

We are the principal with respect to revenue generated from sales to UB and consumer customers as we control the performance obligation and are the primary obligor with respect to delivering our customers access to the course content.

Cost of revenue

Cost of revenue primarily consists of content costs, which are the payments to our instructors. Content costs are driven by the means by which we acquired the learner consuming the content. For courses offered on Udemy's consumer marketplace, instructors earn a specific percentage of the net sale amount when a learner purchases the instructor's course. For courses offered through Udemy Business or a consumer subscription offering, instructors earn a pro-rata share of a monthly instructor payments pool for that subscription offering. Each month, Udemy calculates the revenue for each subscription offering, with a fixed percentage allocated as an instructor payments pool. Instructors whose content is included in the collection earn a prorated portion of this pool based on the number of minutes of consumption their courses achieved that month.

Content costs are recorded as cost of revenue in the period earned by our instructors. Content costs as a percentage of revenue for our UB and consumer subscription offerings are lower relative to individual course content purchases in our consumer offering. As a result, shifts in the mix between offerings and changes to the revenue share structure for UB and consumer subscriptions are expected to be a significant driver of future changes in gross margin. We plan to reduce the instructor revenue share for our subscription offerings, which are derived as a percentage of total UB and consumer subscription revenues, from 25% today to 15% by 2026, with the first adjustment to 20% effective as of January 1, 2024.

For consumer single course purchases, content costs are incurred at the time of purchase. As consumer course content revenue is recognized ratably over an estimated service period of four months, consumer gross margins are lower in the period of purchase, and higher in the remaining periods of the estimated service period over which revenue is recognized. For our subscription based UB offering, content costs are incurred based on monthly subscription fees, and margins are more stable from period to period.

Cost of revenue also includes payment and mobile processing fees, costs associated with hosting digital content, employee related expenses for our customer support organization, including salaries, benefits, stock-based compensation, facilities and other expenses, depreciation of network equipment, amortization of capitalized software, amortization of vendor relationships and developed technologies acquired through business combinations, and the portion of fees paid to certain reseller partners attributable to their providing customer support services to UB customers. We expect cost of revenue to generally decrease as a percentage of revenue as we increase the percentage of revenue derived from our UB offering.

Operating expenses

Operating expenses consist of research and development, sales and marketing, general and administrative expenses, and restructuring charges. Personnel costs are the most significant component of our operating expenses and consist of salaries, benefits, bonuses, stock-based compensation, and commissions. Our operating expenses also include allocated costs of facilities, information technology, depreciation, and amortization. Although our operating expenses may fluctuate from period to period, we currently expect our operating expenses to increase in absolute dollars over time.

Sales and marketing

Our sales and marketing expenses consist primarily of personnel-related costs, including stock-based compensation, as well as marketing and brand costs, costs related to customer and instructor acquisition, amortization of deferred contract costs, and amortization of tradenames and customer relationships acquired through business combinations. Sales and marketing expenses also consist of costs incurred for hosting and customer support services related to providing our platform to free learners. We expect sales and marketing expenses to increase in absolute dollars as our business grows. In addition, we expect sales and marketing expenses as a percentage of revenue to vary from period to period, depending on the timing of our marketing activities, but generally expect this percentage to decline over the long term.

Research and development

Our research and development expenses consist primarily of personnel-related costs, including stock-based compensation, costs related to the ongoing management, maintenance, and expansion of features and services offered on our platform. Research and development costs also include contracted services, supplies, and other miscellaneous expenses. We believe that continued investment in our platform is important to our future growth and to maintain and attract learners to our platform. As a result, we expect research and development expenses to increase in absolute dollars. In addition, we expect research and development expenses as a percentage of revenue may vary from period to period depending on the timing of investments in our platform.

General and administrative

Our general and administrative expenses consist primarily of personnel-related costs, including stock-based compensation, costs related to our executive, legal, finance, and human resources departments, as well as charges for indirect tax reserves, allowance for credit losses, professional fees, and other corporate expenses. We expect general and administrative expenses to increase in absolute dollars as our business grows. In addition, we expect general and administrative expenses as a percentage of revenue to vary from period to period but generally decrease over the long term.

Restructuring charges

Our restructuring charges consist primarily of personnel expenses, such as employee severance, benefits costs, and stock-based compensation, related to the reduction of our global workforce in the first quarter of 2023.

Interest income

Interest income consists primarily of interest income earned on our cash equivalents and short-term and long-term investments, including amortization of premiums and accretion of discounts related to our available-for-sale marketable securities, net of associated fees.

Interest expense

Interest expense consists primarily of interest expense related to certain indirect tax reserves.

Other expense, net

Other income (expense), net consists primarily of foreign currency transaction gains and losses, as well as changes in the valuation of strategic investments, if any.

Income tax provision

Our income tax provision consists primarily of income taxes in certain foreign jurisdictions in which we conduct business. We have a full valuation allowance against our U.S. federal and state deferred tax assets as the realization of the full amount of these deferred tax assets is uncertain, including net operating loss carryforwards and tax credits related primarily to research and development. The valuation allowance is driven by our overall loss position, and we will not be able to utilize any of these favorable tax attributes until we are in a taxable income position. When we begin to consistently operate in a taxable income position, we may release portions of the valuation allowance to recognize and use those tax attributes. Until then, we expect to maintain this full valuation allowance until it becomes more likely than not that the deferred tax assets will be realized.

Results of operations

The following table summarizes our results of operations for the periods presented. The results below are not necessarily indicative of results to be expected for future periods. Results are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 184,722	\$ 158,432	\$ 539,392	\$ 463,767
Cost of revenue (1)(2)	77,264	69,080	229,903	201,330
Gross profit	107,458	89,352	309,489	262,437
Operating expenses (1)(2)				
Sales and marketing	76,492	77,490	233,520	212,789
Research and development	30,307	28,062	90,829	74,595
General and administrative	22,155	27,051	71,112	72,147
Restructuring charges	—	—	10,263	—
Total operating expenses	128,954	132,603	405,724	359,531
Loss from operations	(21,496)	(43,251)	(96,235)	(97,094)
Other income (expense)				
Interest income	5,542	1,610	14,758	1,857
Interest expense	(124)	(1,018)	(464)	(895)
Other income (expense), net	122	(3,523)	(2,181)	(4,439)
Total other income (expense), net	5,540	(2,931)	12,113	(3,477)
Net loss before taxes	(15,956)	(46,182)	(84,122)	(100,571)
Income tax provision	(811)	(511)	(2,924)	(1,151)
Net loss	\$ (16,767)	\$ (46,693)	\$ (87,046)	\$ (101,722)
Net loss per share				
Basic and diluted	\$ (0.11)	\$ (0.33)	\$ (0.59)	\$ (0.73)
Weighted-average shares used in computing net loss per share				
Basic and diluted	151,307,963	140,951,605	148,392,636	140,116,156

(1) Includes stock-based compensation expense as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenue	\$ 1,788	\$ 1,611	\$ 5,130	\$ 3,440
Sales and marketing	7,646	9,372	23,022	18,516
Research and development	7,045	6,258	19,762	13,303
General and administrative	7,005	7,728	23,806	17,784
Restructuring charges	—	—	1,208	—
Total stock-based compensation expense	\$ 23,484	\$ 24,969	\$ 72,928	\$ 53,043

(2) Includes amortization of intangible assets as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenue	\$ 725	\$ 725	\$ 2,175	\$ 2,175
Sales and marketing	296	342	979	1,025
Total amortization of intangible assets	\$ 1,021	\$ 1,067	\$ 3,154	\$ 3,200

The following table summarizes our results of operations as a percentage of revenue for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	42	44	43	43
Gross profit	58	56	57	57
Operating expenses				
Sales and marketing	41	49	43	46
Research and development	16	18	17	16
General and administrative	13	16	13	16
Restructuring charges	—	—	2	—
Total operating expenses	70	83	75	78
Loss from operations	(12)	(27)	(18)	(21)
Other income (expense)				
Interest income	3	1	3	—
Interest expense	—	(1)	—	—
Other income (expense), net	—	(2)	—	(1)
Total other income (expense), net	3	(2)	3	(1)
Net loss before taxes	(9)	(29)	(15)	(22)
Income tax provision	—	—	(1)	—
Net loss attributable to common stockholders	(9)%	(29)%	(16)%	(22)%

Comparison of the three and nine months ended September 30, 2023 and 2022

Revenue

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	\$	%	2023	2022	\$	%
Revenue	(in thousands, except percentages)							
Enterprise	\$ 109,101	\$ 83,865	\$ 25,236	30 %	\$ 305,962	\$ 223,403	\$ 82,559	37 %
Consumer	75,621	74,567	1,054	1 %	233,430	240,364	(6,934)	(3)%
Total revenue	\$ 184,722	\$ 158,432	\$ 26,290	17 %	\$ 539,392	\$ 463,767	\$ 75,625	16 %

Revenue for the three months ended September 30, 2023, was \$184.7 million, compared to \$158.4 million for the same period in the prior year, which represents an increase of \$26.3 million, or 17%. For the three months ended September 30, 2023, Enterprise and Consumer revenue was \$109.1 million and \$75.6 million, respectively, representing 59% and 41% of total revenue, respectively, compared to \$83.9 million and \$74.6 million, respectively, representing 53% and 47% of total revenue, respectively, for the same period in the prior year. The increase in revenue for the three months ended September 30, 2023, was primarily driven by the growth in our Enterprise segment.

For the three months ended September 30, 2023, total Enterprise revenue increased by \$25.2 million, or 30%, compared to the same period in the prior year. The increase in Enterprise revenue was primarily driven by an increase in the number of UB customers, as well as net expansions in our existing UB customer base. These changes were partially offset by a negative impact from foreign currency exchange rates.

For the three months ended September 30, 2023, total Consumer revenue increased by \$1.1 million, or 1%, compared to the same period in the prior year. The increase was primarily driven by growth in consumer subscriptions, as we continue to expand the offering into new markets, and was partially offset by a decrease in revenue from single course purchases.

Revenue for the nine months ended September 30, 2023, was \$539.4 million, compared to \$463.8 million for the same period in the prior year, which represents an increase of \$75.6 million, or 16%. For the nine months ended September 30, 2023, Enterprise and Consumer revenue was \$306.0 million and \$233.4 million, respectively, representing 57% and 43% of total revenue, respectively, compared to \$223.4 million and \$240.4 million, respectively, representing 48% and 52% of total revenue, respectively, for the same period in the prior year. The increase in revenue for the nine months ended September 30, 2023 was primarily driven by the growth in our Enterprise segment, which was partially offset by a decrease in Consumer revenue during the same period.

For the nine months ended September 30, 2023, total Enterprise revenue increased by \$82.6 million, or 37%, compared to the same period in the prior year. The increase in Enterprise revenue was primarily driven by an increase in the number of UB customers, as well as net expansions in our existing UB customer base. These changes were partially offset by a negative impact from foreign currency exchange rates.

For the nine months ended September 30, 2023, total Consumer revenue decreased by \$6.9 million, or 3%, compared to the same period in the prior year. The decrease was primarily due to a decrease in revenue from single course purchases, which was largely driven by changes in foreign currency exchange rates. This was partially offset by an increase in revenue from consumer subscriptions as we continue to expand the offering into new markets.

Cost of revenue, gross profit and gross margin

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	\$	%	2023	2022	\$	%
	(in thousands, except percentages)							
Cost of revenue	\$ 77,264	\$ 69,080	\$ 8,184	12 %	\$ 229,903	\$ 201,330	\$ 28,573	14 %
Gross profit	107,458	89,352	18,106	20 %	309,489	262,437	47,052	18 %
Gross margin	58 %	56 %			57 %	57 %		

Cost of revenue for the three months ended September 30, 2023 was \$77.3 million, compared to \$69.1 million for the same period in the prior year, which represents an increase of \$8.2 million, or 12%. Content costs for the Enterprise and Consumer segments were \$24.7 million and \$27.5 million for the three months ended September 30, 2023, respectively, compared to \$19.4 million and \$28.4 million for the same period in the prior year, respectively. Content costs as a percentage of segment revenue for the Enterprise and Consumer segments were 23% and 36%, respectively, for the three months ended September 30, 2023, and 23% and 38%, respectively, for the three months ended September 30, 2022.

In our Enterprise segment, customer support costs increased by \$1.5 million in the three months ended September 30, 2023, as compared to the same period in the prior year. This change is primarily driven by the growth in our customer support organization as well as our reseller business, in which we incur fees for reseller partners that provide customer support services. In our Consumer segment, customer support costs, hosting and platform fees, and payment processing fees were all consistent with those costs incurred the same period in the prior year. On a consolidated basis, there was an increase of \$1.2 million in amortization of capitalized software for the three months ended September 30, 2023, when compared to the same period in the prior year.

Gross margin was 58% for the three months ended September 30, 2023 and 56% for the three months ended September 30, 2022. The increase in gross margin was primarily due to a shift in mix of revenue toward our Enterprise segment, which has comparatively lower content costs as a percentage of revenue than the Consumer segment.

Cost of revenue for the nine months ended September 30, 2023 was \$229.9 million, compared to \$201.3 million for the same period in the prior year, which represents an increase of \$28.6 million, or 14%. Content costs for the Enterprise and Consumer segments were \$70.0 million and \$85.1 million for the nine months ended September 30, 2023, respectively, compared to \$52.1 million and \$89.3 million for the same period in the prior year, respectively. Content costs as a percentage of segment revenue for the Enterprise and Consumer segments were 23% and 36%, respectively, for the nine months ended September 30, 2023, and 23% and 37%, respectively, for the nine months ended September 30, 2022.

In our Enterprise segment, customer support costs increased by \$7.8 million in the nine months ended September 30, 2023, as compared to the same period in the prior year. This change is primarily driven by the growth in our customer support organization as well as our reseller business, in which we incur fees for reseller partners that provide customer support services. Additionally, hosting costs increased by \$1.6 million, due to the expansion of our UB product offerings and consumption by UB learners. In our Consumer segment, customer support costs, hosting and platform fees, and payment processing fees were all consistent with those costs incurred the same period in the prior year. On a consolidated basis, there was an increase of \$3.7 million in amortization of capitalized software and an increase of \$1.7 million related to stock-based compensation expense for the nine months ended September 30, 2023, when compared to the same period in the prior year.

Gross margin was 57% for both the nine months ended September 30, 2023 and 2022, due to stable cost margins in the comparative periods.

Operating expenses

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	\$	%	2023	2022	\$	%
(in thousands, except percentages)								
Operating expenses								
Sales and marketing	\$ 76,492	\$ 77,490	\$ (998)	(1)%	\$ 233,520	\$ 212,789	\$ 20,731	10 %
Research and development	30,307	28,062	2,245	8 %	90,829	74,595	16,234	22 %
General and administrative	22,155	27,051	(4,896)	(18)%	71,112	72,147	(1,035)	(1)%
Restructuring charges	—	—	—	n/m	10,263	—	10,263	n/m
Total operating expenses	\$ 128,954	\$ 132,603	\$ (3,649)	(3)%	\$ 405,724	\$ 359,531	\$ 46,193	13 %

n/m - not meaningful

Sales and marketing. Sales and marketing expenses for the three months ended September 30, 2023 were \$76.5 million, compared to \$77.5 million for the same period in the prior year. The \$1.0 million decrease in sales and marketing expense was primarily due to lower personnel-related expenses of \$2.5 million, a \$1.7 million decrease in stock-based compensation expense, and a \$0.7 million decrease in travel and employee activities. These decreases were partially offset by an increase in amortization of deferred contract costs of \$4.1 million, driven by an expansion of our UB customer base over time.

Sales and marketing expenses for the nine months ended September 30, 2023 were \$233.5 million, compared to \$212.8 million for the same period in the prior year. The \$20.7 million increase in sales and marketing expense was primarily due to increased amortization of deferred contract costs of \$11.9 million, driven by an expansion of our UB customer base over time, increased personnel-related expenses of \$4.8 million, increased stock-based compensation expense of \$4.5 million, a \$1.7 million increase in travel and employee activities, and a \$1.9 million increase in software subscriptions and allocated costs to support the growth of our business. These increases were partially offset by a decrease in marketing costs of \$5.2 million.

Research and development. Research and development expenses for the three months ended September 30, 2023 were \$30.3 million, compared to \$28.1 million for the same period in the prior year. The \$2.2 million increase was primarily due to higher personnel-related expenses of \$1.1 million, increased stock-based compensation expense of \$0.8 million, and an additional \$0.7 million of software subscriptions and allocated costs to support the growth of our business.

Research and development expenses for the nine months ended September 30, 2023 were \$90.8 million, compared to \$74.6 million for the same period in the prior year. The \$16.2 million increase was primarily due to higher personnel-related expenses of \$7.1 million, increased stock-based compensation expense of \$6.5 million, and an additional \$2.6 million of software subscriptions and allocated costs to support the growth of our business.

General and administrative. General and administrative expenses for the three months ended September 30, 2023 were \$22.2 million, compared to \$27.1 million for the same period in the prior year. The \$4.9 million decrease in general and administrative expense was due to a decrease of \$2.2 million in amounts charged to expense for indirect tax reserves, a \$1.3 million decrease in personnel costs, a \$0.7 million decrease in stock-based compensation expense, and a \$0.6 million decrease in costs related to business insurance. These changes were partially offset by an increase in our provision for expected credit losses of \$0.3 million.

General and administrative expenses for the nine months ended September 30, 2023 were \$71.1 million, compared to \$72.1 million for the same period in the prior year. The \$1.0 million decrease in general and administrative expense was primarily due to a \$2.0 million decrease in costs related to business insurance, a \$1.7 million decrease in personnel-related expenses, a \$0.3 million decrease in software and allocated costs, a \$1.6 million decrease in professional services, and a \$0.8 million increase in our provision for expected credit losses. These changes were partially offset by an increase in stock-based compensation expense of \$6.0 million, primarily driven by the accelerated expense incurred as a result of the transition of our former CEO.

Restructuring charges. There were no restructuring charges for the three months ended September 30, 2023, or 2022.

Restructuring charges for the nine months ended September 30, 2023, totaled \$10.3 million. These charges consisted of \$8.9 million of personnel and other expenses, such as employee severance and benefits costs, as well as \$1.2 million of stock-based compensation expense. There were no restructuring activities in the same period in the prior year.

Total other income (expense), net

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	\$	%	2023	2022	\$	%
Other income (expense)								
(in thousands, except percentages)								
Interest income	\$ 5,542	\$ 1,610	\$ 3,932	244 %	\$ 14,758	\$ 1,857	\$ 12,901	695 %
Interest expense	(124)	(1,018)	894	(88)%	(464)	(895)	431	(48)%
Other Income (expense), net	122	(3,523)	3,645	n/m	(2,181)	(4,439)	2,258	(51)%
Total other income (expense), net	\$ 5,540	\$ (2,931)	\$ 8,471	n/m	\$ 12,113	\$ (3,477)	\$ 15,590	n/m

n/m - not meaningful

We recorded net total other income of \$5.5 million for the three months ended September 30, 2023, compared to net total other expense of \$2.9 million for the same period in the prior year. For the three months ended September 30, 2023, we recognized interest income and accretion income on our existing cash, cash equivalents, and marketable securities portfolio totaling \$5.5 million. For the three months ended September 30, 2022, we incurred \$0.8 million of interest expense related to other indirect tax reserves and an impairment charge of \$2.9 million on our strategic investments, which were partially offset by \$1.6 million of interest income and accretion income on our existing cash, cash equivalents, and marketable securities portfolio.

