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, 2020

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: 001-38498

PLURALSIGHT, INC.
(Exact name of registrant as specified in its charter)

Delaware	**82-3605465**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

42 Future Way
Draper, Utah 84020
(Address of principal executive offices, including zip code)

(801) 784-9007
(Registrant’s telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, $0.0001 par value per share	PS	Nasdaq Global Select 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, a 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 Exchange Act). Yes ☐ No ☒

As of October 30, 2020, the registrant had 145,694,625 shares of common stock outstanding, consisting of 119,624,728 shares of Class A common stock, 12,669,110 shares of Class B common stock, and 13,400,787 shares of Class C common stock.

PLURALSIGHT, INC.
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

As used in this Quarterly Report on Form 10-Q, unless expressly indicated or the context otherwise requires, references to "Pluralsight," "we," "us," "our," "the Company," and similar references refer to Pluralsight, Inc. and its consolidated subsidiaries, including Pluralsight Holdings, LLC, or Pluralsight Holdings.

This Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements, which are subject to a number of risks, uncertainties, and assumptions, generally relate to future events or our future financial or operating performance. In some cases, you can identify these statements by forward-looking words such as "believe," "may," "will," "estimate," "continue," "anticipate," "design," "intend," "expect," "could," "plan," "potential," "predict," "seek," "should," "would," "target," "project," "contemplate," or the negative version of these words and other comparable terminology that concern our expectations, strategy, plans, intentions, or projections. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our ability to attract new customers and retain and expand our relationships with existing customers;
- our ability to expand our course library and develop new platform features;
- our future financial performance, including trends in billings, revenue, costs of revenue, gross margin, operating expenses, cash provided by (used in) operating activities, and free cash flow;
- the demand for, and market acceptance of, our platform or for cloud-based technology learning solutions in general;
- our ability to compete successfully in competitive markets;
- our ability to respond to rapid technological changes;
- our expectations of the impact the novel coronavirus strain named SARS-CoV-2, abbreviated as COVID-19, pandemic may have on our business;
- our ability to maintain operations and implement effective measures in response to the COVID-19 pandemic;
- our expectations and management of future growth;
- our ability to enter new markets and manage our expansion efforts, particularly internationally;
- our ability to attract and retain key employees and qualified technical and sales personnel;
- our ability to effectively and efficiently protect our brand;
- our ability to timely scale and adapt our infrastructure;
- our ability to maintain, protect, and enhance our intellectual property and not infringe upon others' intellectual property;
- our ability to successfully identify, acquire, and integrate companies and assets;
- our ability to successfully defend ourselves in legal proceedings;
- the amount and timing of any payments we make under the fourth amended and restated limited liability company agreement of Pluralsight Holdings, or the Fourth LLC Agreement, and our Tax Receivable Agreement, or TRA, with the members of Pluralsight Holdings; and
- our ability to satisfy our obligations under the convertible senior notes, or the Notes.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in the section titled "Risk Factors" in our Annual Report on Form 10-K/A as filed with the Securities and Exchange Commission, or the SEC, under the Exchange Act. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. Such risks and uncertainties include the impact of the spread of COVID-19. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements and you should not place undue reliance on our forward-looking statements.

The forward-looking statements made in this Quarterly Report on 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 Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

You should read this Quarterly Report on Form 10-Q in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2019 included in our Annual Report on Form 10-K/A.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

PLURALSIGHT, INC.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)
(unaudited)