We recorded net total other income of \$12.1 million for the nine months ended September 30, 2023, compared to net total other expense of \$3.5 million for the same period in the prior year. For the nine months ended September 30, 2023, we recognized interest income and accretion income on our existing cash, cash equivalents, and marketable securities portfolio, totaling \$14.6 million, partially offset by an impairment charge of \$1.8 million on our strategic investments. For the nine months ended September 30, 2022, we recognized interest income and accretion income on our cash, cash equivalents, and marketable securities portfolio, totaling \$1.9 million, which was offset by an impairment of \$2.9 million on our strategic investments.

Income tax provision

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2023	2022	\$	%	2023	2022	\$	%
(in thousands, except percentages)								
Income tax provision	\$ (811)	\$ (511)	\$ (300)	59 %	\$ (2,924)	\$ (1,151)	\$ (1,773)	154 %

For the three months ended September 30, 2023, we recognized income tax expense of \$0.8 million, compared to \$0.5 million for the same period in the prior year. Income tax expense for the three months ended September 30, 2023 and 2022, was primarily comprised of foreign and state taxes.

For the nine months ended September 30, 2023, we recognized income tax expense of \$2.9 million, compared to \$1.2 million for the same period in the prior year. Income tax expense for the nine months ended September 30, 2023 and 2022, was primarily comprised of foreign and state taxes.

Certain key business metrics and non-GAAP financial metrics

In addition to the measures presented in our condensed consolidated financial statements, we use the key business metrics and non-GAAP financial metrics identified below to help us assess the health of our community, evaluate our business, identify trends affecting our business, formulate business plans, and make strategic decisions.

Monthly average buyers

A buyer is a consumer who purchases a course or subscription through our direct-to-consumer offering. We first determine the number of monthly buyers by taking the total buyers of single courses during a given month plus the total active, paid consumer subscribers at any point in that month, adjusting for duplicate buyers that may be present in both totals. We then calculate monthly average buyers by taking an average of the monthly buyer totals over a particular period, such as a fiscal year. Our monthly average buyer count is not intended as a measure of active engagement, as not all buyers are active at any given time or over any given period. We believe that the number of monthly average buyers in a given period is an important indicator of the growth of our business and potential future revenue trends. Our monthly average buyers count is expected to fluctuate in future periods due to a number of factors, including the growth of our customer base, expansion of products and features, and our ability to retain our Consumer customers.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	%	2023	2022	%
	(in thousands)					
Monthly average buyers	1,414	1,316	7 %	1,382	1,330	4%

Udemy Business customers

We count the total number of UB customers at the end of each period. To do so, we generally count unique customers using the concept of a domestic ultimate parent, defined as the highest business in the family tree that is in the same country as the contracted entity. In some cases, we deviate from this methodology, defining the contracted entity as a unique customer despite existence of a domestic ultimate parent. This often occurs where the domestic ultimate parent is a financial owner, government entity, or acquisition target where we have contracted directly with the subsidiary. We define a UB customer as a customer who purchases Udemy via our direct sales force, reseller partnerships or through our self-service platform. We believe that the number of UB customers and our ability to increase this number is an important indicator of the growth of our UB and future revenue trends. The increase in UB customers is primarily attributable to the continued pursuit of our global land and expand strategy, as well as growth of our enterprise sales force.

	September 30,		
	2023	2022	%
Udemy Business customers	15,378	13,437	14%

Udemy Business Annual Recurring Revenue

We disclose our UB Annual Recurring Revenue (“ARR”) as a measure of our Enterprise revenue growth. ARR represents the annualized value of our UB customer contracts on the last day of a given period. Only revenue from closed UB contracts with active seats as of the last day of the period are included. The increase in UB ARR was primarily driven by an increase in the number of UB customers and net expansions in our existing UB customer base. Pricing was not a significant driver of the increase in UB ARR.

	September 30,		
	2023	2022	%
	(in thousands)		
Udemy Business annual recurring revenue	\$ 443,145	\$ 350,367	26%

Udemy Business Net Dollar Retention Rate and Udemy Business Large Customer Net Dollar Retention Rate

We disclose UB Net Dollar Retention Rate, or UB NDRR, as a measure of revenue growth for all UB customers within our Enterprise segment, including UB Large Customers, which we define as companies with at least 1,000 employees. We believe UB NDRR is an important metric that provides insight into the long-term value of our UB subscription agreements and our ability to retain and grow revenue from our UB customers. We believe UB Large Customer NDRR reflects our ability to retain and expand our footprint with larger organizations, who present greater opportunities for us to retain and grow revenue given the wider range of potential use cases and land-and-expand opportunities.

We calculate UB NDRR as the total ARR at the end of a trailing twelve-month period divided by the total ARR at the beginning of a trailing twelve-month period for the cohort of all UB customers active at the beginning of the trailing twelve-month period. We calculate UB Large Customer NDRR as the total UB Large Customer ARR at the end of a trailing twelve-month period divided by the total Large Customer ARR at the beginning of a trailing twelve-month period for the cohort of UB customers with at least 1,000 employees active at the beginning of the trailing twelve-month period. Total ARR and Large Customer ARR at the end of a trailing twelve-month period are calculated as ARR and Large Customer ARR, respectively, at the beginning of a trailing twelve-month period that are then adjusted for upsells, downsells, and churns for the same cohort of customers during that period. Large Customer ARR represents the annualized value of contracts for UB customers with active seats and having at least 1,000 employees on the last day of a given period.

Our UB NDRR and UB Large Customer NDRR are expected to fluctuate in future periods due to a number of factors, including the growth of our revenue base, the penetration within our learner base, expansion of products and features, and our ability to retain our UB customers. The decreases in our NDRR metrics were driven by lower rates of upsells and expansion, which were negatively impacted by longer sales cycles in light of overall economic factors.

	September 30,		%
	2023	2022	
Udemy Business net dollar retention rate	106 %	117 %	(9)%
Udemy Business Large Customer net dollar retention rate	114 %	123 %	(7)%

Segment revenue and segment gross profit

Our revenue is generated from our UB and Consumer offerings, each of which is an individual segment of our business. Segment revenue represents the revenue recognized from each of these offerings and is a key measure of the performance of our platform, and in turn drives our financial performance. We also monitor segment gross profit as a key metric to help evaluate the financial performance of our individual segments and our business as a whole. Segment gross profit is defined as segment revenue less segment cost of revenue, which include content costs, hosting and platform costs, customer support services, and payment processing fees that are allocable to each segment. Segment gross profit excludes amortization of capitalized software, amortization of intangible assets, depreciation, and stock-based compensation allocated to cost of revenue as our chief operating decision maker does not include the information in his measurement of the performance of the operating segments. Content costs, which are payments made to our instructors, are the largest individual component of segment cost of revenue. We expect to increase the percentage of our revenue derived from our Enterprise segment over time, which we expect will improve our gross margins.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands, except percentages)			
Enterprise segment revenue	\$ 109,101	\$ 83,865	\$ 305,962	\$ 223,403
Enterprise segment gross profit	\$ 74,317	\$ 56,417	\$ 204,359	\$ 149,110
Enterprise segment gross margin	68 %	67 %	67 %	67 %
Consumer segment revenue	\$ 75,621	\$ 74,567	\$ 233,430	\$ 240,364
Consumer segment gross profit	\$ 40,250	\$ 38,666	\$ 125,431	\$ 128,455
Consumer segment gross margin	53 %	52 %	54 %	53 %

For the three months ended September 30, 2023, the increase in Enterprise segment gross margin was primarily due to a decrease in costs for our customer support organization as a percentage of revenue. Otherwise, the mix of content costs, hosting costs, and payment processing fees remained consistent as a percentage of Enterprise revenue when compared to the prior year. For the nine months ended September 30, 2023, Enterprise segment gross margin was generally consistent with the same period in the prior year, as the mix of Enterprise segment costs of revenue remained a consistent percentage of Enterprise revenue when compared to the same period in the prior year.

For the three months ended September 30, 2023 the increase in Consumer segment gross margin was primarily due to decreased content costs as a percentage of revenue. Otherwise, the mix of hosting costs, payment processing fees, and costs for our customer support organization remained consistent as a percentage of Consumer revenue when compared to the prior year. For the nine months ended September 30, 2023 the increase in Consumer segment gross margin was primarily due to decreased content costs as a percentage of revenue. Otherwise, the mix of hosting costs, payment processing fees, and costs for our customer support organization remained consistent as a percentage of Consumer revenue when compared to the prior year.

Non-GAAP financial metrics

In addition to the measures presented in our condensed consolidated financial statements, we use the following non-GAAP financial metrics identified below to help us evaluate our business, formulate business plans, and make strategic decisions.

Adjusted EBITDA and adjusted EBITDA margin

As adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we use this measure for business planning purposes. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management team and board of directors. In addition, it provides a useful measure for period-to-period comparisons of our business, as it removes the effect of certain non-cash expenses and certain variable charges.

We define adjusted EBITDA as net loss, adjusted to exclude:

- interest income;
- interest expense;
- provision for income taxes;
- depreciation and amortization;
- stock-based compensation expense;
- other expense (income), net; and
- restructuring charges.

We define adjusted EBITDA margin as adjusted EBITDA divided by revenue for the same period.

The following table provides a reconciliation of net loss, the most directly comparable GAAP financial measure, to adjusted EBITDA (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss	\$ (16,767)	\$ (46,693)	\$ (87,046)	\$ (101,722)
Adjusted to exclude the following:				
Interest income	(5,542)	(1,610)	(14,758)	(1,857)
Interest expense	124	1,018	464	895
Income tax provision	811	511	2,924	1,151
Depreciation and amortization	6,183	5,416	18,069	15,616
Stock-based compensation expense	23,484	24,969	71,720	53,043
Other income (expense), net	(122)	3,523	2,181	4,439
Restructuring charges	—	—	10,263	—
Adjusted EBITDA	\$ 8,171	\$ (12,866)	\$ 3,817	\$ (28,435)

The following table provides a reconciliation of net loss margin, the most directly comparable GAAP financial measure, to adjusted EBITDA margin (in thousands, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 184,722	\$ 158,432	\$ 539,392	\$ 463,767
Net loss	\$ (16,767)	\$ (46,693)	\$ (87,046)	\$ (101,722)
Net loss margin	(9)%	(29)%	(16)%	(22)%
Revenue	\$ 184,722	\$ 158,432	\$ 539,392	\$ 463,767
Adjusted EBITDA	\$ 8,171	\$ (12,866)	\$ 3,817	\$ (28,435)
Adjusted EBITDA margin	4 %	(8)%	1 %	(6)%

Net loss decreased by \$29.9 million in the three months ended September 30, 2023, compared to the same period in the prior year. The change was primarily driven by the growth in revenue outpacing the growth in operating expenses and interest income earned on our investments. Adjusted EBITDA improved by \$21.0 million in the three months ended September 30, 2023, compared to the same period in the prior year. The improvement in adjusted EBITDA was driven by the growth in revenue outpacing the growth in operating expenses, excluding stock-based compensation expense and restructuring charges.

Net loss decreased by \$14.7 million in the nine months ended September 30, 2023, compared to the same period in the prior year. The change was primarily driven by the growth in revenue outpacing the growth in operating expenses and interest income earned on our investments. Adjusted EBITDA improved by \$32.3 million in the nine months ended September 30, 2023, compared to the same period in the prior year. The improvement in adjusted EBITDA was driven by the growth in revenue outpacing the growth in operating expenses, excluding stock-based compensation expense and restructuring charges.

Liquidity and capital resources

As of September 30, 2023, our principal sources of liquidity were cash, cash equivalents and restricted cash of \$331.5 million and marketable securities of \$151.5 million. Cash and cash equivalents includes money market funds, certain U.S. government securities purchased with original maturities of less than 90 days, on demand deposits, and amounts in transit from certain payment processors for credit and debit card transactions. Restricted cash totaled \$3.5 million and consists of cash deposited with financial institutions held as collateral for our obligations under various facility leases. Marketable securities are comprised of investments in U.S. government securities with an original maturity greater than 90 days at the date of purchase. Our non-U.S. cash and cash equivalents have been earmarked for indefinite investment in our operations outside the U.S., and consequently no U.S. current or deferred taxes have been accrued on such amounts. We believe that our existing cash and cash equivalents and our expected cash flows from operations will be sufficient to meet our cash needs for at least the next 12 months.

As of September 30, 2023, there have been no material changes to our commitments and contractual obligations, in comparison to those set forth in our Annual Report, that occurred outside the ordinary course of business. Refer to Note 6 – Leases and Note 8 – Commitments and contingencies in our unaudited condensed consolidated financial statements, included in Part I, Item 1 of this Form 10-Q, for our outstanding commitments and contractual obligations as of September 30, 2023.

Over the long term, we plan to continue investing in the growth and development of our platform. If our available funds are insufficient to fund these future activities or execute on our business strategies, we may raise additional capital through equity, equity-linked or debt financing, to the extent such funding sources are available. Alternatively, we may be required to reduce expenses to manage liquidity; however, any such reductions could adversely impact our business and competitive position.

Sources of funds

We have historically financed our operations primarily through revenue, as well as proceeds from issuances of our capital stock. In October 2021, we received net proceeds of \$397.4 million, after deducting underwriting discounts and commissions of \$23.1 million, from our IPO. In November 2021, the underwriters exercised their option to purchase additional shares of our common stock, resulting in net proceeds of \$17.8 million after deducting underwriting discounts and commissions of \$1.0 million.

From time to time, we may explore additional financing sources, which could include equity, equity-linked or debt financing. In addition, in connection with any future acquisitions or strategic investments, we may pursue additional funding, which could include debt, equity or equity-linked financings, or a combination of these methods. We can provide no assurance that any additional financing will be available to us on acceptable terms.

Use of funds

Our principal uses of cash are funding our operations, capital expenditures and working capital requirements. We have generated significant net losses from our operations as reflected in our accumulated deficit of \$699.5 million as of September 30, 2023. We have generally incurred operating losses and generated negative cash flows from operations as we have invested in growing our business. Our operating cash requirements may increase in the future as we continue to invest in the development of our platform and the growth of our business. We cannot be certain our revenue will grow sufficiently to offset our operating expense increases. As a result, we may need to raise additional funds to support our operations, and such funding may not be available to us on acceptable terms, if at all.

The following table summarizes our cash flows for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2023	2022
Net cash provided by (used in):		
Operating activities	\$ 5,263	\$ (30,272)
Investing activities	(3,992)	(84,677)
Financing activities	13,034	9,762
Effect of foreign exchange rates on cash flows	(116)	(38)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 14,189</u>	<u>\$ (105,225)</u>

Operating activities

Cash used in operating activities mainly consists of our net loss adjusted for certain non-cash items, including stock-based compensation, depreciation and amortization, amortization of deferred sales commissions, as well as the effect of changes in operating assets and liabilities during each period.

Our main source of operating cash is payments received from our customers. Our primary use of cash from operating activities are for personnel-related expenses, instructor payments, advertising expenses, indirect taxes, and third-party cloud infrastructure expenses.

For the nine months ended September 30, 2023, cash provided by operating activities was \$5.3 million, primarily consisting of our net loss of \$87.0 million, adjusted for non-cash charges of \$128.7 million and net cash outflows of \$36.3 million provided by changes in our operating assets and liabilities. The main drivers of the changes in operating assets and liabilities were a \$20.4 million decrease in accounts receivable, as cash collections from customers outpaced new billings, and a \$3.9 million increase in deferred revenue, resulting primarily from our Enterprise segment growth. These changes were offset by a \$45.2 million increase in deferred contract costs and a \$7.1 million decrease in accounts payable, accrued expenses and other current liabilities.

For the nine months ended September 30, 2022, cash used in operating activities was \$30.3 million, primarily consisting of our net loss of \$101.7 million, adjusted for non-cash charges of \$99.5 million and net cash outflows of \$28.1 million provided by changes in our operating assets and liabilities. The main drivers of the changes in operating assets and liabilities were a \$30.4 million increase in deferred revenue, resulting primarily from our enterprise business growth, offset by a \$14.3 million decrease in accounts payable, accrued expenses and other current liabilities, and a \$40.2 million increase in deferred contract costs.

Investing activities

For the nine months ended September 30, 2023, net cash provided by investing activities was \$4.0 million, primarily as a result of \$231.3 million of proceeds received from the maturity of marketable securities. This was partially offset by \$225.5 million in purchases of marketable securities and \$9.3 million related to capitalized software costs.

For the nine months ended September 30, 2022, net cash used in investing activities was \$84.7 million, primarily as a result of our \$66.1 million purchase of marketable securities, \$5.0 million purchase of strategic investments, and \$10.7 million related to capitalized software costs.

Financing activities

For the nine months ended September 30, 2023, net cash provided by financing activities was \$13.0 million, driven by proceeds from issuance of common stock via stock option exercises of \$8.3 million and issuances of common stock under our employee stock purchase plan of \$4.8 million.

For the nine months ended September 30, 2022, net cash provided by financing activities was \$9.8 million, primarily driven by proceeds from issuance of common stock via stock option exercises of \$5.8 million and issuances of common stock under our employee stock purchase plan of \$5.6 million, which were partially offset by a \$1.6 million payment of deferred offering costs.

Off-balance sheet arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical accounting policies and estimates

Our condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

There have been no material changes to our critical accounting policies and estimates as compared to those described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II, Item 7 of our Annual Report.

Recent accounting pronouncements

See Note 2 to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate sensitivity

As of September 30, 2023 we had \$328.0 million of cash and cash equivalents, which includes money market funds, certain U.S. government securities purchased with original maturities of less than 90 days, on demand deposits, and amounts in transit from certain payment processors for credit and debit card transactions. We also held \$151.5 million of marketable securities, consisting of investments in various U.S. government securities. In addition, we had \$3.5 million of restricted cash, primarily due to the outstanding letter of credit related to the operating lease agreement for our corporate headquarters. We did not hold any long-term debt during the three and nine months ended September 30, 2023 or 2022.

Our cash and cash equivalents are held for working capital purposes. Given the above facts and circumstances, hypothetical changes in interest rates of 100 basis points would not result in a material increase or decrease of either the market value of our portfolio of cash equivalents and marketable securities as of September 30, 2023, or interest income earned from our portfolio during the nine months ended September 30, 2023.

Foreign currency risk

The reporting currency is the U.S. dollar. We determine the functional currency for each of our foreign subsidiaries by reviewing their operations and currencies used in their primary economic environments. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our condensed consolidated statement of operations, or translation gains and losses in accumulated other comprehensive income (loss) as a component of stockholders' equity. Our marketable securities portfolio is also held in U.S. dollar investments, and to date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments, although we may choose to do so in the future. As such, a hypothetical 10% increase or decrease in current exchange rates would not have had a material impact on income or expense for the nine months ended September 30, 2023.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent limitations on the effectiveness of internal controls over financial reporting

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. However, our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected.

PART II.

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings and subject to claims that arise in the ordinary course of our business. Although the results of legal proceedings and claims cannot be predicted with certainty, we believe we are not currently party to any legal proceedings which, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results or financial condition.

California class action complaint

On August 23, 2021, a putative class action complaint captioned *Williams v. Udemy, Inc.*, Case No. 3:21-CV-06489, was filed against us in the U.S. District Court for the Northern District of California alleging violations of California's unfair competition and false advertising statutes as well as the California Consumer Legal Remedies Act in connection with our pricing practices. The complaint sought injunctive relief, unspecified damages, restitution and disgorgement of profits. On December 13, 2022, the parties entered into a definitive settlement agreement for an immaterial amount. Pursuant to the settlement agreement, the parties agreed to dismiss the pending case in federal court and refile in California state court, which filing was made on February 3, 2023. On July 28, 2023, the Superior Court of California, County of San Diego granted final approval of the settlement in Case No.37-2023-00003666-CU-BT-NC.

Video Privacy Protection Act class action complaint and threatened arbitration demands

On December 12, 2022, a putative class action complaint captioned *Mohamed Saleh v. Udemy, Inc.*, was filed against us, alleging violations of the Video Privacy Protection Act (the "VPPA") and claiming that Udemy violated the VPPA by knowingly sharing personally identifiable information about the viewing history of Udemy courses with an advertiser. The complaint is currently pending in the United States District Court for the District of New Jersey, Case No. 2:23-cv-02207.

The complaint seeks declaratory relief, injunctive relief, statutory, liquidated, and punitive damages, as well as reasonable attorney fees and costs. On August 30, 2023, we filed a motion to compel arbitration. We intend to vigorously defend ourselves in this matter.

In addition, on June 6, 2023, and July 28, 2023, we were informed that several law firms threatened to file individual arbitration demands against us on behalf of approximately 17,000 alleged Udemy learners. The firms threaten claims similar to those in the class action complaint described above. We intend to vigorously defend ourselves in these matters.

Other legal proceedings

We are subject to other legal proceedings and claims that arise in the ordinary course of business from time to time, as well as governmental and other regulatory investigations and proceedings. In addition, third parties may from time to time assert claims against us in the form of letters and other communications. We are not currently a party to any legal proceedings that, if determined adversely to us, would, in our opinion, have a material adverse effect on our business, financial condition, results of operations, or cash flows. Future litigation may be necessary to defend ourselves and our business partners and to determine the scope, enforceability, and validity of third-party proprietary rights, or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 1A. Risk Factors

Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should carefully consider the following risks, together with all of the other information contained in this Form 10-Q, including the sections titled “Special Note Regarding Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and the related notes included elsewhere in this Form 10-Q. Any of the following risks could have an adverse effect on our business, financial condition, operating results, or prospects and could cause the trading price of our common stock to decline, which would cause you to lose all or part of your investment. Our business, financial condition, operating results, or prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material. Our risk factors are not guarantees that no such conditions exist as of the date of this report and should not be interpreted as an affirmative statement that such risks or conditions have not materialized, in whole or in part.

Risks related to our business and operations

We have a history of losses, and we may not be able to generate sufficient revenue to achieve or maintain profitability in the future.

We incurred net losses of \$87.0 million and \$101.7 million during the nine months ended September 30, 2023 and 2022, respectively, and, as of September 30, 2023, we had an accumulated deficit of \$699.5 million. We expect our losses to continue as we make significant investments towards growing our business and operating as a public company. We have invested, and expect to continue to invest, substantial financial and other resources in developing our platform, including expanding our platform offerings, developing or acquiring new platform features and services, expanding into new markets and geographies, and increasing our sales and marketing efforts. These expenditures will make achieving and maintaining profitability more difficult, and these efforts may also be more costly than we expect and may not result in increased revenue or growth in our business. Any failure to increase our revenue sufficiently to keep pace with our investments and other expenses could prevent us from achieving or maintaining profitability or positive cash flow on a consistent basis. As a result, we can provide no assurance as to whether or when we will achieve profitability. If we are not able to achieve and maintain profitability, the value of our company and our common stock could decline significantly, and you could lose some or all of your investment.

We operate in an emerging and dynamic market, which makes it difficult to evaluate our prospects and future results of operations.

The market for online learning solutions is relatively new and continues to evolve rapidly. These factors may make it difficult to accurately assess our future prospects and the risks, challenges, and uncertainties that we may encounter. These risks include:

- maintaining and increasing a base of learners, instructors, and UB customers using our platform;
- successfully competing with existing and future participants in the market for online learning solutions;
- successfully expanding our business in existing markets and entering new markets and geographies;
- anticipating and responding to market and broader economic conditions;
- avoiding interruptions or disruptions in the service of our platform;
- accurately forecasting our revenue and operating expenses on a quarterly and annual basis;
- maintaining and enhancing the value of our reputation and brand;
- attracting, hiring, and retaining qualified personnel to manage our operations and further develop our platform;
- effectively managing rapid growth in our operations, including personnel; and
- successfully implementing and executing our business strategies.

Additionally, because we operate in a rapidly evolving market, any predictions about our future revenue and expenses may not be as accurate as they would be if we operated in a more established and predictable market. We have encountered in the past, and will encounter in the future, risks, challenges, and uncertainties frequently experienced by companies operating in emerging markets. If our assumptions regarding any of these risks, challenges, or uncertainties, which we use to plan and operate our business, are incorrect or change, or if we do not address them successfully, our results of operations could differ materially from our expectations and our business, financial condition, and results of operations could be adversely affected.

Our results of operations may fluctuate significantly from period to period due to a wide range of factors, which makes our future results difficult to predict.

Our results of operations have historically varied from period to period, and we expect that our results of operations will continue to vary significantly from quarter to quarter and year to year because of a variety of factors, many of which are outside of our control. As a result, comparing our results of operations on a period-to-period basis may not be meaningful. Factors that may contribute to the variability of our quarterly and annual results include, but are not limited to:

- our ability to attract and retain learners, instructors, and enterprises that use our platform in a cost-effective manner;
- our ability to accurately forecast revenue and operating expenses;
- the effects of increased competition on our business;
- the impact of worldwide economic conditions, including the resulting effect on consumer and business spending on online learning solutions;
- our ability to successfully expand in existing markets and successfully enter new markets;
- our ability to successfully leverage our resellers and other strategic relationships to market and sell our products;
- changes in learner or customer behavior with respect to online learning solutions;
- increases in marketing, sales, and other operating expenses that we may incur to grow and acquire new learners, instructors, and customers;
- the revenue mix between our consumer and UB offerings;
- our ability to maintain an adequate rate of growth and effectively manage that growth;
- the effects of changes in search engine placement and prominence;
- our ability to keep pace with technology changes in our industry;
- the success of our sales and marketing efforts;
- our ability to protect, maintain, and enforce our intellectual property rights;
- costs associated with defending claims, including intellectual property infringement claims, and related judgments or settlements;
- changes in governmental or other regulations affecting our business;
- interruptions in service and any related impact on our business, reputation, or brand;
- the attraction and engagement of qualified employees and key personnel;
- our ability to choose and effectively manage third-party service providers;
- the effects of natural or man-made catastrophic events, including wars and other armed conflicts, such as Russia's invasion of Ukraine;
- the impact of a pandemic or an outbreak of disease or similar public health concern, such as the COVID-19 pandemic, or fear of such an event;

- potential volatility in our gross margins, including due to revenue mix shifts between our Enterprise and Consumer segments, changes in our pricing policies, increased use of subscriptions in our Consumer segment, and timing differences between recognition of revenue and related content costs for courses;
- the effectiveness of our internal controls over financial reporting;
- the impact of payment processor costs and procedures; and
- changes in our tax rates or exposure to additional tax liabilities.

The unpredictability of our results of operations could cause our results to vary from period to period or to fall below expected levels for a given period, which will adversely affect our business, financial condition, and results of operations.

Our rapid growth may not be sustainable and depends on our ability to attract new learners, instructors, and organizations and retain existing ones.

Our success depends, in part, on growing the number of learners and instructors engaging with our platform. We believe the increase in the number of instructors increases the quality and quantity of the content available on our platform, in turn making our platform more appealing and engaging to learners in both our Enterprise and Consumer segments. This increase in learners then attracts more instructors to our platform. This dynamic marketplace model takes time to build and may grow at a slower pace than we expect. In addition, although the number of individual and UB learners and instructors engaging with our platform has grown in recent years, there can be no assurance that this growth will continue at its current pace or at all. For example, there is significant uncertainty regarding the adoption and growth of remote, online and asynchronous learning and training, as well as skills-based learning, compared to the traditional models of education and training, which may adversely affect demand for our platform. In addition, we have recently experienced elongated sales cycles for our UB offerings as a result of what we believe to be budget tightening as a result of economic uncertainty. If we fail to grow or maintain the number of learners and instructors engaging with our platform, the value of our platform will diminish and our revenue will decline.

We believe that many of our new learners find us by word of mouth and other non-paid referrals from existing learners. If existing learners do not find our platform or its content appealing and engaging, whether because of a negative experience with, declining interest in or relevancy of the content, they may stop referring others to us. In turn, if instructors perceive that our platform lacks an adequate learner audience, instructors may be less willing to provide content for our platform, and the experience of learners could be further negatively impacted. The willingness or ability of instructors to provide content for our platform could also be negatively impacted by other factors, such as:

- complaints or negative publicity about us or our platform, even if factually incorrect or based on isolated incidents;
- changes to our terms and policies that our instructors find, or even perceive, to be unpopular or that are not clearly articulated to them; or
- our failure or perceived failure to enforce our policies fairly and transparently.

In addition, the costs associated with retaining learners and instructors are substantially lower than those associated with acquiring new learners and instructors. As a result, if we are unable to retain existing learners and instructors, even if such losses are offset by an increase in revenue resulting from new learners and instructors, it could harm our growth prospects and have a material adverse effect on our business, financial condition, and results of operations.

Our platform relies on a limited number of instructors who create a significant portion of the most popular content on our platform, and the loss of these instructor relationships could adversely affect our business, financial condition, and results of operations.

We strive to build meaningful connections with instructors, ranging from those that are well known and have created extensively to those that have just begun the process of creating courses. As of September 30, 2023, we had relationships with more than 75,000 instructors. Although we view the breadth and diverse expertise of our instructor base and the content they create as one of our competitive advantages, a significant portion of the most popular content on our platform, and as a result a significant portion of our revenue, is attributable to a limited number of our instructors. Because instructors may unpublish content or leave the Udemy platform altogether, subject to our right to continue offering such content to new learners on the consumer marketplace for 60 days afterwards and in our subscription offerings for 12 months afterwards, we may need to source replacement content by a different instructor on short notice. For example, we recently announced a change in our revenue share model with instructors which could cause some instructors to unpublish content or leave the Udemy platform. Although we do not believe the loss of any one of these instructors would materially impact our business, the loss of multiple existing instructors, as well as any failure to attract additional instructors, could negatively impact our business, financial condition and results of operations by adversely affecting our ability to provide high-quality, engaging, and relevant content for one or more subject matters and the pace at which we provide such content, which in turn could reduce the attractiveness of our platform to learners and customers.

If we fail to maintain and expand our relationships with UB customers, our ability to grow our business and revenue will suffer.

Revenue from our Enterprise segment represented 59% and 53% of total revenue during the three months ended September 30, 2023 and 2022, respectively, and 57% and 48% of total revenue during the nine months ended September 30, 2023 and 2022, respectively. We believe that our future success depends, in part, on our ability to grow this offering, both by retaining and expanding our relationship with existing customers and attracting new customers. Many customers initially use our platform within specific groups or departments within their organizations, or for specific use cases. Our ability to grow our UB business depends, in part, on our ability to persuade these customers to expand their use of our platform to address additional use cases. Further, the continued growth of our business requires that our customers renew their subscriptions with us and that we expand our relationships with our existing customers. Customers may decide not to renew their subscriptions with a similar contract period, at the same prices and terms, with the same or a greater number of users, or at all. It is difficult to accurately predict whether we will have future success in retaining customers or expanding our relationships with them. We have experienced significant growth in the number of customers subscribing to our UB offerings, but we do not know whether we will continue to achieve similar growth, or achieve any growth at all, in the future. Our ability to retain UB customers and expand our deployments with them may decline or fluctuate as a result of a number of factors, including customers' satisfaction with our platform, the quality and timeliness of our customer success and customer support services, our prices, the prices and features of competing solutions, reductions in customers' spending levels, insufficient adoption of our platform by our customers' constituents, and new feature releases, any of which could cause our revenue to decline or grow less quickly than anticipated, which would harm our business, financial condition, and results of operations.

We operate in a highly competitive market, and we may not be able to compete successfully against current and future competitors.

We operate in a highly competitive environment, as the market for online learning is relatively new, highly fragmented, and rapidly evolving, with limited barriers to entry. We compete for learners, enterprise customers, and instructors:

- *Learners:* We compete for learners based on our course catalog, instructors, and learning tools.
- *UB customers:* We compete for customers based on our up-to-date content, the breadth and depth of that content across the full range of core business functions, and advanced product features that optimize self-paced learning and enable organizations to effectively drive programmatic learning.
- *Instructors:* We compete for instructors based on our ability to promote monetization opportunities.

Our competition includes corporate training offerings, direct-to-consumer training offerings, specialized content training offerings, and free online resources used to gather and share knowledge and skills.

We expect our existing competitors and new entrants to the online learning market to continually evolve and improve their business models. If these or other market participants introduce new or improved delivery of online education and technology-enabled services that are more compelling or widely accepted than ours, our ability to grow our revenue and achieve profitability could suffer. The emergence of enhanced generative artificial intelligence capabilities could provide competitors with an advantage. Several new and existing companies in the online education industry provide or may provide offerings similar to what we offer on our platform, and, despite any exclusivity arrangements we have with our instructors, these companies may nonetheless pursue relationships with our instructors that may reduce, or stop altogether, the content our instructors produce for our platform. In addition, customers may choose to continue using or develop their own online learning or training solutions in-house rather than pay for our platform.

We believe that our ability to successfully compete depends on a range of factors, both within and beyond our control, including:

- the availability or development of alternative online learning platforms that are more compelling to learners, instructors, or organizations than ours;
- changes in pricing policies and terms offered by our competitors or by us, including for example the change in our revenue share with instructors that will go into effect at the beginning of 2024;
- the ability to adapt to or compete with new technologies and changes in requirements of our learners, instructors, and UB customers;
- the ability to adapt to disruptive innovation that may significantly alter or transform the competitive landscape, such as natural language processing, artificial intelligence and machine learning;
- costs associated with acquiring and retaining learners, instructors, and UB customers;
- the ability of our current and future competitors to establish relationships with customers;
- industry consolidation and the number and rate of new entrants;
- difficulties with software development that could delay or prevent the development, introduction or implementation of platform modifications and enhancements; and
- costs associated with improving and maintaining our platform.

Current and potential competitors (including any new entrants into the market) may enjoy substantial competitive advantages over us, such as greater name recognition, longer operating histories, market- or industry-specific knowledge, more successful marketing capabilities, more successful adaptation to or integration of emerging technologies such as artificial intelligence, and substantially greater financial, technical, and other resources than we have. Our current or new competitors may adopt certain aspects of our business model, which could reduce our ability to differentiate our services. Furthermore, online educational content is not typically marketed exclusively through any single channel and, accordingly, our competitors could aggregate a set of online learning courses similar to ours. Competition may intensify as our competitors raise additional capital or as new participants, including established companies, enter the markets in which we compete. Our ability to grow our business and achieve profitability could be impaired if we cannot compete successfully.

The market for online learning solutions may not grow as we expect, which may harm our business, financial condition, and results of operations.

Our future success depends in part on the future growth in the demand for online learning solutions. We expect that broader societal and macroeconomic conditions, including inflation, interest rates, general economic uncertainty, and the prevalence of remote or hybrid work, will influence the further development of the online learning market and the growth rate of remote, online and asynchronous learning and training solutions such as ours. In addition, the rate at which online learning solutions are adopted by learners or UB customers may also depend on a variety of factors specific to individual learners or UB customers, such as budget constraints and training needs. Consequently, it is difficult to predict demand for and continued use of our platform by learners, instructors, and UB customers, the rate at which existing learners and instructors expand their engagement with our platform, the size and growth rate of the market for our platform, the entry of competitive offerings into the market, or the success of existing competitive offerings. Even if market demand for online learning solutions generally increases, we cannot assure you that adoption of our platform will also increase. If the market for online learning solutions does not grow as we expect or our platform does not achieve widespread adoption, it could result in reduced learner and customer spending, reduced engagement from instructors, attrition by learners, instructors, and UB customers, and decreased revenue, any of which would adversely affect our business, financial condition, and results of operations.

We may need to change our pricing model for our platform's offerings, which in turn could adversely impact our results of operations.

We have in the past, and expect that we may in the future, need to change our pricing model or target contract length from time to time. As the market for our learning platform develops, as new competitors introduce competitive applications or services, or as we enter into new international markets, we may be unable to attract new learners or UB customers at the same price or based on the same pricing models we have historically used, or for contract lengths consistent with our historical averages. In addition, as we develop and roll out new products, such as our consumer subscription model, or improve existing ones, we will need to develop pricing and contract models for these products that appeal to consumer learners over time, and we may not be successful in doing so. Pricing and contract length decisions may also impact the mix of adoption among our offerings and negatively impact our overall revenue. Competition may also require us to make substantial price concessions. Moreover, our pricing model and methodology has been, and may in the future become, subject to legal challenge under applicable federal or state laws, regulations, and guidelines relating to promotional pricing practices. Our results of operations may be adversely affected by any of the foregoing, and we may have increased difficulty achieving or maintaining profitability.

Failure to effectively leverage our strategic partnerships to market and sell our products could impact our ability to increase brand awareness and grow our revenue.

We rely on strategic partners, including resellers, for certain sales and marketing efforts. We plan to continue to establish and maintain similar strategic relationships, and we expect these partners to become an increasingly important aspect of our business. Identifying partners and negotiating terms with them requires significant time and resources, and we are dependent on our ability to negotiate terms that are favorable to us and provide sufficient incentives for our partners to promote our products. In addition, we have granted exclusivity to resellers in certain geographies, such as Japan, and so we are entirely dependent on the sales efforts of our resellers in those regions. If our partners do not effectively sell or market our products, choose to promote our competitors' products or otherwise choose not to devote sufficient efforts to our business, our ability to grow our revenue may be impaired, and our results of operations may suffer.