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 100,882	$ 90,515
Short-term investments	304,077	332,234
Accounts receivable, net of allowances of $5,037 and $3,465 as of September 30, 2020 and December 31, 2019, respectively	76,492	101,576
Deferred contract acquisition costs	19,469	18,331
Prepaid expenses and other current assets	18,847	14,174
Total current assets	519,767	556,830
Restricted cash and cash equivalents	17,337	28,916
Long-term investments	114,623	105,805
Property and equipment, net	65,058	22,896
Right-of-use assets	61,719	15,804
Content library, net	11,880	8,958
Intangible assets, net	18,416	22,631
Goodwill	262,532	262,532
Deferred contract acquisition costs, noncurrent	8,317	5,982
Other assets	1,940	1,599
Total assets	$ 1,081,589	$ 1,031,953
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 7,041	$ 10,615
Accrued expenses	47,090	40,703
Accrued author fees	11,988	11,694
Lease liabilities	9,184	5,752
Deferred revenue	207,823	215,137
Total current liabilities	283,126	283,901
Deferred revenue, noncurrent	21,138	19,517
Convertible senior notes, net	490,355	470,228
Lease liabilities, noncurrent	75,393	11,167
Other liabilities	69	980
Total liabilities	870,081	785,793
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.0001 par value per share, 100,000,000 shares authorized, no shares issued and outstanding as of September 30, 2020 and December 31, 2019	—	—
Class A common stock, $0.0001 par value per share, 1,000,000,000 shares authorized, 119,381,936 and 104,083,271 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	12	10
Class B common stock, $0.0001 par value per share, 200,000,000 shares authorized, 12,813,383 and 23,211,418 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	1	2
Class C common stock, $0.0001 par value per share, 50,000,000 shares authorized, 13,296,350 and 14,269,199 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	1	1
Additional paid-in capital	724,184	641,128
Accumulated other comprehensive income	1,166	225
Accumulated deficit	(550,990)	(458,381)
Total stockholders' equity attributable to Pluralsight, Inc.	174,374	182,985
Non-controlling interests	37,134	63,175
Total stockholders' equity	211,508	246,160
Total liabilities and stockholders' equity	$ 1,081,589	$ 1,031,953

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLURALSIGHT, INC.

Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	$ 99,465	$ 82,620	$ 286,876	$ 228,099
Cost of revenue	20,426	17,829	59,151	52,344
Gross profit	79,039	64,791	227,725	175,755
Operating expenses:				
Sales and marketing	57,206	55,797	177,380	150,014
Technology and content	29,345	27,847	89,003	72,937
General and administrative	20,366	20,844	66,733	63,610
Total operating expenses	106,917	104,488	333,116	286,561
Loss from operations	(27,878)	(39,697)	(105,391)	(110,806)
Other income (expense):				
Interest expense	(7,409)	(7,412)	(21,799)	(16,436)
Loss on debt extinguishment	—	(950)	—	(950)
Other income, net	1,992	3,001	6,429	8,783
Loss before income taxes	(33,295)	(45,058)	(120,761)	(119,409)
Income tax expense	(476)	(404)	(253)	(701)
Net loss	$ (33,771)	$ (45,462)	$ (121,014)	$ (120,110)
Less: Net loss attributable to non-controlling interests	(6,410)	(12,983)	(28,405)	(39,429)
Net loss attributable to Pluralsight, Inc.	$ (27,361)	$ (32,479)	$ (92,609)	$ (80,681)
Net loss per share, basic and diluted	$ (0.24)	$ (0.32)	$ (0.85)	$ (0.88)
Weighted-average shares of Class A common stock used in computing basic and diluted net loss per share	115,196	101,407	109,009	91,741

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLURALSIGHT, INC.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net loss	$ (33,771)	$ (45,462)	$ (121,014)	$ (120,110)
Other comprehensive income (loss):				
Unrealized (losses) gains on investments	(193)	19	1,196	398
Foreign currency translation gains (losses), net	181	(90)	32	(79)
Comprehensive loss	$ (33,783)	$ (45,533)	$ (119,786)	$ (119,791)
Less: Comprehensive loss attributable to non-controlling interests	(6,434)	(13,002)	(28,118)	(39,336)
Comprehensive loss attributable to Pluralsight, Inc.	$ (27,349)	$ (32,531)	$ (91,668)	$ (80,455)

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLURALSIGHT, INC.

Condensed Consolidated Statements of Stockholders' Equity

(in thousands, except share amounts)
(unaudited)

Three Months Ended September 30, 2020

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at June 30, 2020	111,875,235	$ 11	19,366,038	$ 2	13,191,913	$ 1	$ 693,768	$ 1,154	$ (523,629)	$ 48,371	$ 219,678
Effect of exchanges of LLC Units	6,552,655	1	(6,552,655)	(1)	—	—	10,033	—	—	(10,033)	—
Vesting of restricted stock units	689,334	—	—	—	104,437	—	—	—	—	—	—
Exercise of common stock options	264,712	—	—	—	—	—	3,863	—	—	—	3,863
Shares withheld for tax withholding on equity awards	—	—	—	—	—	—	(1,732)	—	—	—	(1,732)
Equity-based compensation	—	—	—	—	—	—	23,482	—	—	—	23,482
Adjustments to non-controlling interests	—	—	—	—	—	—	(5,230)	—	—	5,230	—
Other comprehensive income (loss)	—	—	—	—	—	—	—	12	—	(24)	(12)
Net loss	—	—	—	—	—	—	—	—	(27,361)	(6,410)	(33,771)
Balance at September 30, 2020	119,381,936	$ 12	12,813,383	$ 1	13,296,350	$ 1	$ 724,184	$ 1,166	$ (550,990)	$ 37,134	$ 211,508

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLURALSIGHT, INC.

Condensed Consolidated Statements of Stockholders’ Equity (Continued)

(in thousands, except share amounts)
(unaudited)

Three Months Ended September 30, 2019

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Non-Controlling Interests	Total Stockholders’ Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at June 30, 2019	101,096,472	$ 10	24,664,113	$ 2	14,186,856	$ 1	$ 599,464	$ 237	$ (393,925)	$ 74,356	$ 280,145
Effect of exchanges of LLC Units	116,709	—	(116,709)	—	—	—	238	—	—	(238)	—
Vesting of restricted stock units	399,052	—	—	—	102,906	—	—	—	—	—	—
Exercise of common stock options	25,946	—	—	—	—	—	245	—	—	—	245
Forfeiture of unvested LLC Units	—	—	(104,452)	—	—	—	—	—	—	—	—
Repurchases of equity component of convertible senior notes	—	—	—	—	—	—	(2,965)	—	—	—	(2,965)
Settlement of capped calls related to repurchases of convertible senior notes	—	—	—	—	—	—	1,284	—	—	—	1,284
Equity-based compensation	—	—	—	—	—	—	25,009	—	—	—	25,009
Adjustments to non-controlling interests	—	—	—	—	—	—	(7,656)	—	—	7,656	—
Other comprehensive income (loss)	—	—	—	—	—	—	—	(52)	—	(19)	(71)
Net loss	—	—	—	—	—	—	—	—	(32,479)	(12,983)	(45,462)
Balance at September 30, 2019	101,638,179	$ 10	24,442,952	$ 2	14,289,762	$ 1	$ 615,619	$ 185	$ (426,404)	$ 68,772	$ 258,185

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLURALSIGHT, INC.

Condensed Consolidated Statements of Stockholders' Equity (Continued)

(in thousands, except share amounts)
(unaudited)

Nine Months Ended September 30, 2020

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2019	104,083,271	$ 10	23,211,418	$ 2	14,269,199	$ 1	$ 641,128	$ 225	$ (458,381)	$ 63,175	$ 246,160
Effect of exchanges of LLC Units	11,683,854	1	(10,398,035)	(1)	(1,285,819)	—	18,086	—	—	(18,086)	—
Issuance of common stock under employee stock purchase plan	629,927	—	—	—	—	—	8,348	—	—	—	8,348
Vesting of restricted stock units	2,526,331	1	—	—	312,970	—	(1)	—	—	—	—
Exercise of common stock options	458,553	—	—	—	—	—	6,393	—	—	—	6,393
Shares withheld for tax withholding on equity awards	—	—	—	—	—	—	(5,605)	—	—	—	(5,605)
Equity-based compensation	—	—	—	—	—	—	75,998	—	—	—	75,998
Adjustments to non-controlling interests	—	—	—	—	—	—	(20,163)	—	—	20,163	—
Other comprehensive income	—	—	—	—	—	—	—	941	—	287	1,228
Net loss	—	—	—	—	—	—	—	—	(92,609)	(28,405)	(121,014)
Balance at September 30, 2020	119,381,936	$ 12	12,813,383	$ 1	13,296,350	$ 1	$ 724,184	$ 1,166	$ (550,990)	$ 37,134	$ 211,508

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLURALSIGHT, INC.