Failure to effectively expand our sales and marketing capabilities could harm our ability to increase our base of learners and UB customers and achieve broader market acceptance.

Our ability to broaden our base of both consumer learners and UB customers, and achieve broader market acceptance of our marketplace platform, will depend to a significant extent on the ability of our sales and marketing organizations to work together to drive our sales pipeline and cultivate customer relationships. Our marketing efforts include the use of search engine optimization, paid search, email marketing, and television.

We have invested in and plan to continue expanding our sales and marketing organizations, both domestically and internationally. Identifying, recruiting, training, and retaining talented sales and marketing personnel will require significant time, expense, and attention, and if we are unable to do so, or if the hired personnel are unable to achieve desired productivity levels in a reasonable period of time, or if our sales and marketing programs are not effective, our ability to broaden our customer base and achieve broader market acceptance of our platform could be harmed. In addition, the investments we make in our sales and marketing organizations will occur in advance of experiencing benefits from such investments, making it difficult to determine in a timely manner if we are efficiently allocating our resources in these areas.

If we are not able to maintain and enhance our brand, our reputation and business may suffer.

We believe that maintaining and enhancing our reputation and brand recognition is critical to our ability to attract and retain learners, instructors, UB customers, and partners, and that the importance of our reputation and brand recognition will continue to increase as competition in the markets in which we operate continues to develop. Our success in this arena will depend on a range of factors, both within and beyond our control. Factors affecting our reputation and brand recognition that are within our control include our ability to:

- market our platform effectively and efficiently;
- maintain a useful, innovative, and reliable platform;
- maintain a high satisfaction among learners, instructors, and UB customers;
- provide a high quality and perceived value for our platform;
- successfully differentiate our platform from competing offerings;
- maintain a consistently high level of customer service; and
- prevent any actual or perceived data security breach or incident or data loss, or misuse or perceived misuse of our platform.

Additionally, our reputation and brand recognition may be affected by factors that are beyond our control, such as:

- the actions of competitors or other third parties;
- the quality and quantity of, as well as the nature and subject matter of, content available from instructors on our platform;
- positive or negative publicity, including with respect to events or activities attributed to us, our employees, instructors, or our commercial partners;
- interruptions, delays, or attacks on our platform; and
- litigation or legal developments.

Damage to our reputation and brand, from the factors listed above or otherwise, may reduce demand for our platform and have an adverse effect on our business, operating results and financial condition. Moreover, any attempts to rehabilitate our reputation and brand recognition may be costly and time-consuming, and there can be no assurance that any such efforts will ultimately be successful.

We could face liability, or our reputation might be harmed, as a result of courses posted to our platform.

Instructors at times post courses and related materials to our platform that contain content owned by third parties, and we do not proactively review content for potential infringement of intellectual property rights. Although we maintain and enforce terms and policies requiring instructors to respect the intellectual property rights of others, they may not do so. As a result, we are subject to potential liability to third parties for the unauthorized duplication, distribution, or other use of this material. In addition, third parties have alleged, and in the future may allege, misappropriation, plagiarism, defamation, disparagement or similar claims related to content appearing on our platform. Any such claims could subject us to costly litigation, regardless of whether the claims have merit. Moreover, there can be no assurance that our responses to complaints by third-party content owners regarding intellectual property violations will be sufficient to protect us from adverse claims. Our various liability insurance coverages may not cover potential claims of this type adequately or at all, and we may be required to alter or cease our uses of such material, which may include removing course content or altering the functionality of our platform, or be required to pay monetary damages.

Where applicable, we rely on a variety of statutory and common law frameworks and defenses, including those provided by the Digital Millennium Copyright Act of 1998, the Communications Decency Act (the “CDA”), the fair-use doctrine in the United States and the E-Commerce Directive in the European Union (the “E.U.”). However, the availability, scope, and application of such frameworks, defenses, and statutes varies across the many jurisdictions in which we operate, and the applicable limitations on immunity, requirements to maintain immunity, and moderation efforts required in the many jurisdictions in which we operate may affect our ability to rely on these frameworks and defenses, or create uncertainty regarding liability for content posted to our platform. Moreover, regulators in the United States and in other countries in which we operate may introduce new regulatory regimes or modify existing regulatory regimes, including in ways that increase potential liability for information or content available on or through our platform or the content moderation decisions we make with respect to our platform, or which impose additional obligations to monitor such information or content, which could increase our costs.

Adherence to our values and our focus on long-term sustainability may negatively impact our short- or medium-term financial performance.

Our values motivate everything we do, and we accordingly intend to focus on the long-term sustainability of our business and platform. We may take actions that we believe will benefit our business and our ecosystem and, therefore, our stockholders over a period of time, even if those actions do not maximize short- or medium-term financial results. However, these longer-term benefits may not materialize within the timeframe we expect or at all. For example:

- we may choose to prohibit certain content from our platform that we believe is inconsistent with our values even though we could benefit financially from the sale of that content;
- we may choose to revise our policies in ways that we believe will be beneficial to our learners, instructors, and UB customers in the long term even though the changes may be perceived unfavorably among our existing learners, instructors, and customers; or
- we may take actions, such as locating our servers in low-impact data centers, that reduce our environmental footprint even though these actions may be more costly than other alternatives.

Failure of our resellers or other commercial partners to use acceptable ethical business practices or comply with applicable laws could negatively impact our business.

In certain jurisdictions, such as Japan, we rely on third-party resellers and other commercial partners to distribute and market our offerings. We expect these resellers and partners to operate in compliance with applicable laws, rules, and regulations, but we cannot control their conduct. If any of our resellers or partners violates applicable laws or implements business practices that are regarded as unethical, the distribution of our platform in those jurisdictions could be interrupted, usage of our platform could decline, our reputation could be damaged and we may be subject to liability. Any of these events could have a negative impact on our business, financial condition, and results of operations.

Our revenue, results of operations, and financial condition could be negatively affected by general economic conditions.

Our business is sensitive to trends in the general economy, which is unpredictable. Therefore, our operating results, to the extent they reflect changes in the broader economy, may be subject to significant fluctuations. Since online learning is generally dependent on discretionary spending, negative general economic conditions or uncertainty regarding future economic conditions, including as a result of public health concerns like the COVID-19 pandemic, inflation, and instability in the banking or financial services industries or in financial and capital markets, could significantly reduce the overall amount that learners and organizations spend on, and the frequency of, online learning or result in delays to planned spending on online learning. Any or all of these factors could reduce the demand for our services, reducing our revenue and potentially increasing our need to make significant expenditures to continue to attract learners and UB customers to our platform. Additionally, adverse developments affecting the banking or financial services industries or the financial and capital markets, such as actual events or concerns involving liquidity, defaults or non-performance by financial institutions or transactional counterparties, could negatively affect our revenue, results of operations and financial condition.

Our business and operations could be materially and adversely affected by natural disasters, public health crises, political crises, or other catastrophic events.

Our business and operations could be materially and adversely affected by catastrophic events, such as earthquakes, floods, fires, telecommunications failures, power losses, break-ins, acts of terrorism, wars and other armed conflicts, political or geopolitical crises, inclement weather and public health crises. In particular, our corporate headquarters are located in San Francisco, California, an earthquake-sensitive area and one that has been increasingly vulnerable to wildfires, and damage to or total destruction of our executive offices resulting from earthquakes may not be covered in whole or in part by any insurance we may have. If catastrophic events were to cause damage to our properties or interrupt our operations, our results of operations would suffer. Global climate change may result in natural disasters occurring more frequently or with greater intensity, such as drought, wildfires, storms, sea-level rise, and flooding. We may not be able to effectively adapt our operations to avoid disruptions arising from the occurrence of such events, and our business could be affected adversely as a result.

Our business could be harmed if we fail to manage our growth effectively.

The rapid growth we have experienced, and may continue to experience, in our business places significant demands on our operational infrastructure. The scalability and flexibility of our platform depends on the functionality of our technology and network infrastructure and our ability to handle increased traffic and demand for bandwidth. The growth in the number of learners and instructors using our platform and the amount of educational content available through our platform has increased the amount of data and requests that we process. Any problems with the transmission of increased data and requests could result in harm to our brand or reputation. Moreover, as our business grows, we will need to devote additional resources to improving our operational infrastructure and enhancing our scalability in order to maintain the performance of our platform.

Our growth has placed, and will likely continue to place, a significant strain on our managerial, administrative, operational, financial, and other resources. In February 2023, we announced a reduction in force involving approximately 10% of our global workforce as part of our efforts to decrease our costs during the current macroeconomic environment and create a more streamlined organization to support our business. Future growth in our organization could place additional strain on our existing resources, and we could experience systemic operating difficulties in managing our business, which may negatively impact our gross profit or operating expenses.

Our future success depends on our ability to retain our senior management team and other highly skilled employees and to attract, retain, and motivate our qualified personnel.

We depend on the continued services and performance of our senior management team, key technical employees, and other key personnel. Although we have entered into employment agreements with senior management team members, each of them may terminate their employment with us at any time or not be able to perform the services we require in the future. We do not maintain “key person” insurance for any of our executives or other employees. Similarly, third parties may attempt to encourage our senior management team or other key employees to leave for other employment. The loss of one or more of the members of our senior management team or other key personnel for any reason could disrupt our operations, create uncertainty among investors, adversely impact employee retention and morale and significantly harm our business.

From time to time we have experienced, and may continue to experience, difficulty in hiring and retaining employees with the appropriate level of qualifications. The companies with which we compete for qualified employees may have greater resources than we have and may offer compensation packages that are perceived to be better than ours. Additionally, changes in our compensation structure, workforce reductions (including the reduction in force we announced in February 2023), or any previously implemented reductions in workforce and other cost reduction efforts may be negatively received by employees and result in attrition or recruiting difficulties. If we fail to attract new employees or fail to retain and motivate our current employees, our business and future growth prospects could be adversely affected.

Acquisitions and other strategic investments may expose us to significant risks, any of which could materially and adversely affect our business, financial condition, and results of operations.

We have in the past pursued, and may in the future pursue, acquisitions of, or strategic investments in, businesses, technologies, services and other assets that complement our business. For example, in August 2021, we announced our acquisition of CUX, Inc. (d/b/a CorpU) (“CorpU”), an online leadership development platform. We have limited experience as an organization with successfully executing and managing acquisitions and strategic investments. These kinds of transactions involve numerous risks, including the following:

- difficulties in realizing the anticipated economic, operational and other benefits of the acquisition or strategic investment successfully or in a timely manner;
- failure of businesses we acquire or invest in to achieve anticipated revenue, earnings, or cash flow;
- diversion of management’s attention or other resources from our existing business;
- any inability to maintain the key customers, business relationships, suppliers, and brand potential of businesses we acquire or invest in;
- uncertainty of entry into businesses or geographies in which we have limited or no prior experience or in which competitors have stronger positions;
- unanticipated or greater costs than expected associated with pursuing acquisitions or investments;
- difficulties in, or costs associated with, any integration process, such as challenges associated with assigning or transferring acquired intellectual property or intellectual property licenses; integrating and auditing financial statements of acquired companies that have not historically prepared financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”); and integrating the workforce of acquired companies and the potential loss of key employees of the acquired companies;
- responsibility for the liabilities of acquired businesses, including those that were not disclosed to us or exceed our estimates, such as liabilities arising out of the failure to maintain effective privacy, data protection and cybersecurity controls, and liabilities arising out of the failure to comply with applicable laws and regulations, including tax laws;
- inability to maintain our culture and values, ethical standards, controls, procedures, and policies; and
- asset write-offs and impairments of goodwill and intangible assets in connection with any acquisition or strategic investment, as well as any inability to accurately forecast such impacts.

We may not succeed in addressing these or other risks in connection with any acquisitions or strategic investments we undertake, which could have a material adverse effect on our business, financial condition, and results of operations. Furthermore, we may have to pay cash, incur debt or issue equity or equity-linked securities to finance any acquisitions or investments, which could also adversely affect our financial condition or the trading price of our securities, and the sale of equity or equity-linked securities could result in dilution to our stockholders.

We may need to raise additional funds to pursue our growth strategy or continue operations, and we may be unable to raise capital when needed or on acceptable terms.

From time to time, we may seek additional equity or debt financing to fund our growth, enhance our platform, respond to competitive pressures, or make acquisitions or other investments. Our business plans may change, general economic, financial or political conditions in our markets may deteriorate or other circumstances may arise, in each case that have a material adverse effect on our cash flows and the anticipated cash needs of our business. Any of these events or circumstances could result in significant additional funding needs, requiring us to raise additional capital. We cannot predict the timing or amount of any such capital requirements at this time. If financing is not available on satisfactory terms, or at all, we may be unable to expand our business at the rate desired and our results of operations may suffer.

We operate internationally and we plan to continue expanding our international operations, which exposes us to risks inherent in international operations.

Managing a global organization requires significant resources and management attention. We currently maintain operations outside of the United States in Ireland, Turkey, Australia, and India, and we plan to expand our international operations in the future.

We generated 60% and 58% of revenue outside of North America during the three months ended September 30, 2023 and 2022, respectively, and 60% of revenue outside of North America during both the nine months ended September 30, 2023 and 2022. Based on our instructor registration records, we estimate that a majority of our instructors are located outside the United States. Any further international expansion efforts that we may undertake may not be as successful as we expect or at all.

Additionally, conducting international operations subjects us to risks that we have not generally faced in the United States. These risks include:

- the cost and resources required to localize our services, which requires the translation of our websites into foreign languages and adaptation for local practices and regulatory requirements;
- competition with local market participants who understand the local market better than we do or who have pre-existing relationships with our potential learners and UB customers in those markets;
- greater reliance on third-party resellers and other commercial partners for the distribution and marketing of our offerings;
- legal uncertainty regarding our liability for the content and services provided by our instructors, including as a result of local laws or a lack of clear precedent of applicable law;
- the burdens of complying with a wide variety of foreign laws and legal standards;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- adapting to variations in methods of payment from learners and UB customers;
- difficulties in managing and staffing international operations;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems, digital services tax and restrictions on the repatriation of earnings;
- increased financial accounting and reporting burdens and complexities and difficulties in implementing and maintaining adequate internal controls;

- political, social, and economic instability abroad, wars and other armed conflicts, terrorist attacks, and security concerns in general, including Russia's invasion of Ukraine;
- reduced or varied protection for intellectual property rights in some countries; and
- higher telecommunications and internet service provider costs.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

Our strategic and other relationships with partners overseas may also subject us to additional regulatory scrutiny in the United States and other jurisdictions. Operating in international markets could also increase our business exposure to the effects of trade and economic sanctions regulations. See “—We are subject to governmental export and import controls and regulations that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.”

Further, as we continue to expand internationally, we could also become subject to increased difficulties in collecting accounts receivable (including as a result of international sanctions or other trade restrictions affecting the geographies in which we or our learners or customers are present), repatriating money without adverse tax consequences, and risks relating to foreign currency exchange rate fluctuations. We have not engaged in currency hedging activities to limit risk of exchange rate fluctuations, and while we may decide to do so in the future, the availability and effectiveness of these hedging transactions may be limited. Changes in exchange rates affect our costs and earnings, and may also affect the book value of our assets located outside the United States and the amount of our stockholders' equity.

We are subject to laws and regulations worldwide, and failure to comply with such laws and regulations could subject us to claims or otherwise adversely affect our business, financial condition and results of operations.

We are subject to a variety of laws in the U.S. and abroad that affect our business. As a global platform with learners and instructors in over 180 countries, we are subject to a wide range of laws and regulations regarding consumer protection, advertising, electronic marketing, privacy, data protection and cybersecurity, data localization requirements, online services, freedom of speech, labor, real estate, taxation, intellectual property ownership and infringement, export and national security, tariffs, anti-corruption and telecommunications, all of which are continuously evolving and developing.

The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting, particularly laws outside the U.S., and compliance with laws, regulations and similar requirements may be burdensome and expensive. Because these laws and regulations are subject to change over time, we must continue to dedicate resources to monitoring developments in the law and ensuring compliance. Laws and regulations may be inconsistent from jurisdiction to jurisdiction, and certain jurisdictions may impose more stringent regulatory requirements than the U.S., which may increase the cost of compliance and doing business and expose us to possible litigation, penalties, or fines. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could make our platform less attractive to learners, instructors, or enterprise customers or cause us to change or limit our ability to make available our platform. We have policies and procedures designed to ensure compliance with applicable laws and regulations, but we cannot assure you that we will not experience violations of such laws and regulations or our policies and procedures. Any such violations could subject us to investigations, sanctions, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, operating results, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, operating results, and financial condition.

We use machine learning and artificial intelligence throughout the business. As the regulatory framework for machine learning technology and artificial intelligence evolves, our business, financial condition, and results of operations may be adversely affected. The regulatory framework for machine learning technology, artificial intelligence and automated decision making is evolving. It is possible that new laws and regulations will be adopted in the United States and in non-U.S. jurisdictions, or that existing laws and regulations may be interpreted in ways that would affect the operation of our learning platforms and the way in which we use artificial intelligence and machine learning technology. Further, the cost to comply with such laws or regulations could be significant and would increase our operating expenses, which could adversely affect our business, financial condition and results of operations.

We are subject to governmental export and import controls and regulations that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.

Our business activities are subject to various restrictions under U.S. export and similar laws and regulations, including trade and economic sanctions regulations. The U.S. export control and economic sanctions laws and regulations include restrictions or prohibitions on the sale of certain services to U.S. embargoed or sanctioned countries, governments, persons, and entities which in some cases might apply to our activities. In addition, various countries regulate the import of certain technology and have enacted or could enact laws that could limit our ability to provide learners access to our platform or could limit our learners' ability to access or use our services in those countries.

Although we take precautions to prevent our platform from being provided in violation of such laws and regulations, our platform could nevertheless be provided inadvertently in violation of such laws. Complying with these laws and regulations could be particularly difficult because our products are widely available worldwide, in some cases, by providing only minimal information at registration. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to civil or criminal penalties. We also may be adversely affected through penalties, reputational harm, loss of access to certain markets, or otherwise. In addition, various countries regulate the import and export of certain encryption and other technology, including import and export permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our platform or could limit our learners' ability to access our platform in those countries. Changes in our platform, or future changes in export and import regulations, may prevent our international learners or instructors from using our platform or, in some cases, prevent the export or import of our platform to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions, or related legislation or changes in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our platform.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws, and similar laws, could subject us to penalties and other adverse consequences.

We are subject to the anti-bribery and anti-money laundering laws in the U.S. and other applicable jurisdictions. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies, their employees, agents, representatives, business partners, and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector.

We sometimes engage third parties to sell our products and conduct our business abroad. We and our employees, agents, representatives, business partners, or third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these employees, agents, representatives, business partners, or third-party intermediaries even if we do not explicitly authorize such activities. We cannot assure you that none of our employees and agents will take actions in violation of applicable law, for which we may be ultimately held responsible.