Condensed Consolidated Statements of Stockholders' Equity (Continued)

(in thousands, except share amounts)
(unaudited)

Nine Months Ended September 30, 2019

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non-Controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2018	65,191,907	$ 7	57,490,881	$ 6	14,586,173	$ 1	$ 456,899	$ (41)	$ (355,446)	$ 107,167	$ 208,593
Cumulative effect of accounting changes	—	—	—	—	—	—	—	—	9,723	10,273	19,996
Effect of exchanges of LLC Units	33,536,262	3	(32,926,084)	(4)	(610,178)	—	59,158	—	—	(59,157)	—
Issuance of common stock under employee stock purchase plan	621,463	—	—	—	—	—	8,257	—	—	—	8,257
Vesting of restricted stock units	1,835,633	—	—	—	313,767	—	—	—	—	—	—
Exercise of common stock options	452,914	—	—	—	—	—	6,619	—	—	—	6,619
Forfeiture of unvested LLC Units	—	—	(121,845)	—	—	—	—	—	—	—	—
Equity component of convertible senior notes, net of issuance costs	—	—	—	—	—	—	137,033	—	—	—	137,033
Purchase of capped calls related to issuance of convertible senior notes	—	—	—	—	—	—	(69,432)	—	—	—	(69,432)
Repurchases of equity component of convertible senior notes	—	—	—	—	—	—	(2,965)	—	—	—	(2,965)
Settlement of capped calls related to repurchases of convertible senior notes	—	—	—	—	—	—	1,284	—	—	—	1,284
Equity-based compensation	—	—	—	—	—	—	68,591	—	—	—	68,591
Adjustments to non-controlling interests	—	—	—	—	—	—	(49,825)	—	—	49,825	—
Other comprehensive income	—	—	—	—	—	—	—	226	—	93	319
Net loss	—	—	—	—	—	—	—	—	(80,681)	(39,429)	(120,110)
Balance at September 30, 2019	101,638,179	$ 10	24,442,952	$ 2	14,289,762	$ 1	$ 615,619	$ 185	$ (426,404)	$ 68,772	$ 258,185

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLURALSIGHT, INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)
(unaudited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating activities		
Net loss	$ (121,014)	$ (120,110)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	8,866	6,996
Amortization of acquired intangible assets	4,235	3,044
Amortization of course creation costs	2,464	1,841
Equity-based compensation	76,217	67,657
Amortization of deferred contract acquisition costs	19,018	17,317
Amortization of debt discount and issuance costs	20,128	15,120
Investment discount and premium amortization, net	68	(1,771)
Loss on debt extinguishment	—	950
Other	589	(178)
Changes in assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	23,512	1,858
Deferred contract acquisition costs	(22,491)	(18,668)
Prepaid expenses and other assets	(4,237)	(3,509)
Right-of-use assets	4,487	4,339
Accounts payable	(3,126)	(2,520)
Accrued expenses and other liabilities	6,880	5,188
Accrued author fees	293	1,292
Lease liabilities	(3,604)	(5,130)
Deferred revenue	(5,592)	22,461
Net cash provided by (used in) operating activities	6,693	(3,823)
Investing activities		
Purchases of property and equipment	(31,226)	(7,619)
Purchases of content library	(5,596)	(3,822)
Cash paid for acquisition, net of cash acquired	—	(163,771)
Purchases of investments	(427,130)	(529,653)
Proceeds from sales of investments	—	4,967
Proceeds from maturities of investments	446,830	112,995
Net cash used in investing activities	(17,122)	(586,903)
Financing activities		
Proceeds from issuance of common stock from employee equity plans	14,741	14,876
Taxes paid related to net share settlement	(5,605)	—
Proceeds from issuance of convertible senior notes, net of discount and issuance costs	—	616,654
Purchase of capped calls related to issuance of convertible senior notes	—	(69,432)
Repurchases of convertible senior notes	—	(35,000)
Proceeds from terminations of capped calls related to repurchases of convertible senior notes	—	1,284
Net cash provided by financing activities	9,136	528,382
Effect of exchange rate changes on cash, cash equivalents, and restricted cash and cash equivalents	81	(108)
Net decrease in cash, cash equivalents, and restricted cash and cash equivalents	(1,212)	(62,452)
Cash, cash equivalents, and restricted cash and cash equivalents, beginning of period	119,431	211,071
Cash, cash equivalents, and restricted cash and cash equivalents, end of period	$ 118,219	$ 148,619

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLURALSIGHT, INC.