These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, we cannot assure you that none of our employees, agents, representatives, business partners, or third-party intermediaries will take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Any allegations or violations of applicable anti-bribery and anti-corruption laws and anti-money laundering laws could result in whistleblower complaints, sanctions, settlements, prosecution, enforcement actions, fines, damages, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, financial condition, results of operations, and prospects. Responding to any investigation or action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

We are from time to time involved in claims, lawsuits, government investigations, and other proceedings that could adversely affect our business, financial condition, and results of operations.

We are involved in litigation matters from time to time, such as matters incidental to the ordinary course of our business, including intellectual property, commercial, employment, class action, whistleblower, accessibility, and other litigation and claims, and governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources, cause us to incur significant expenses or liability, or require us to change our business practices. In addition, the expense of litigation and the timing of these expenses from period to period are difficult to estimate, subject to change, and could adversely affect our financial condition and results of operations. Because of the potential risks, expenses, and uncertainties of litigation, we may, from time to time, settle disputes, even where we have meritorious claims or defenses, by agreeing to settlement agreements. Any of the foregoing could adversely affect our business, financial condition, and results of operations.

Increased scrutiny and changing expectations from regulators, investors, customers, employees, and others regarding our environmental, social and governance practices and reporting could cause us to incur additional costs, devote additional resources and expose us to additional risks, which could adversely impact our reputation, customer acquisition and retention, access to capital and employee retention.

Companies across all industries are facing increasing scrutiny related to their environmental, social and governance, or ESG, practices and reporting. Regulators, investors, customers, employees and other stakeholders have focused increasingly on ESG practices and placed increasing importance on the implications and social cost of their investments, purchases and other interactions with companies. If our ESG practices and reporting do not meet investor, customer, or employee expectations, which continue to evolve, our brand, reputation, and learner, instructor, and UB customer retention may be negatively impacted. We could also incur additional costs and devote additional resources to monitor, report and implement various ESG practices, including as a result of regulatory developments.

Inadequate self-insurance accruals or insurance coverage for employee healthcare benefits could have an adverse effect on our business, financial results or financial condition.

Beginning in 2023, we became self-insured for certain medical benefits, up to certain stop-loss limits. We accrue these costs based on known claims and estimates of incurred but not reported claims. Our actual liabilities may exceed our estimates of losses. We may also experience an unexpectedly large number of claims that result in costs or liabilities in excess of our projections, which could cause us to record additional expenses.

Risks related to technology, privacy, and cybersecurity

Changes in laws or regulations relating to privacy, data protection, or cybersecurity, including those relating to the protection or transfer of data relating to individuals, or any actual or perceived failure by us to comply with such laws and regulations or any other obligations could adversely affect our business.

We receive, transmit, store, and otherwise process personal information and other data relating to our learners, instructors, and other individuals, such as our employees. Numerous local, municipal, state, federal, and international laws and regulations address privacy, data protection, cybersecurity, and the collection, storing, use, disclosure, protection, and other processing of certain types of data. These laws, rules, and regulations evolve frequently and their scope may continually change, through new legislation, amendments to existing legislation, and changes in enforcement, and may be inconsistent from one jurisdiction to another.

For example, the E.U. General Data Protection Regulation (“GDPR”) has resulted and will continue to result in significantly greater compliance burdens and costs for companies like ours. The GDPR regulates our collection, control, sharing, use, disclosure, and other processing of personal data of E. U. residents. Actual or alleged failure to comply with the GDPR may result in fines of up to 20 million euros or up to 4% of the annual global revenue of the infringer, whichever is greater. It may also lead to civil litigation, with the risks of damages, injunctive relief, or regulatory orders adversely impacting our processing of personal data.

The United Kingdom maintains a United Kingdom version of the GDPR (combining the GDPR and the United Kingdom Data Protection Act of 2018), referred to as the U.K. GDPR, which provides for fines of up to 17.5 million British pounds sterling or 4% of global turnover, whichever is greater. The relationship between the United Kingdom and the E.U. in relation to certain aspects of data protection law is subject to uncertainty. On June 28, 2021, the European Commission announced a decision of “adequacy” concluding that the United Kingdom ensures an equivalent level of data protection to the GDPR, generally permits personal data flows from the European Economic Area (the “EEA”) to the United Kingdom. This adequacy determination must, however, be renewed after four years and may be modified or revoked in the interim. We cannot fully predict how United Kingdom data protection laws or regulations may develop nor the effects of divergent laws and guidance, including those relating to data transfers. Changes with respect to any of these matters may lead to additional costs and increase our risk exposure.

Additionally, we are or may become subject to laws, rules, and regulations regarding cross-border transfers of personal data, including transfers of personal data outside the EEA. Recent developments have created complexity and uncertainty regarding transfers of personal data from the EEA to the U.S. and other jurisdictions. In 2020, the Court of Justice of the European Union (the “CJEU”) invalidated the E.U.-U.S. Privacy Shield Framework (the “Privacy Shield”), under which personal data could be transferred from the EEA. The CJEU also noted that standard contractual clauses (approved by the European Commission as an adequate personal data transfer mechanism) may not necessarily be relied upon in all circumstances. In addition to other mechanisms, in limited circumstances we may rely on Privacy Shield certifications of third parties (for example, vendors and partners). The European Commission and the United Kingdom’s Information Commissioner’s Office have published new standard contractual clauses that are required to be implemented. These developments regarding cross-border data transfers have created uncertainty and increased the risk around our international operations and may require us to review and amend the legal mechanisms by which we make or receive personal data transfers to the U.S. and other jurisdictions. We may, among other things, be required to implement additional contractual and technical safeguards for any personal data transferred out of the EEA, Switzerland, the United Kingdom or other regions which may increase compliance costs, lead to increased regulatory scrutiny or liability, may require additional contractual negotiations, and may adversely impact our business, financial condition and operating results.

The California Consumer Protection Act (“CCPA”), which went into effect on January 1, 2020, among other things, requires covered companies to provide specified disclosures to California consumers and affords such consumers the ability to opt out of certain types of data sharing and sales. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches. Additionally, in November 2020, California voters passed the California Privacy Rights and Enforcement Act of 2020 (the “CPRA”). As of January 1, 2023, the CPRA further expanded the CCPA with additional requirements that may impact our business and establishes a regulatory agency dedicated to enforcing the law. Several states in the U.S. have proposed or enacted laws that contain obligations similar to the CCPA and CPRA that have taken effect or will take effect in coming years, creating the potential for a patchwork of overlapping but different state laws and for a trend of increasingly stringent privacy legislation in the U.S., which could increase our potential liability and adversely affect our business, financial condition, and results of operations. In addition, the Personal Information Protection Law, or PIPL, went into effect in the People’s Republic of China (the “PRC”) on November 1, 2021. The PIPL shares similarities with the GDPR, including extraterritorial application, data minimization, data localization, and purpose limitation requirements, and obligations to provide certain notices and rights to PRC citizens. The PIPL allows for fines of up to 50 million renminbi or 5% of a covered company’s revenue in the prior year. Aspects of the interpretation and enforcement of the CCPA, CPRA, and other evolving federal, state, and foreign laws and regulations relating to privacy and the collection, storing, sharing, use, disclosure, protection, and other processing of certain types of data are subject to varying enforcement and new and changing interpretations by courts, and may impose different or inconsistent obligations. These laws or regulations, particularly any new or modified laws or regulations, or changes to the interpretation or enforcement of laws or regulations, that require enhanced protection of certain data or new obligations, could greatly

increase the cost of providing our platform, require significant changes to our data processing practices and other aspects of our operations, or prevent us from providing our platform in jurisdictions in which we currently operate and in which we may operate in the future.

Additionally, we have incurred, and may continue to incur, significant expenses in efforts to comply with privacy, data protection, and cybersecurity standards and protocols imposed by law, regulation, industry standards, or contractual obligations. We may be subject to investigation or enforcement actions by regulators if our statements or policies relating to privacy, data protection, or cybersecurity are alleged to be deficient, lacking transparency, deceptive, unfair, or misrepresentative. We are also bound by contractual obligations related to our collection, use, disclosure, protection, and other processing of personal data and other types of data. Our efforts to comply with such obligations may not be successful or may have other negative consequences. With laws, regulations, and other actual and asserted obligations relating to privacy, data protection, and cybersecurity imposing new and relatively burdensome obligations and with uncertainty over their interpretation and application, we may face challenges in addressing their requirements and making necessary changes to our policies and practices and may incur significant costs and expenses in efforts to do so. Despite our efforts, our interpretations of the law or our practices, policies, or platform or other services or offerings could be inconsistent with, or fail or be alleged to fail to meet all requirements of, such laws, regulations, or obligations. Any actual or perceived failure, or consequences associated with our efforts to comply with applicable laws or regulations or any other obligations relating to privacy, data protection, cybersecurity, or data processing, or any compromise of security that results in unauthorized access to, or use or release of data relating to learners, instructors, or other individuals could damage our reputation, discourage new and existing learners, instructors, and UB customers from using our platform, and could result in investigations, or other proceedings by governmental agencies, private claims and litigation, and fines, penalties, and other liabilities, any of which could adversely affect our business, financial condition and operating results. Even if not subject to legal challenge, concerns relating to privacy, data protection, or cybersecurity, whether or not valid, may harm our reputation and brand adversely affect our business, financial condition, and operating results.

A cybersecurity attack or other security breach or incident could delay or interrupt service to our learners, instructors, and UB customers, harm our reputation or subject us to significant liability.

Our platform involves the processing of significant amounts of data relating to learners, instructors, and UB customers interacting with our platform, including personal data and personal information. Additionally, we collect and store certain sensitive and proprietary information, and personal data and personal information, in the operation of our business, including trade secrets, intellectual property, employee data, and other confidential data.

We engage third-party service providers to store and otherwise process certain data, including sensitive and personal information. Our service providers have been, and in the future may be, the targets of cyberattacks, malicious software, phishing schemes, fraud, and other risks to the confidentiality, security, and integrity of their systems and the data they process for us. Our ability to monitor our service providers' cybersecurity is limited, and third parties may be able to circumvent those security measures, resulting in the unauthorized access to, misuse, disclosure, loss, unavailability, destruction or other processing of data they process for us, including sensitive and personal information. There have been and may continue to be significant supply chain attacks, and we cannot guarantee that our or our third-party providers' systems and networks have not been breached or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our services.

While we have taken measures to protect our own proprietary and confidential information, as well as the personal information, personal data, and confidential information that we otherwise process, and measures to protect our platform, we, our third-party service providers, and the networks and systems used in our business, including those of third-party service providers, have been subject to, and we, our service providers and our platform may in the future may be subject to, cybersecurity attacks or other security breaches or incidents. Cybersecurity attacks may take the form of denial of service attacks, attacks using ransomware or other malware, or other attacks, and can come from individual hackers, criminal groups, and state-sponsored organizations. These sources have used artificial intelligence and machine learning to launch more automated, targeted and sophisticated attacks against targets. They can also implement social engineering techniques to induce our employees, contractors, or customers to disclose passwords or other sensitive information or take other actions to gain access to data, and we and our platform otherwise may be subject to security breaches and incidents resulting from employee or contractor error or malfeasance. We may be more susceptible to cyberattacks and other security breaches and other security incidents while many of our employees work remotely, because we have less ability to implement, monitor, and enforce our information security and data protection policies.

More generally, we cannot guarantee that applicable recovery systems, security protocols, network protection mechanisms, and other procedures of ourselves or our third-party service providers are or will be adequate to prevent network and service interruption, system failure or loss, corruption, or unauthorized access to, or disclosure, acquisition, unavailability, destruction, or other processing of, data, including personal data, personal information, and other sensitive information that we or they process or maintain. Moreover, our platform could be breached or disrupted if vulnerabilities in our platform are exploited by unauthorized third parties. Techniques used to obtain unauthorized access change frequently and the volumes of cybersecurity attacks and of security breaches and incidents generally are increasing. We and our third-party service providers may be unable to implement adequate preventative measures or stop any attacks while they are occurring. A cybersecurity attack or security breach or incident could delay, disrupt or interrupt our platform and services and may deter learners, instructors, or organizations from using our platform, and we and our service providers may face difficulties or delays in identifying, remediating, and otherwise responding to any cybersecurity attack or other security breach or incident. In addition, any actual or perceived cybersecurity attack or security breach or incident could damage our reputation and brand, expose us to a risk of claims, litigation, regulatory investigations or other proceedings and possible fines, penalties, or other liability and require us to expend significant capital and other resources. We incur significant costs in an effort to detect and prevent security breaches and other security-related incidents, and we expect our costs will increase as we make improvements to our systems and processes to prevent future breaches and incidents. Some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. Any disclosures relating to an actual or perceived cyberattack or other security breach or incident suffered by us or any of our third-party service providers could lead to negative publicity and any such disclosures, or any belief that a cybersecurity attack, or a security breach or incident, has impacted us, our platform, or our service providers may cause our learners, instructors, or UB customers to lose confidence in the security of our platform and the effectiveness of the cybersecurity measures we and our service providers utilize.

Further, any limitations of liability provisions in our customer and user agreements, contracts with third-party service providers, or other contracts may not be enforceable or adequate or otherwise protect us from any liabilities or damages with respect to any particular claim relating to a security breach or incident or other security-related matter. While our insurance policies include liability coverage for certain of these matters, subject to applicable deductibles, any cybersecurity attack or other security breach or other incident, could subject us to claims or damages that exceed our insurance coverage. Our insurance coverage might not be adequate for liabilities actually incurred relating to any security breach or incident, such insurance may not continue to be available to us in the future on economically reasonable terms, or at all, and insurers may deny us coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Interruptions or performance problems associated with our technology and infrastructure could adversely affect our business and results of operations.

Our continued growth partially depends on the ability of learners and instructors to access our platform at any time. Our platform has encountered, and may in the future encounter, disruptions, outages, and other performance problems due to a variety of factors, including infrastructure changes, introductions of new capabilities, human or technology errors, distributed denial of service attacks, or other security related incidents. In some instances, we may not be able to identify the cause or causes of these performance problems in a timely manner. It may become increasingly difficult to maintain and improve the performance of our platform as it grows and becomes more complex, and in the future we may be required to allocate significant resources to augment and update our technology and network infrastructure. If learners or instructors are unable to access our platform within a reasonable amount of time, or at all, our business will be harmed.

Applicable regulations that permit ISPs to limit internet consumption could harm our business.

The current legislative and regulatory landscape regarding the regulation of the Internet and, in particular, Internet neutrality, in the United States is subject to uncertainty. In 2018, the Federal Communications Commission (the “FCC”) repealed its open internet rules, which prohibited internet service providers from charging content providers higher rates in order to deliver their content over certain “fast traffic” lanes. In response, California and several other U.S. states have implemented their own open internet or net neutrality rules, and in 2021, President Biden signed an Executive Order on Promoting Competition in the American Economy, which directed the FCC to reinstate through appropriate rulemaking net neutrality rules. The FCC has not yet moved to implement this executive order. We cannot predict the outcome of any litigation or whether the FCC order or state initiatives regulating providers will be modified, overturned, or vacated by legal action, federal legislation, or the degree to which this repeal would adversely affect our business, if at all. Similarly, the EU requires equal access to internet content, but as part of its Digital Single Market initiative, the EU may impose network security and disability access requirements, which could increase our costs. Outside these jurisdictions, government regulation of the internet, including the idea of network neutrality, may be developing or non-existent. It is possible that governments of one or more foreign countries may seek to censor content available on our platform or may even attempt to block access to our platform. If we are restricted from operating in one or more countries, our ability to attract and retain learners, instructors, and customers may be adversely affected and we may not be able to grow our business as we anticipate.

We rely on Amazon Web Services for a substantial portion of our platform services. Any disruption of, or interference with, our use of Amazon Web Services could negatively impact our business and operations.

Amazon Web Services provides distributed computing infrastructure platforms for business operations, commonly referred to as “cloud” computing services. We currently run a significant portion of our platform’s computing on Amazon Web Services, and any significant disruption of, or interference with, our use of Amazon Web Services would negatively impact our operations and our business would be seriously harmed. If learners or instructors are unable to access our platform through Amazon Web Services or encounter difficulties in doing so, we may lose learners, instructors, and UB customers. The level of service provided by Amazon Web Services may also impact the adoption and perception of our platform. If Amazon Web Services experiences interruptions in service regularly or for a prolonged basis, or other similar issues, our business would be seriously harmed. Hosting costs will also increase if and as our base of learners, instructors, and UB customers grows, and our business, financial condition, and results of operations may be adversely affected if we are unable to grow our revenue faster than the cost of using Amazon Web Services or similar providers increases.

Amazon Web Services may take actions beyond our control that could seriously harm our business, including discontinuing or limiting access to Amazon Web Services, increasing pricing terms, terminating our contract, establishing more favorable terms with one or more of our competitors, and modifying or interpreting its terms of service or other policies in a manner that impacts our ability to administer our business and operations.

Our payments system depends on third-party providers and is subject to evolving laws and regulations.

We rely on third-party payment processors to process payments made by learners and customers, and to instructors, on our platform. We have engaged third-party service providers to perform underlying card processing, currency exchange, identity verification, and fraud analysis services. If these service providers do not perform adequately or if our relationships with these service providers end for any reason, we will need to find an alternate payment processor and may not be able to secure similar terms or replace such payment processors in an acceptable time frame. Further, the software and services provided by our third-party payment processors may not meet our expectations, contain errors or vulnerabilities, be compromised, or experience outages. Any of these risks could cause us to lose our ability to accept online payments, make payments to our instructors or conduct other payment transactions, any of which could make our platform less convenient and attractive and harm our ability to attract and retain learners, instructors, and customers. In addition, if these providers increase the fees they charge us, our operating expenses could increase.

The laws and regulations related to payments are complex and vary across different jurisdictions in the United States and globally. As a result, we are required to spend significant time and effort to comply with those laws and regulations. Any failure or claim of our failure to comply, or any failure by our third-party service providers to comply, could cost us substantial resources, result in liabilities, or force us to stop offering certain third-party payment services. In addition, as we expand our international operations, we will need to accommodate international payment method alternatives. As we expand the availability of new payment methods in the future, including internationally, we may become subject to additional regulations and compliance requirements.

Further, through our agreement with our third-party credit card processors, we are indirectly subject to payment card association operating rules and certification requirements, including the Payment Card Industry Data Security Standard. We are also subject to rules governing electronic funds transfers. Any change in these rules and requirements could make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to additional fines and higher transaction fees and lose our ability to accept credit and debit card payments from our learners and UB customers, process electronic funds transfers or facilitate other types of online payments, and our business and operating results could be adversely affected.

The use of our platform could be adversely affected if our mobile solutions are not effective.

Learners have been increasingly accessing our platform on mobile devices through our Udemy and UB apps in recent years. The smaller screen size and reduced functionality associated with some mobile devices may make the use of our platform more difficult. Those accessing our platform primarily on mobile devices may not enroll in the courses offered on our platform as often as those accessing our platform through personal computers, which could result in less revenue for us. If we are not able to provide a rewarding experience on mobile devices, our ability to attract learners to our platform could be impaired, and consequently our business may suffer.

As new mobile devices and mobile features are released, we may encounter problems in developing or supporting apps for them. In addition, supporting new devices and mobile device operating systems may require substantial time and resources.

The success of our mobile apps could also be harmed by factors outside our control, including:

- actions taken by mobile app distributors, including the Apple App Store and the Google Play Store;
- unfavorable treatment received by our mobile apps, especially as compared to competing apps, such as the placement of our mobile apps in a mobile app download store;
- increased costs in the distribution and use our mobile app; or
- changes in mobile operating systems, such as iOS and Android, that degrade the functionality of our mobile website or mobile apps or that give preferential treatment to competitive offerings.

If our learners encounter difficulty accessing or using, or if they choose not to use, our mobile platform, our business and results of operations may be adversely affected.

Internet search engines drive traffic to our platform and, if we fail to appear prominently in search results, our growth rate could decline and our business, financial condition and results of operations could be adversely affected.

Many learners find our website through internet search engines, like Google. A critical factor in attracting learners to our website is how prominently we are displayed in response to search queries. Search engine companies typically provide two types of search results: algorithmic listings and paid advertisements. We rely on both types of search results to attract visitors to our website. Algorithmic search result listings are determined and displayed in accordance with a set of proprietary formulas or algorithms developed by particular search engine companies. From time to time, these companies revise their algorithms without notice. In some instances, these modifications have caused our website to be listed less prominently in search results. In addition, search engine companies retain broad discretion to remove from search results any company whose marketing practices are deemed to be inconsistent with the search engine companies' guidelines. If our marketing practices violate or appear to violate search engine company guidelines, we may, without warning, not appear in search result listings at all. If we are listed less prominently or fail to appear in search result listings for any reason, visits by prospective learners to our website would likely decline. We may not be able to replace this traffic and any attempt to do so may require us to increase our sales and marketing expenditures, which may not be offset by additional revenue and could adversely affect our operating results.

Risks related to our intellectual property

We may be unable to adequately obtain, maintain, protect, and enforce our intellectual property and proprietary information, which could adversely affect our business, financial condition, and results of operations.

Our business depends on our intellectual property, the protection of which is critical to our success. We rely on a combination of intellectual property rights, including patents, trade secrets, trade dress, domain names, copyrights, and trademarks to protect our competitive advantage, all of which offer only limited protection. The steps we take to protect our intellectual property, including physical, operational, and managerial protections of our confidential information, contractual obligations of confidentiality, assignment agreements with our employees and contractors, license agreements, and the prosecution and maintenance of registrations and applications for registration of intellectual property rights, require significant resources and may be inadequate. We will not be able to protect our competitive advantage if we are unable to establish, protect, maintain, or enforce our rights or if we do not detect or are unable to address unauthorized use of our intellectual property. Some license provisions protecting against unauthorized use, copying, transfer, and disclosure of our proprietary information may be unenforceable under the laws of certain jurisdictions.

We hold various registered trademarks in the United States and in foreign jurisdictions. We also have common law rights in some trademarks and pending trademark applications in the United States and foreign jurisdictions. In addition, we have registered domain names for websites that we use in our business, such as www.udemy.com and some other variations. Competitors may adopt service names or domain names similar to ours, thereby harming our ability to build brand identity and possibly leading to user confusion. In addition, our registered or unregistered trademarks or trade names could be declared generic, and there could be potential trade name or trademark infringement claims brought by owners of other trademarks that are similar to our trademarks. If our trademarks and trade names are not adequately protected, we may not be able to build and maintain name recognition in our markets of interest and our business may be adversely affected. Effective trademark protection may not be available or may not be sought in every country in which our products are made available, in every class of goods and services in which we operate, and contractual disputes may affect the use of marks governed by private contract. Additionally, we may from time to time be subject to opposition or similar proceedings with respect to applications for registrations of our intellectual property, including trademarks. While we aim to acquire adequate protection of our brand through trademark registrations in key markets, occasionally third parties may have already registered or otherwise acquired rights to identical or similar marks for services that also address our market. We rely on our brand and trademarks to identify our platform and to differentiate our platform and services from those of our competitors, and if we are unable to adequately protect our trademarks, third parties may use our brand names or trademarks similar to ours in a manner that may cause confusion in the market, which could decrease the value of our brand and adversely affect our business and competitive advantages.

We hold a small number of issued patents and thus have a limited ability to exclude or prevent our competitors from implementing technology, methods, and processes similar to our own. Further, we may not timely or successfully apply for a patent or register its trademarks or otherwise secure rights in our intellectual property. We expect to continue to expand internationally and, in some foreign countries, the mechanisms to establish and enforce intellectual property rights may be inadequate to protect our technology, which could harm our business.

It is our policy to enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships. The confidentiality agreements on which we rely to protect certain technologies may be breached, may not be adequate to protect our confidential information, trade secrets, and proprietary technologies, and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, trade secrets, or proprietary technology. Further, these agreements do not prevent our competitors or others from independently developing products that are substantially equivalent or superior to ours.

Our intellectual property rights and the enforcement or defense of such rights may be affected by developments or uncertainty in laws and regulations relating to intellectual property rights. Moreover, many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets, and other intellectual property protection, which could make it difficult for us to stop the infringement, misappropriation, or other violation of our intellectual property or marketing of competing products in violation of our intellectual property rights generally.

Policing unauthorized use of our intellectual property and misappropriation of our technology and trade secrets is difficult and we may not always be aware of such unauthorized use or misappropriation. Despite our efforts to protect our intellectual property rights, unauthorized third parties may attempt to use, copy, or otherwise obtain and market or distribute our technology or otherwise develop services with the same or similar functionality as our platform. If our competitors infringe, misappropriate, or otherwise violate our intellectual property rights and we are not able to enforce our rights, or if our competitors are able to develop a platform with the same or similar functionality as ours without infringing our intellectual property, our competitive advantage and results of operations could be harmed. Litigation brought to protect and enforce our intellectual property rights could be costly, time consuming, and distracting to management and could result in the impairment or loss of portions of our intellectual property. As a result, we may be aware of infringement by our competitors but may choose not to bring litigation to protect our intellectual property rights due to the cost, time, and distraction of bringing such litigation. Furthermore, if we do decide to bring litigation, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits challenging or opposing our right to use and otherwise exploit particular intellectual property, services, and technology or the enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our solutions, impair the functionality of our platform, prevent or delay introductions of new or enhanced solutions, result in us substituting inferior or more costly technologies into our platform, or injure our reputation. Furthermore, many of our current and potential competitors may have the ability to dedicate substantially greater resources to developing and protecting their technology or intellectual property rights than we do.

Intellectual property litigation, including litigation related to content available on our platform, could result in significant costs and adversely affect our business, financial condition, results of operations, and reputation.

Companies in the technology industry are frequently subject to litigation based on allegations of infringement or other violations of intellectual property rights. We periodically receive notices that claim we have infringed, misappropriated, or misused other parties' intellectual property rights, including with respect to content made available on our platform by instructors and other third parties. As we gain greater public recognition, we may face a higher risk of being the subject of intellectual property claims. Any intellectual property claims against us, with or without merit, could be time consuming and expensive to settle or litigate and could divert the attention of our management. Some of our competitors have extensive portfolios of issued patents. Many potential litigants, including some of our competitors and patent holding companies, have the ability to dedicate substantial resources to enforcing their intellectual property rights. Litigation regarding intellectual property rights is inherently uncertain due to the complex issues involved, and we may not be successful in defending ourselves in such matters. Furthermore, we may not qualify for the safe harbors established by laws in the United States and other countries protecting online service providers from claims related to content posted by users, or those laws could change in a manner making it difficult or impossible to qualify for such protection, increasing our exposure. While our terms and policies require instructors to respect the intellectual property rights of others, we have limited ability to influence the behavior of third parties, and there can be no assurance that these terms and policies will be sufficient to dissuade or prevent infringing activity by third parties on our platform. For more information, see “—Risks related to our business and operations—We could face liability, or our reputation might be harmed, as a result of courses posted to our platform.”

Any claims successfully brought against us could subject us to significant liability for damages and we may be required to stop using technology or other intellectual property alleged to be in violation of a third party's rights. We also might be required to seek a license for third-party intellectual property. Even if a license is available, we could be required to pay significant royalties or submit to unreasonable terms, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, which could require significant time and expense. If we cannot license or develop technology for any allegedly infringing aspect of our business, we would be forced to limit our service and may be unable to compete effectively. Any of these results could harm our business.

Our platform contains third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to provide our platform.

We use open source software in our platform and expect to continue to use open source software in the future. In addition, we contribute software source code to open source projects under open source licenses or release internal software projects under open source licenses and anticipate continuing to do so in the future. Additionally, under some open source licenses, if we combine our proprietary software with certain open source software in a certain manner, certain proprietary software (including our own software) or other intellectual property rights could become subject to obligations to be disclosed in source code form and licensed, including for the purpose of enabling further modification and distribution, and at no charge or for only a nominal fee. Third parties may also seek to enforce the terms of the applicable open source license through litigation which, if successful, could subject us to liability and require us to make our proprietary software source code available under an open source license, seek to purchase a license (which, if available, could be costly), and cease offering the implicated products or services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. Many of the terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our products or services. While we try to insulate our proprietary code from the effects of such open source license provisions, we cannot guarantee that we will be successful, that all open source software is reviewed prior to use in our products, that our developers have not incorporated open source software into our products in potentially disruptive ways, or that they will not do so in the future. In addition to risks related to open source license requirements, use of certain open source software may pose greater risks than use of third-party commercial software, since open source licensors generally do not provide warranties or controls on the origin of software. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could adversely affect our business, financial condition, and results of operations.

Risks related to financial reporting, taxation, and operations as a public company

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired, which may adversely affect investor confidence in us and, as a result, lead to a decline in the market price of our common stock.

As a public company, we are required to comply with the requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), and the rules and regulations of Nasdaq. The Sarbanes-Oxley Act, among other things, requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers.

Under the Sarbanes-Oxley Act, we are required to make a formal assessment of the effectiveness of our internal control over financial reporting. The cost of our compliance with Section 404 will continue to divert resources and take significant time and effort. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on Nasdaq. Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Moreover, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal additional deficiencies in our internal control over financial reporting that are deemed to be material weaknesses.

Any failure to implement and maintain effective disclosure controls and procedures and internal control over financial reporting, including the identification of one or more material weaknesses, could cause investors to lose confidence in the accuracy and completeness of our financial statements and reports, which would likely adversely affect the market price of our common stock. In addition, we could be subject to sanctions or investigations by Nasdaq, the SEC, and other regulatory authorities.

Operating as a public company requires us to incur substantial costs and administrative burdens, which could have an adverse effect on our business, financial condition and results of operations.

As a public company, we are subject to additional reporting and other obligations, such as the reporting requirements of the Exchange Act, the applicable requirements of the Sarbanes-Oxley Act, and the applicable listing standards of Nasdaq. Compliance with these rules and regulations results in legal and financial compliance costs and places demands on our systems. Our recent loss of “emerging growth company” status has required additional attention from management and will result in increased costs to us, which could include higher legal fees, accounting fees and fees associated with investor relations activities, among others. As a public company, we may also be subject to stockholder activism, which can lead to additional substantial costs, distract management, and impact the manner in which we operate our business in ways we cannot currently anticipate. Our business and financial condition will become more visible as a result of our reporting obligations as a public company, which may result in threatened or actual litigation, including by competitors.

Many members of our management team have limited experience managing a publicly traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company subject to significant regulatory oversight and reporting obligations under federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and results of operations.

Unanticipated changes in our effective tax rate and additional tax liabilities, including as a result of our international operations or implementation of new tax rules, could harm our future results of operations.

We are subject to income taxes in the United States and certain foreign jurisdictions. Our effective tax rate could be subject to volatility or adversely affected by several factors, many of which are outside of our control, including changes in the mix of earnings and losses in countries with differing statutory tax rates, changes in tax laws, rates, treaties, and regulations or the interpretation of the same, changes to the financial accounting rules for income taxes, the outcome of current and future tax audits, examinations or administrative appeals, certain non-deductible expenses and the valuation of deferred tax assets and liabilities. For example, the United States enacted the Inflation Reduction Act, which imposes a 1% excise tax on certain stock repurchases and a 15% alternative minimum tax on adjusted financial statement income. The Organization for Economic Cooperation and Development proposed a 15% global minimum tax, which has been adopted by the European Union effective from January 1, 2024. Increases in our effective tax rate would reduce profitability or increase losses. In addition, we are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Changes in tax and trade laws, treaties, or regulations, or their interpretation or enforcement, have become more unpredictable and may become more stringent, which could have a material adverse effect on our tax position. We made significant judgments and assumptions in the interpretation of new laws and in our calculations reflected in our financial statements.

Further, we are subject to examination by tax authorities on income, employment, sales, and other tax matters. While we regularly assess the likelihood of adverse outcomes from such examinations and the adequacy of our provision for taxes, there can be no assurance that such provision is sufficient and that a determination by a tax authority would not have an adverse effect on our business, financial condition, and results of operations. We believe our income, employment, and transactional tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, but an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period. Certain risks relating to employment and sales taxes are described in more detail under Note 7 ("Accrued expenses and other current liabilities").

Taxing authorities may successfully assert that we have not properly collected or remitted, or in the future should collect or remit, sales and use, gross receipts, value added, or similar taxes, or employment, payroll, or withholding taxes, and may successfully impose additional obligations on us, and any such assessments, obligations, or inaccuracies could adversely affect our business, financial condition, and results of operations.

The application of non-income, or indirect, taxes, such as sales and use tax, value-added tax, goods and services tax, business tax, and gross receipt tax, to businesses like ours is a complex and evolving issue. Significant judgment is required on an ongoing basis to evaluate applicable tax obligations, and as a result, amounts recorded are estimates and are subject to adjustments. In many cases, the ultimate tax determination is uncertain because it is not clear how new and existing statutes might apply to our business. In addition,

we do not collect and remit indirect taxes in all jurisdictions in which we operate on the basis that such indirect taxes are not applicable to us. Certain jurisdictions in which we do not collect and remit such taxes may assert that such taxes are applicable, which could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest, could discourage learners, instructors, or organizations from using our platform, could increase the cost for consumers using our platform, or could otherwise harm our business, financial condition, and results of operations.

Additionally, one or more states, localities, or other taxing jurisdictions may seek to impose additional reporting, record-keeping, or indirect tax collection obligations on businesses like ours. Requiring tax reporting or collection could decrease learner or instructor activity, which would harm our business, and could require us to incur substantial costs in order to comply, including costs associated with tax calculation, collection, and remittance and audit requirements, which could make our offerings less attractive and could adversely affect our business, financial condition, and results of operations.

Also, tax rules of certain countries, including the United States, generally require payors to report payments to unrelated parties to the applicable taxing authority and to withhold a percentage of certain amounts and remit such amounts to the applicable taxing authority. Failure to comply with such reporting and withholding obligations with respect to payments we make to our instructors could result in the imposition of liabilities for the under withheld amounts, fines, and penalties. In addition, a tax authority could assert that we should be withholding employment or other taxes from payments to instructors. Due to our large number of instructors and the amounts paid to each, process failures with respect to these reporting obligations could result in financial liability and other consequences to us if we were unable to remedy such failures in a timely manner.

As a result of these and other factors, the ultimate amount of tax obligations owed may differ from the amounts recorded in our financial statements and any such difference may adversely affect our results of operations in future periods in which we change our estimates of our tax obligations or in which the ultimate tax outcome is determined.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

We have incurred net operating losses (“NOLs”) since our inception, and we expect to continue to incur net losses in the near future. As such, there is a risk that our existing NOLs could expire unused and be unavailable to offset future income tax liabilities if we do not achieve profitability. This may require us to pay federal income taxes in future years even if our NOLs were otherwise sufficient to offset our federal taxable income in such years. There is also a risk that due to regulatory and economic changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. Similar or different limitations may apply under state laws. We have recorded a full valuation allowance related to our NOLs and other deferred tax assets due to the uncertainty of the realization of the future benefits of these assets. If our NOLs and other tax attributes expire before utilization or are subject to limitations, our business and financial results could be harmed.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change NOLs and federal tax credit carryforwards to offset its post-change taxable income, or reduce its federal income tax liability, may be limited. In general, an “ownership change” occurs when there is a cumulative change in our equity ownership by “5 percent shareholders” that exceeds 50 percentage points over a rolling three-year period. Certain of our gross U.S. federal NOLs are subject to this limitation as a result of these ownership changes, and if it is determined that we have experienced additional ownership changes, including as a result of our IPO, future transactions in our stock, some of which are outside our control, or both, our ability to use our NOLs and federal tax credit carryforwards to reduce future taxable income and tax liabilities may be further limited. Similar limitations may apply under state tax laws.

Our results of operations, which we report in U.S. dollars, could be adversely affected if currency exchange rates fluctuate substantially in the future.

We conduct our business across more than 180 countries around the world. As we continue to expand our international operations, we will become more exposed to the effects of fluctuations in currency exchange rates. This exposure is the result of selling in multiple currencies and operating in foreign countries where the functional currency is the local currency. During the nine months ended September 30, 2023, 30% of our sales were denominated in currencies other than U.S. dollars, including euros, Indian rupees, British pounds sterling, Brazilian reais, and Japanese yen. Our expenses, by contrast, are primarily denominated in U.S. dollars. As a result, any increase in the value of the U.S. dollar against these foreign currencies may cause our revenue to decline relative to our costs, thereby decreasing our gross margins. For example, the euro, British pound sterling and Japanese yen have all recently experienced declines in value against the U.S. dollar, which has negatively affected our results of operations during the year ended December 31, 2022 and could continue to negatively impact our results of operations in future periods. Because we conduct business in currencies other than U.S. dollars, but report our results of operations in U.S. dollars, we also face remeasurement exposure to fluctuations in currency exchange rates, which could hinder our ability to predict our future results and earnings and could materially impact our results of operations. We do not currently maintain a program to hedge exposures to non-U.S. dollar currencies.

We could be adversely impacted by the effects of inflation.

Certain of our key markets, including the United States, are experiencing historically high rates of inflation, resulting from several macroeconomic and geopolitical factors, including supply chain constraints and rising oil and natural gas prices. Our operating costs have increased and may continue to increase due to rising inflation and as a result we may be required to take measures to respond to the impact of inflation. Among other things, we could be required to change our pricing model to offset inflationary pressures on our operating costs, but doing so could adversely affect customer acquisition and retention, negatively impacting our long-term growth, and could impair our competitive position if our competitors choose to absorb the cost of inflation. Alternatively, if we choose to absorb the cost of inflation to prioritize growth, our financial condition and results of operations may be negatively impacted. Moreover, our instructors may independently make pricing decisions with respect to the courses they offer on our platform as a result of inflationary pressures, and any price increase could negatively impact the attractiveness of our marketplace to learners. Inflation has also contributed to higher interest rates, which may make it more difficult for us to raise capital on acceptable terms, should we choose to pursue additional financing in the future.