Condensed Consolidated Statements of Cash Flows (Continued)

(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2020	**2019**
Supplemental cash flow disclosure:		
Cash paid for interest	$ 2,226	$ 1,126
Cash paid for income taxes, net	$ 1,191	$ 539
Supplemental disclosure of non-cash investing and financing activities:		
Lease liabilities arising from obtaining right-of-use assets and tenant improvements	$ 70,313	$ 3,147
Unpaid capital expenditures	$ 2,671	$ 752
Equity-based compensation capitalized as internal-use software	$ 963	$ 934
Unrealized gains on investments	$ 1,196	$ 398
Reconciliation of cash, cash equivalents, and restricted cash and cash equivalents as shown in the statement of cash flows:		
Cash and cash equivalents	$ 100,882	$ 120,871
Restricted cash and cash equivalents	17,337	27,748
Total cash, cash equivalents, and restricted cash and cash equivalents	$ 118,219	$ 148,619

The accompanying notes are an integral part of these condensed consolidated financial statements.

Note 1. Organization and Description of Business

Pluralsight, Inc. was incorporated as a Delaware corporation on December 4, 2017 as a holding company for the purpose of facilitating an initial public offering ("IPO") and other related transactions in order to carry on the business of Pluralsight Holdings, LLC ("Pluralsight Holdings") and its subsidiaries (together with Pluralsight, Inc., the "Company" or "Pluralsight").

In May 2018, Pluralsight, Inc. completed its IPO and used the net proceeds to purchase newly issued common limited liability company units ("LLC Units") from Pluralsight Holdings. Following the reorganization transactions completed in connection with the IPO ("Reorganization Transactions"), Pluralsight, Inc. became the sole managing member of Pluralsight Holdings. As the sole managing member, Pluralsight, Inc. has the sole voting interest in Pluralsight Holdings and controls all of the business operations, affairs, and management of Pluralsight Holdings. Accordingly, Pluralsight, Inc. consolidates the financial results of Pluralsight Holdings and reports the non-controlling interests representing the economic interests held by the other members of Pluralsight Holdings. As of September 30, 2020, Pluralsight, Inc. owned 82.4% of Pluralsight Holdings and the members of Pluralsight Holdings who retained LLC Units prior to the IPO (the "Continuing Members") owned the remaining 17.6% of Pluralsight Holdings.

Pluralsight operates a cloud-based technology skills and engineering management platform that provides a broad range of tools for businesses and individuals, including skill assessments, a curated library of courses, learning paths, developer productivity metrics, and business analytics. As the sole managing member of Pluralsight Holdings, Pluralsight, Inc. operates and controls all of the business operations and affairs of Pluralsight.

Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and the applicable regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2019 included in Pluralsight, Inc.'s Annual Report on Form 10-K/A, as filed with the SEC on March 2, 2020 ("Annual Report").

These unaudited condensed consolidated financial statements include the accounts of Pluralsight, Inc. and its directly and indirectly wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

As discussed in Note 1—Organization and Description of Business, Pluralsight, Inc. consolidates the financial results of Pluralsight Holdings as a Variable Interest Entity ("VIE"). The Company periodically evaluates entities for consolidation either through ownership of a majority voting interest, or through means other than a voting interest, in accordance with the VIE accounting model. Under the VIE accounting model, Pluralsight, Inc. is the primary beneficiary as it has the majority economic interest in Pluralsight Holdings, and, as the sole managing member, has decision making authority that significantly affects the economic performance of the entity, while the limited partners have no substantive kick-out or participating rights.

The assets and liabilities of Pluralsight Holdings represent substantially all of the consolidated assets and liabilities of Pluralsight, Inc. with the exception of certain deferred taxes and liabilities under the Tax Receivable Agreement ("TRA") as discussed in Note 15—Income Taxes and the obligations under the Company's convertible senior notes discussed in Note 10—Convertible Senior Notes.

Interim Unaudited Condensed Consolidated Financial Statements

The accompanying condensed consolidated balance sheet as of September 30, 2020, and the condensed consolidated statements of operations, comprehensive loss, and stockholders' equity, for the three and nine months ended September 30, 2020 and 2019, and the interim condensed consolidated statements of cash flows for the nine months ended September 30, 2020 and 2019, are unaudited. The condensed consolidated balance sheet as of December 31, 2019 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The interim unaudited condensed consolidated financial statements have been prepared on a basis consistent with the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial condition, its operations and cash flows for the periods presented. The historical results are not necessarily indicative of future results, and the results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the full year or any other period.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 date of the financial statements and the reported amounts of revenue and expenses for the reporting period. On an ongoing basis, the Company evaluates its estimates, including, but not limited to, those related to the determination of the fair value of equity awards, the fair value of the liability and equity components of the convertible senior notes, the fair value of identified assets and liabilities acquired in business combinations, the useful lives of property and equipment, content library and intangible assets, impairment of long-lived and intangible assets, including goodwill, provisions for doubtful accounts receivable, the standalone selling price ("SSP") of performance obligations, the determination of the period of benefit for deferred contract acquisition costs, certain accrued expenses, including author fees, and the discount rate used in measuring lease liabilities. These estimates and assumptions are based on the Company's historical results and management's future expectations. Actual results could differ from those estimates.

Significant Accounting Policies

The Company's significant accounting policies are discussed in Note 2—Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Annual Report. There have been no significant changes to these policies that have had a material impact on the Company's unaudited condensed consolidated financial statements and related notes during the three months ended September 30, 2020, except as noted below.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of credit losses for newly recognized financial assets and subsequent changes in the allowance for credit losses are recorded in the statements of operations. The allowance for credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The ASU also amends the impairment model for available-for-sale debt securities and requires any credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down, with changes presented through earnings. The Company adopted the standard effective January 1, 2020 using the modified retrospective approach. The effect of the adoption was not material to the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset. The Company adopted the standard prospectively effective January 1, 2020. As a result of the adoption, the Company capitalizes certain implementation costs that were previously expensed as incurred. These costs will be amortized to expense over the term of the hosting arrangement. The effect of adopting the standard was not material to the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2020.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740 and clarifies certain aspects of the current guidance to promote consistency among reporting entities. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The standard is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company early adopted the standard during the second quarter of 2020. The effect of adopting the standard was not material to the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2020. The standard removes the exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and other comprehensive income, as a result the Company was not required to apply the incremental approach for intraperiod tax allocation.

Accounting Pronouncements Not Yet Adopted

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity.* This ASU removes certain separation models in ASC 470-20 for convertible instruments, and, as a result, embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under ASC 815. Consequently, a convertible debt instrument, such as the Company's convertible senior notes, will be accounted for as a single liability measured at its amortized cost. As of September 30, 2020, the Company recorded a discount on the convertible notes of $94.4 million related to the separation of the conversion feature. This discount results in the accretion of interest expense over time and is expected to be removed upon adoption of this ASU. As a result, the standard is expected to have a material impact on the Company's consolidated financial statements. The standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those years. Early adoption is permitted, but no earlier than the fiscal year beginning after December 15, 2020. Adoption using either the full retrospective or modified retrospective transition method is permitted. The Company continues to evaluate the impact of the adoption of the new standard on its accounting policies and processes, and is currently evaluating adoption methods.

Note 3. Revenue

Disaggregation of Revenue

Subscription revenue accounted for approximately 97% and 95% of the Company’s revenue for the three months ended September 30, 2020 and 2019, respectively, and 97% for each of the nine months ended September 30, 2020 and 2019.