In any case, there can be no assurance that any measures we take to mitigate or address the impact of inflation will be effective. Even if such mitigatory measures are effective, there could be a difference between the timing of when these beneficial actions impact our results of operations and when the cost of inflation is incurred.

Any failure to successfully manage the impact of inflation on our business in a timely manner could materially and adversely affect our business, financial condition, and results of operations.

Our reported financial results may be adversely affected by changes in generally accepted accounting principles.

Generally accepted accounting principles are subject to interpretation by the Financial Accounting Standards Board, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported results of operations and could affect the reporting of transactions completed before the announcement of a change. It is difficult to predict the impact of future changes to accounting principles or our accounting policies, any of which could negatively affect our reported results of operations.

Risks related to ownership of our common stock

The trading price of our common stock may be volatile, and you could lose all or part of your investment.

The market price of our common stock has, and may continue to, fluctuate substantially depending on a number of factors, including those described in this “Risk Factors” section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the trading prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new services or platform features;
- the public’s reaction to our press releases, other public announcements, and filings with the SEC;

- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations;
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- actual or perceived privacy or security breaches or other incidents;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses, services, or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management;
- general economic conditions and slow or negative growth of our markets; and
- other events or factors, including those resulting from wars and other armed conflicts, such as Russia's invasion of Ukraine, incidents of terrorism, natural disasters, public health concerns or epidemics, such as the COVID-19 pandemic, natural disasters, or responses to these events.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Future sales of our common stock could depress the market price of our common stock.

The market price of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers, and significant stockholders, a large number of shares of our common stock becoming available for sale, or the perception in the market that such sales could occur.

Certain holders of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act under our investors' rights agreement. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares held by our affiliates as defined in Rule 144 under the Securities Act, which are subject to the limitations of Rule 144. Sales of our securities or the perception that such sales could occur pursuant to these registration rights may make it more difficult for us to issue and sell securities in the future at a time and at a price that we deem appropriate. These sales could also adversely affect the trading price of our common stock and make it more difficult for you to sell shares of our common stock.

Future issuances of our common stock or rights to purchase common stock could result in additional dilution to our stockholders and cause the price of our common stock to decline.

We may issue additional common stock, convertible securities, or other equity from time to time. We also expect to issue common stock to our employees, directors, and other service providers pursuant to our equity incentive plans. Such issuances will be dilutive to investors and could cause the price of our common stock to decline. New investors in such issuances could also receive rights senior to those of holders of our common stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about us, our business or our industry, or if they change their recommendation regarding our common stock adversely, the market price and trading volume of our common stock could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us, our business, our market, or our competitors. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If any of the analysts who cover us change their recommendation regarding our common stock adversely, provide more favorable relative recommendations about our competitors, or publish inaccurate or unfavorable research about our business, the price of our securities would likely decline. If any analyst who may cover us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets and demand for our securities could decrease, which could cause the price and trading volume of our common stock to decline.

We do not expect to pay dividends in the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not anticipate declaring or paying any dividends to holders of our capital stock in the foreseeable future. Consequently, stockholders must rely on sales of their shares of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

Our directors, executive officers, and principal stockholders beneficially own a substantial percentage of our common stock and are able to exert significant control over matters subject to stockholder approval.

As of September 30, 2023, our directors, executive officers, and holders of more than 5% of our outstanding common stock, together with their respective affiliates, beneficially owned shares representing approximately 47% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to influence our management and affairs and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of our company and might affect the market price of our common stock.

Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws might delay, discourage or prevent a merger, tender offer or proxy contest, thereby depressing the market price of our common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law (the "DGCL"), may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make any acquisition of our company more difficult or delay or prevent changes in control of our management. Among other things, these provisions:

- provide that our board of directors is expressly authorized to make, alter or repeal our bylaws;
- authorize our board of directors to issue shares of preferred stock and determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval;
- provide that the authorized number of directors may be changed only by resolution of the board of directors;
- provide that all vacancies on our board of directors and all newly created directorships may only be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum, or by a sole remaining director, except as otherwise required by law, our governing documents or resolution of our board of directors, and subject to the rights of the holders of our preferred stock;
- establish that our board of directors is divided into three classes, with each class serving staggered three-year terms;

- provide that a director may only be removed from the board of directors by the stockholders for cause and only by the affirmative vote of the holders of at least a majority of the voting power of the issued and outstanding capital stock entitled to vote in the election of directors;
- prohibit cumulative voting (therefore allowing the holders of a plurality of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose);
- require that any action to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and not be taken by written consent;
- require that stockholders give advance notice to nominate directors or submit proposals for consideration at stockholder meetings;
- provide that special meetings of our stockholders may be called only by the board of directors acting pursuant to a resolution adopted by the majority of the entire board of directors, the Chairperson of the board of directors, our Chief Executive Officer or our President;
- provide that, unless we otherwise consent in writing, a state or federal court located within the State of Delaware shall be the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim against us arising pursuant to any provision of the DGCL, our amended and restated certificate of incorporation, and our amended and restated bylaws, or (4) any action asserting a claim against us governed by the internal affairs doctrine;
- provide that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act; and
- require a super-majority vote of stockholders to amend some of the provisions described above.

These provisions, alone or together, could delay, discourage, or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire, any of which, under certain circumstances, could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

Our amended and restated bylaws provide, to the fullest extent permitted by law, that the Court of Chancery of the State of Delaware and the federal district courts of the United States are the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers, stockholders, or employees and, in turn, discourage lawsuits against our directors, officers, or employees.

Our amended and restated bylaws provide that, to the fullest extent permitted by applicable law and unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court in Delaware or the federal district court for the District of Delaware) will be the sole and exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a claim of breach of a fiduciary duty owed by any of our directors, stockholders, officers, or other employees to us or our stockholders; any action arising pursuant to any provision of the DGCL, our certificate of incorporation, or our bylaws; and any other action asserting a claim that is governed by the internal affairs doctrine. This exclusive forum provision would not apply to any action brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts of the United States have exclusive jurisdiction.

Our amended and restated bylaws also provide that, to the fullest extent permitted by applicable law and unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States will be the sole and exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act against any person in connection with any offering of our securities. The enforceability of similar exclusive federal forum provisions in other companies' organizational documents has been challenged in legal proceedings, and while the Delaware Supreme Court and certain other state courts have ruled that this type of exclusive federal forum provision is facially valid under Delaware law, there is uncertainty as to whether other courts would enforce such provisions and that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. This exclusive federal forum provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts of the United States have exclusive jurisdiction.

These exclusive forum provisions may discourage lawsuits against us and our current and former directors, officers, stockholders, and other employees. Alternatively, if a court were to find either exclusive forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving such action in other jurisdictions, all of which could have a material adverse effect on our business, financial condition, and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Securities Trading Plans of Directors and Executive Officers

During our last fiscal quarter, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” each as defined in Item 408 of Regulation S-K.

Item 6. Exhibits

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are herein incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Registrant	8-K	001-40956	3.1	November 2, 2021
3.2	Amended and Restated Bylaws of the Registrant	8-K	001-40956	3.1	January 17, 2023
10.1	Employment Letter between the Registrant and Prasad Raje				
10.2	Change in Control and Severance Agreement by and between the Registrant and Prasad Raje				
31.1	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1*	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2*	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				

101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* The certifications attached as Exhibits 32.1 and 32.2 that accompany this Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Udemy, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Udemy, Inc.

Date: November 2, 2023

By: /s/ Greg Brown
Greg Brown
President and Chief Executive Officer

Date: November 2, 2023

By: /s/ Sarah Blanchard
Sarah Blanchard
Chief Financial Officer

Udemy, Inc.**Employment Letter**

July 10, 2023

Prasad Raje

Dear Prasad:

This letter agreement (this “**Agreement**”) is entered into between Udemy, Inc. (“**Udemy**” or the “**Company**”) and you to confirm the terms and conditions of your employment.

1. Position. Your title will be Chief Product Officer, reporting to the Company’s Chief Executive Officer. This is a full-time position, based out of our San Francisco headquarters. While you render services to the Company, you will not engage in any other employment, consulting, or other business activity (whether full time or part-time) directly related to the business in which Udemy is now involved or becomes involved during the term of your employment without the prior approval of the Company’s Board of Directors (the “**Board**”), nor will you engage in any other activities that conflict with your obligations to Udemy. By signing this Agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company. Your employment start date will be mutually determined by you and the Company, but shall be no later than **August 14, 2023**.

2. Compensation and Benefits.

(a) **Base Salary.** Your annual base salary will be **\$400,000** per year, less applicable withholding, which will be paid in accordance with the Company’s normal payroll procedures.

(b) **Annual Bonus Opportunity.** Your annual target bonus opportunity will be **50%** of your annual base salary (the “**Target Bonus**”). The Target Bonus shall be subject to review and may be adjusted based upon the Company’s normal performance review practices. Your actual bonuses shall be based upon achievement of performance objectives to be determined by the Board in its sole and absolute discretion. Bonuses will be paid as soon as practicable after the Board determines that such bonuses have been earned, but in no event will a bonus be paid to you after the later of (i) the fifteenth (15th) day of the third (3rd) month following the close of the Company’s fiscal year in which such bonus is earned or (ii) March 15 following the calendar year in which such bonus is earned. Your bonus, to the extent earned, will be pro-rated for the portion of the year that you are employed by the Company; provided, that if your first day of employment is on or after September 1, you will not be eligible to receive a bonus for the year in which your employment commences.

(c) **Employee Benefits.** As a full-time employee, you will be eligible to participate in the Company’s standard benefit plans as in effect from time to time, on the same basis as those benefit plans are generally made available to other similarly situated executives of the Company. Such benefit plans are subject to change, and may be supplemented, altered, or eliminated, in part or entirely. Any eligibility to participate in such benefits plans, as well as the terms thereof, shall be as set forth in the governing documents for such plans, or there are no such governing documents, in the Company’s policies.

(d) **Equity Awards.** It will be recommended to the Board following your

start date that Udemey grant you restricted stock units covering 550,000 shares of Udemey common stock (the "RSUs"). You will be scheduled to vest in 25% of the RSUs twelve (12) months after the date the RSUs are granted, subject to continued service with Udemey or one of its subsidiaries. No RSUs will vest before such date, and no rights to any vesting shall be earned or accrued prior to such date. The remaining RSUs will vest in equal quarterly installments over the next 36 months of continuous service, subject to your continued service with Udemey or one of its subsidiaries through each vesting date. This RSU grant will otherwise be subject to the terms and conditions of Udemey's equity incentive plan and RSU agreement in effect at the time of grant. No right to any shares of Udemey common stock issuable pursuant to the RSU grant will be earned or accrued until such time that vesting occurs, nor does this grant confer any right to continue vesting or employment with Udemey or its subsidiaries.

(e) **Expenses.** You will be entitled to receive prompt reimbursement for all reasonable expenses incurred by you in the furtherance of or in connection with the performance of your duties hereunder, in accordance with the applicable policy of the Company, as in effect from time to time. In the event that any expense reimbursements are taxable to you, such reimbursements will be made in the time frame specified by Treasury Regulation Section 1.409A-3(i)(1)(iv) unless another time frame that complies with or is exempt from Section 409A is specified in the Company's expense reimbursement policy.

(f) **Vacation.** Udemey offers a flexible time off policy pursuant to which you can take a reasonable amount of paid time away from the office for vacation, illness, family emergencies, etc., as necessary.

3. Severance & Change in Control Benefits. In connection with executing this Agreement, you are also entering into the Change in Control and Severance Agreement between you and the Company (the "**Severance Agreement**"), which is incorporated herein by reference.

4. Confidentiality. The Company employs you based upon your knowledge, background, experience, and skills and abilities and not because of your knowledge of any previous employer's trade secrets or other company specific information. As a condition of employment at the Company you agree not to disclose or use confidential or proprietary information or trade secrets of any current or prior employer, and that you will not in any way utilize any such information in performing your duties for the Company. In this regard, you may not bring to the Company any documents or other materials in tangible form belonging to or acquired from any prior employer.

5. Proprietary Information and Inventions Agreement. As an employee of the Company, you will have access to certain confidential information of the Company and you may, during the course of your employment, develop certain information or inventions that will be the property of the Company. To protect the interests of the Company, this offer is conditioned on your acceptance of the terms of the Company's At-Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement (the "**Confidentiality Agreement**").

6. At-Will Employment. You acknowledge and agree that your employment with the Company will be "at-will" employment and may be terminated at any time with or without cause or notice. You understand and agree that neither your job performance nor commendations, bonuses, or the like from the Company give rise to or in any way serve as the basis for modification, amendment, or extension, by implication or otherwise, of your employment with the Company. You further acknowledge and agree that the Company may modify job titles, salaries, and benefits from time to time as it deems necessary. However, as described in this Agreement, you may be eligible to receive severance benefits under the Severance Agreement depending on the circumstances of the termination of your employment with the Company.

7. Tax Matters.

(a) Withholding. All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law, and you will be solely responsible for any and all taxes arising in connection with this Agreement and compensation paid or payable to you, including but not limited to any taxes, penalties and interest, if any, arising under Section 409A.

(b) Section 409A. The Company intends that all payments and benefits provided under this Agreement or otherwise are exempt from, or comply with, the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and any final regulations and guidance thereunder and any applicable state law equivalent, as each may be amended or promulgated from time to time ("**Section 409A**") so that none of the payments or benefits will be subject to the additional tax imposed under Section 409A, and any ambiguities will be interpreted to so be exempt or comply. Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(c) Tax Advice. You are encouraged to obtain your own tax advice regarding your compensation from the Company. You agree that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities.

8. Entire Agreement, Amendment, and Enforcement. This Agreement, the Severance Agreement, and the Confidentiality Agreement supersede and replace any prior agreements, representations, or understandings (whether written, oral, implied, or otherwise) between you and the Company, and constitute the complete agreement between you and the Company regarding the subject matter set forth herein. This Agreement may not be amended or modified, except by an express written agreement signed by both you and a duly authorized officer of the Company. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of California without regard to the principles of conflict of laws thereof.

9. Miscellaneous.

(a) Arbitration. You agree that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from your service to the Company, will be subject to arbitration in accordance with the provisions of the Confidentiality Agreement.

(b) Successors. In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(d) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

(e) Acknowledgment. You acknowledge that you have had the opportunity to discuss this Agreement with and obtain advice from your private attorney, have had sufficient time to, and have carefully read and fully understand all the provisions of this Agreement, and are knowingly and voluntarily entering into this Agreement.

(f) Other Matters. This offer is conditioned on your passing our background check, signing the Confidentiality Agreement, and providing proof of your eligibility to work in the United States. Prior to your start date, Udemy's People team will contact you with your onboarding information. The onboarding information will include both the Confidentiality Agreement for you to sign and an I-9 identification form to verify your employment authorization.

* * * * *

We are extremely excited about having you join the team!

Please indicate your acceptance of this Agreement and confirm that it contains our complete agreement regarding the terms and conditions of your employment by signing below.

Very truly yours,

/s/ Greg Brown

Greg Brown

Chief Executive Officer

Udemy, Inc.

I have read and accept this Agreement:

/s/ Prasad Raje

Prasad Raje

Dated: July 11, 2023

UDEMY, INC.

CHANGE IN CONTROL AND SEVERANCE AGREEMENT

This Change in Control and Severance Agreement (this “**Agreement**”) is made between UdeMy, Inc. (the “**Company**”) and Prasad Raju (the “**Executive**”), effective as of the Executive’s first day of employment with the Company (the “**Effective Date**”).

This Agreement provides certain protections to the Executive in connection with a change in control of the Company or in connection with the involuntary termination of the Executive’s employment under the circumstances described in this Agreement.

The Company and the Executive agree as follows:

1. Term of Agreement. This Agreement will have an initial term commencing on the Effective Date and ending on September 1, 2024 (the “**Initial Term**”). At the end of the Initial Term and each third (3rd) anniversary thereafter, this Agreement will renew automatically for additional, three (3) year terms (each, an “**Additional Term**”) unless either party provides the other party with written notice of nonrenewal at least sixty (60) days prior to the date of automatic renewal. Notwithstanding the foregoing, if a Change in Control occurs when there are fewer than twelve (12) months remaining during the Initial Term or Additional Term, as applicable, the term of this Agreement will extend automatically through the date that is twelve (12) months following the date of the Change in Control. If the Executive becomes entitled to the benefits under Section 3 of this Agreement, then the Agreement will not terminate until all of the obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment. The Company and the Executive acknowledge that the Executive’s employment is and will continue to be at-will, as defined under applicable law.

3. Severance Benefits.

(a) **Qualifying Non-CIC Termination.** On a Qualifying Non-CIC Termination (as defined below), the Executive will be eligible to receive the following payments and benefits from the Company:

(i) **Severance.** A single, lump sum payment equal to six (6) months of the Executive’s Salary (as defined below), less applicable withholdings.

(ii) **COBRA Coverage.** Subject to Section 3(d), the Company will pay the premiums for coverage under COBRA (as defined below) for the Executive and the Executive’s eligible dependents, if any, at the rates then in effect, subject to any subsequent changes in rates that are generally applicable to the Company’s active employees (the “**COBRA Coverage**”), until the earliest of (A) a period of six (6) months from the date of the Executive’s termination of employment, (B) the date upon which the Executive (and the Executive’s eligible dependents, as applicable) becomes covered under similar plans, or (C) the date upon which the Executive ceases to be eligible for coverage under COBRA.

(b) Qualifying CIC Termination. On a Qualifying CIC Termination, the Executive will be eligible to receive the following payments and benefits from the Company:

(i) *Severance*. A single, lump sum payment equal to twelve (12) months of the Executive's Salary *plus* 100% of the Executive's Target Bonus, less applicable withholdings.

(ii) *COBRA Coverage*. Subject to Section 3(d), the Company will provide COBRA Coverage until the earliest of (A) a period of twelve (12) months from the date of the Executive's termination of employment, (B) the date upon which the Executive (and the Executive's eligible dependents, as applicable) becomes covered under similar plans, or (C) the date upon which the Executive ceases to be eligible for coverage under COBRA.

(iii) *Equity Vesting Acceleration*. Vesting acceleration (and exercisability, as applicable) as to 100% of the then-unvested shares subject to each of the Executive's then-outstanding compensatory equity awards issued by the Company. In the case of an equity award with performance-based vesting, unless otherwise specified in the applicable equity award agreement governing such award, all performance goals and other vesting criteria will be deemed achieved at target.

(c) Termination Other Than a Qualifying Termination. If the termination of the Executive's employment with the Company Group is not a Qualifying Termination, then the Executive will not be entitled to receive severance or other benefits.

(d) Conditions to Receipt of COBRA Coverage. The Executive's receipt of COBRA Coverage is subject to the Executive electing COBRA continuation coverage within the time period prescribed pursuant to COBRA for the Executive and the Executive's eligible dependents, if any. If the Company determines in its sole discretion that it cannot provide the COBRA Coverage without potentially violating, or being subject to an excise tax under, applicable law (including, without limitation, Section 2716 of the Public Health Service Act), then in lieu of any COBRA Coverage, the Company will provide to the Executive a taxable monthly payment payable on the last day of a given month (except as provided by the immediately following sentence), in an amount equal to the monthly COBRA premium that the Executive would be required to pay to continue his or her group health coverage in effect on the date of his or her Qualifying Termination (which amount will be based on the premium rates applicable for the first month of COBRA Coverage for the Executive and any of eligible dependents of the Executive) (each, a "**COBRA Replacement Payment**"), which COBRA Replacement Payments will be made regardless of whether the Executive elects COBRA continuation coverage and will end on the earlier of (x) the date upon which the Executive obtains other employment or (y) the date the Company has paid an amount totaling the number of COBRA Replacement Payments equal to the number of months in the applicable COBRA Coverage period. For the avoidance of doubt, the COBRA Replacement Payments may be used for any purpose, including, but not limited to continuation coverage under COBRA, and will be subject to any applicable withholdings. Notwithstanding anything to the contrary under this Agreement, if the Company determines in its sole discretion at any time that it cannot provide the COBRA Replacement Payments without violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Executive will not receive the COBRA Replacement Payments or any further COBRA Coverage.

(e) Non-Duplication of Payment or Benefits. For purposes of clarity, in the event of a Qualifying Pre-CIC Termination, any severance payments and benefits to be provided to the Executive under Section 3(b) will be reduced by any amounts that already were provided

to the Executive under Section 3(a). Notwithstanding any provision of this Agreement to the contrary, if the Executive is entitled to any cash severance, continued health coverage benefits, or vesting acceleration of any equity awards (other than under this Agreement) by operation of applicable law or under a plan, policy, contract, or arrangement sponsored by or to which any member of the Company Group is a party (“**Other Benefits**”), then the corresponding severance payments and benefits under this Agreement will be reduced by the amount of Other Benefits paid or provided to the Executive.

(f) Death of the Executive. In the event of the Executive’s death before all payments or benefits the Executive is entitled to receive under this Agreement have been provided, the unpaid amounts will be provided to the Executive’s designated beneficiary, if living, or otherwise to the Executive’s personal representative in a single lump sum as soon as possible following the Executive’s death.

(g) Transfer Between Members of the Company Group. For purposes of this Agreement, if the Executive is involuntarily transferred from one member of the Company Group to another, the transfer will not be a termination without Cause but may give the Executive the ability to resign for Good Reason.

(h) Exclusive Remedy. In the event of a termination of the Executive’s employment with the Company Group, the provisions of this Agreement are intended to be and are exclusive and in lieu of any other rights or remedies to which the Executive may otherwise be entitled, whether at law, tort or contract, or in equity. The Executive will be entitled to no benefits, compensation or other payments or rights upon termination of employment other than those benefits expressly set forth in this Agreement.

4. Accrued Compensation. On any termination of the Executive’s employment with the Company Group, the Executive will be entitled to receive all accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to the Executive under any Company-provided plans, policies, and arrangements.

5. Conditions to Receipt of Severance.

(a) Separation Agreement and Release of Claims. The Executive’s receipt of any severance payments or benefits upon the Executive’s Qualifying Termination under Section 3 is subject to the Executive signing and not revoking the Company’s then-standard separation agreement and release of claims (which may include an agreement not to disparage any member of the Company Group, non-solicit provisions, an agreement to assist in any litigation matters, and other standard terms and conditions) (the “**Release**” and that requirement, the “**Release Requirement**”), which must become effective and irrevocable no later than the sixtieth (60th) day following the Executive’s Qualifying Termination (the “**Release Deadline**”). If the Release does not become effective and irrevocable by the Release Deadline, the Executive will forfeit any right to severance payments or benefits under Section 3.

(b) Payment Timing. Any lump sum severance payment under Section 3(a)(i) or 3(b)(i) will be provided on the first regularly scheduled payroll date of the Company following the date the Release becomes effective and irrevocable (the “**Severance Start Date**”), subject to any delay required by Section 5(d) below. Any taxable installments of any COBRA-related severance benefits that otherwise would have been made to the Executive on or before the Severance Start Date will be paid on the Severance Start Date, and any remaining installments thereafter will be provided as specified in the Agreement. Any restricted stock units, performance shares, performance units, and/or similar full value awards that accelerate vesting under Section 3 will be settled (x) on a date no later than ten (10) days following the date the

Release becomes effective and irrevocable, or (y) if later, in the event of a Qualifying Pre-CIC Termination, on a date no later than the Change in Control.

(c) Return of Company Property. The Executive's receipt of any severance payments or benefits upon the Executive's Qualifying Termination under Section 3 is subject to the Executive returning all documents and other property provided to the Executive by any member of the Company Group (with the exception of a copy of the Company employee handbook and personnel documents specifically relating to the Executive), developed or obtained by the Executive in connection with his or her employment with the Company Group, or otherwise belonging to the Company Group.

(d) Section 409A. The Company intends that all payments and benefits provided under this Agreement or otherwise are exempt from, or comply with, the requirements of Section 409A of the Code and any guidance promulgated under Section 409A of the Code (collectively, "**Section 409A**") so that none of the payments or benefits will be subject to the additional tax imposed under Section 409A, and any ambiguities in this Agreement will be interpreted in accordance with this intent. No payment or benefits to be paid to the Executive, if any, under this Agreement or otherwise, when considered together with any other severance payments or separation benefits that are considered deferred compensation under Section 409A (together, the "**Deferred Payments**") will be paid or otherwise provided until the Executive has a "separation from service" within the meaning of Section 409A. If, at the time of the Executive's termination of employment, the Executive is a "specified employee" within the meaning of Section 409A, then the payment of the Deferred Payments will be delayed to the extent necessary to avoid the imposition of the additional tax imposed under Section 409A, which generally means that the Executive will receive payment on the first payroll date that occurs on or after the date that is six (6) months and one (1) day following the Executive's termination of employment. The Company reserves the right to amend this Agreement as it considers necessary or advisable, in its sole discretion and without the consent of the Executive or any other individual, to comply with any provision required to avoid the imposition of the additional tax imposed under Section 409A or to otherwise avoid income recognition under Section 409A prior to the actual payment of any benefits or imposition of any additional tax. Each payment, installment, and benefit payable under this Agreement is intended to constitute a separate payment for purposes of U.S. Treasury Regulation Section 1.409A-2(b)(2). In no event will any member of the Company Group reimburse, indemnify, or hold harmless the Executive for any taxes, penalties and interest that may be imposed, or other costs that may be incurred, as a result of Section 409A.

(e) Resignation of Officer and Director Positions. The Executive's receipt of any severance payments or benefits upon the Executive's Qualifying Termination under Section 3 is subject to the Executive resigning from all officer and director positions with all members of the Company Group and the Executive executing any documents the Company may require in connection with the same.

6. **Limitation on Payments.**

(a) Reduction of Severance Benefits. If any payment or benefit that the Executive would receive from any Company Group member or any other party whether in connection with the provisions in this Agreement or otherwise (the "**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then the Payment will be equal to the Best Results Amount. The "**Best Results Amount**" will be either (x) the full amount of the Payment or (y) a lesser amount that would result in no portion of the Payment being subject to the Excise Tax, whichever of those amounts, taking into

account the applicable federal, state, and local employment taxes, income taxes, and the Excise Tax, results in the Executive's receipt, on an after-tax basis, of the greater amount. If a reduction in payments or benefits constituting parachute payments is necessary so that the Payment equals the Best Results Amount, reduction will occur in the following order: (A) reduction of cash payments in reverse chronological order (that is, the cash payment owed on the latest date following the occurrence of the event triggering the Excise Tax will be the first cash payment to be reduced); (B) cancellation of equity awards that were granted "contingent on a change in ownership or control" within the meaning of Section 280G of the Code in the reverse order of date of grant of the awards (that is, the most recently granted equity awards will be cancelled first); (C) reduction of the accelerated vesting of equity awards in the reverse order of date of grant of the awards (that is, the vesting of the most recently granted equity awards will be cancelled first); and (D) reduction of employee benefits in reverse chronological order (that is, the benefit owed on the latest date following the occurrence of the event triggering the Excise Tax will be the first benefit to be reduced). In no event will the Executive have any discretion with respect to the ordering of Payment reductions. The Executive will be solely responsible for the payment of all personal tax liability that is incurred as a result of the payments and benefits received under this Agreement, and the Executive will not be reimbursed, indemnified, or held harmless by any member of the Company Group for any of those payments of personal tax liability.

(b) Determination of Excise Tax Liability. Unless the Company and the Executive otherwise agree in writing, the Company will select a professional services firm (the "**Firm**") to make all determinations required under this Section 6, which determinations will be conclusive and binding upon the Executive and the Company for all purposes. For purposes of making the calculations required by this Section 6, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive will furnish to the Firm such information and documents as the Firm reasonably may request in order to make determinations under this Section 6. The Company will bear the costs and make all payments for the Firm's services in connection with any calculations contemplated by this Section 6. The Company will have no liability to the Executive for the determinations of the Firm.

7. **Definitions.** The following terms referred to in this Agreement will have the following meanings:

(a) "**Board**" means the Company's Board of Directors.

(b) "**Cause**" means the occurrence of any of the following: (i) the Executive's willful and continued failure to perform the Executive's assigned duties or responsibilities as an employee of the Company (other than a failure resulting from the Executive's disability) after written notice from the Company describing the basis for the Company's belief that the Executive has failed to perform such duties or responsibilities, and not remedying such failure within thirty (30) days of the Executive's receipt of such notice; (ii) the Executive engaging in any act of dishonesty, fraud, or misrepresentation in connection with the Executive's responsibilities as a Company employee that results in substantial harm to the Company's reputation or business; (iii) the Executive's violation of any federal or state law or regulation applicable to the business of the Company or its affiliates that results in substantial harm to the Company's reputation or business; (iv) the Executive's unauthorized use or disclosure of any proprietary information or trade secrets of the Company; or (v) the Executive being convicted of, or entering a plea of nolo contendere to, a felony.

(c) **“Change in Control”** means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group (“**Person**”), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty (50%) of the total voting power of the stock of the Company; *provided, however*, that for purposes of this subsection, (A) the acquisition of additional stock by any one Person who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control and (B) if the stockholders of the Company immediately before such change in ownership continue to retain immediately after the change in ownership, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately prior to the change in ownership, the direct or indirect beneficial ownership of fifty percent (50%) or more of the total voting power of the stock of the Company or of the ultimate parent entity of the Company, such event will not be considered a Change in Control under this subsection (i). For this purpose, indirect beneficial ownership will include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company, as the case may be, either directly or through one or more subsidiary corporations or other business entities;

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by members of the Board whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this subsection (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company’s assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; *provided, however*, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company’s assets: (A) a transfer to an entity that is controlled by the Company’s stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company’s stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. Notwithstanding the

foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A. Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if its sole purpose is to either (i) change the state of the Company's incorporation or (ii) create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(d) "**Change in Control Period**" means the period beginning three (3) months prior to a Change in Control and ending twelve (12) months following a Change in Control.

(e) "**COBRA**" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(f) "**Code**" means the Internal Revenue Code of 1986, as amended.

(g) "**Company Group**" means the Company and any subsidiaries of the Company.

(h) "**Confidentiality Agreement**" means the At-Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement that you previously signed.

(i) "**Disability**" means a total and permanent disability as defined in Section 22(e)(3) of the Code.

(j) "**Good Reason**" means the termination of the Executive's employment with the Company Group by the Executive in accordance with the next sentence after the occurrence of one or more of the following events without the Executive's express written consent:

(i) A material reduction of the Executive's authority or responsibilities relative to the Executive's authority or responsibilities in effect immediately prior to such reduction; *provided, however*, that continued employment following a Change in Control with substantially the same duties, authorities, or responsibilities with respect to the Company's business and operations as in effect immediately prior to the Change in Control will not constitute "Good Reason" (for example, "Good Reason" does not exist if the Executive is employed by the parent corporation or any entity within a group of controlled corporations including the Company or its assets (the "**Parent Group**") with substantially the same duties, authorities, or responsibilities with respect to the Company's business that the Executive had immediately prior to the Change in Control regardless of whether the Executive's title is revised to reflect the Executive's placement within the overall corporate hierarchy of the Parent Group or whether the Executive provides services to a subsidiary, affiliate, business unit, or otherwise);

(ii) A material reduction of the Executive's base salary or bonus opportunity, except for reductions that are in proportion to any salary/bonus reduction program approved by the Board that affects a majority of the senior executives of the Company; *provided, however*, that an aggregate reduction of 10% or less will in no instance be deemed material;

(iii) A material change in the geographic location at which the Executive must perform services (for purposes of this Agreement, the Executive's relocation to a facility or a location less than thirty (30) miles from the Executive's then-present location will not be considered a material change in geographic location); or

(iv) Any material breach by the Company of any material provision of this Agreement.

In order for the termination of the Executive's employment with a Company Group member to be for Good Reason, the Executive must not terminate employment without first providing the Company with written notice of the acts or omissions constituting the grounds for "Good Reason" within ninety (90) days of the initial existence of the grounds for "Good Reason" and a reasonable cure period of not less than thirty (30) days following the date of such notice.

(k) "**Qualifying Pre-CIC Termination**" means a Qualifying CIC Termination that occurs prior to the date of the Change in Control.

(l) "**Qualifying Termination**" means a termination of the Executive's employment either (i) by a Company Group member without Cause (excluding by reason of the Executive's death or Disability) or (ii) by the Executive for Good Reason, in either case, during the Change in Control Period (a "**Qualifying CIC Termination**") or outside of the Change in Control Period (a "**Qualifying Non-CIC Termination**").

(m) "**Salary**" means the Executive's annual base salary as in effect immediately prior to the Executive's Qualifying Termination (or if the termination is due to a resignation for Good Reason based on a material reduction in base salary, then the Executive's annual base salary in effect immediately prior to the reduction) or, if the Executive's Qualifying Termination is a Qualifying CIC Termination and the amount is greater, at the level in effect immediately prior to the Change in Control.

(n) "**Target Bonus**" means the Executive's annual (or annualized, as applicable) target bonus in effect immediately prior to the Executive's Qualifying Termination or, if the Executive's Qualifying Termination occurs during the Change in Control Period and the amount is greater, the Executive's annual (or annualized, if applicable) target bonus in effect immediately prior to the Change in Control.

8. Successors. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of the Executive upon the Executive's death, and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of the Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of the Executive's right to compensation or other benefits will be null and void.

9. Notice.

(a) General. All notices and other communications required or permitted under this Agreement shall be in writing and will be effectively given (i) upon actual delivery to

the party to be notified, (ii) upon transmission by email, (iii) twenty-four (24) hours after confirmed facsimile transmission, (iv) one (1) business day after deposit with a recognized overnight courier, or (v) three (3) business days after deposit with the U.S. Postal Service by first class certified or registered mail, return receipt requested, postage prepaid, addressed (A) if to the Executive, at the address the Executive shall have most recently furnished to the Company in writing, and (B) if to the Company, at the following address:

Udemy, Inc.
600 Harrison Street, 3rd Floor
San Francisco, CA 94107
Attention: General Counsel

(b) **Notice of Termination.** Any termination by a Company Group member for Cause will be communicated by a notice of termination to the Executive, and any termination by the Executive for Good Reason will be communicated by a notice of termination to the Company, in each case given in accordance with Section 9(a) of this Agreement. The notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than thirty (30) days after the giving of the notice).

10. Resignation. The termination of the Executive's employment for any reason will also constitute, without any further required action by the Executive, the Executive's voluntary resignation from all officer and/or director positions held at any member of the Company Group, and at the Board's request, the Executive will execute any documents reasonably necessary to reflect the resignations.

11. Miscellaneous Provisions.

(a) **No Duty to Mitigate.** The Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any payment be reduced by any earnings that the Executive may receive from any other source except as specified in Section 3(e).

(b) **Waiver; Amendment.** No provision of this Agreement will be modified, waived, or discharged unless the modification, waiver, or discharge is agreed to in writing and signed by an authorized officer of the Company (other than the Executive) and by the Executive. No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) **Headings.** All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(d) **Entire Agreement.** This Agreement constitutes the entire agreement of the parties and supersedes in their entirety all prior representations, understandings, undertakings, or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter of this Agreement, including, for the avoidance of doubt, any other employment letter or agreement, severance policy or program, or equity award agreement.

(e) **Governing Law.** This Agreement will be governed by the laws of the State of California without regard to its conflict of law provisions. To the extent that any lawsuit is permitted under this Agreement, Employee hereby expressly consents to the personal and

exclusive jurisdiction and venue of the state courts located in San Francisco County, California, or the US federal courts for the Northern District of California, and no other courts, regardless of where Employee's services are performed.

(f) Arbitration. Any and all controversies, claims, or disputes with anyone under this Agreement (including the Company and any employee, officer, director, stockholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from the Executive's employment with the Company Group, shall be subject to arbitration in accordance with the provisions of the Confidentiality Agreement.

(g) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, which will remain in full force and effect.

(h) Withholding. All payments and benefits under this Agreement will be paid less applicable withholding taxes. The Company is authorized to withhold from any payments or benefits all federal, state, local, and/or foreign taxes required to be withheld from the payments or benefits and make any other required payroll deductions. No member of the Company Group will pay the Executive's taxes arising from or relating to any payments or benefits under this Agreement.

(i) Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

Signature page follows

By its signature below, each of the parties signifies its acceptance of the terms of this Agreement, in the case of the Company by its duly authorized officer.

UDEMY, INC.

By: /s/ Greg Brown

Name: Greg Brown

Title: Chief Executive Officer

Date: July 11, 2023

EXECUTIVE

By: /s/ Prasad Raje

Name: Prasad Raje

Date: July 11, 2023

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.**

I, Greg Brown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Udem, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

By:

/s/ Greg Brown
Greg Brown
President and,
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sarah Blanchard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Udem, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2023

By:

/s/ Sarah Blanchard
Sarah Blanchard
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Udem, Inc. (the "Company") for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Udem, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

By:

Date: November 2, 2023

/s/ Greg Brown
Greg Brown
President and,
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10-Q of Udemy, Inc. (the "Company") for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Udemy, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

Date: November 2, 2023

By:

/s/ Sarah Blanchard
Sarah Blanchard
Chief Financial Officer
(Principal Financial Officer)