Revenue by geographic region, based on the physical location of the customer, was as follows (dollars in thousands):

	Three Months Ended September 30,				Growth Rate
	2020		2019		
	Amount	%	Amount	%	%
United States	$ 60,283	61 %	$ 51,869	63 %	16 %
Europe, Middle East and Africa[(1)]	28,700	29 %	22,314	27 %	29 %
Other foreign locations	10,482	10 %	8,437	10 %	24 %
Total revenue	$ 99,465	100 %	$ 82,620	100 %	

	Nine Months Ended September 30,				Growth Rate
	2020		2019		
	Amount	%	Amount	%	%
United States	$ 177,875	62 %	$ 142,705	63 %	25 %
Europe, Middle East and Africa[(1)]	80,950	28 %	62,204	27 %	30 %
Other foreign locations	28,051	10 %	23,190	10 %	21 %
Total revenue	$ 286,876	100 %	$ 228,099	100 %	

(1) Revenue from the United Kingdom represented 12% and 11% of revenue for the three months ended September 30, 2020 and 2019, respectively, and 12% and 11% of revenue for the nine months ended September 30, 2020, and 2019, respectively. No other foreign country accounted for 10% or more of revenue during the three and nine months ended September 30, 2020 and 2019.

Revenue by type of customer, was as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Business customers	$ 87,030	$ 71,278	$ 251,072	$ 194,373
Individual customers	12,435	11,342	35,804	33,726
Total revenue	$ 99,465	$ 82,620	$ 286,876	$ 228,099

Contract Balances

Contract assets represent amounts for which the Company has recognized revenue, pursuant to the Company's revenue recognition policy, for contracts that have not yet been invoiced to customers where there is a remaining performance obligation, typically for multi-year arrangements. Total contract assets were $2.7 million and $0.8 million as of September 30, 2020 and December 31, 2019, respectively. The change in contract assets reflects the difference in timing between the satisfaction of remaining performance obligations and the Company's contractual right to bill its customers.

Deferred revenue consists of contract liabilities and includes payments received in advance of performance under the contract. Such amounts are generally recognized as revenue over the contractual period. The Company recognized revenue that was included in the corresponding deferred revenue balance at the beginning of the period of $86.8 million and $70.9 million for the three months ended September 30, 2020 and 2019, respectively, and $187.7 million and $137.1 million for the nine months ended September 30, 2020 and 2019, respectively.

Remaining Performance Obligations

Remaining performance obligation represents contracted revenue that has not yet been recognized and includes deferred revenue and unbilled amounts that will be recognized as revenue in future periods. As of September 30, 2020, the aggregate amount of the transaction price allocated to remaining performance obligations was $325.0 million. The Company expects to recognize 71% of the transaction price over the next 12 months. Unbilled portions of the remaining performance obligation are subject to future economic risks including bankruptcies, regulatory changes and other market factors.

Costs to Obtain a Contract

The following table summarizes the activity of the deferred contract acquisition costs (in thousands):

	Nine Months Ended September 30,	
	2020	2019
Beginning balance	$ 24,313	$ 20,212
Capitalization of contract acquisition costs	22,491	18,668
Amortization of deferred contract acquisition costs	(19,018)	(17,317)
Ending balance	$ 27,786	$ 21,563

Note 4. Cash Equivalents and Investments

Cash equivalents, restricted cash equivalents, and investments consisted of the following (in thousands):

	September 30, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents				
Money market funds	$ 75,409	$ —	$ —	$ 75,409
Short-term investments				
Commercial paper	$ 24,449	$ —	$ —	$ 24,449
U.S. treasury securities	129,962	9	—	129,971
Corporate notes and obligations	141,268	880	(15)	142,133
Foreign government obligations	7,076	—	—	7,076
Certificates of deposit	448	—	—	448
Total short-term investments	$ 303,203	$ 889	$ (15)	$ 304,077
Restricted cash equivalents				
Money market funds	$ 16,768	$ —	$ —	$ 16,768
Long-term investments				
Corporate notes and obligations	$ 113,473	$ 741	$ (87)	$ 114,127
Certificates of deposit	496	—	—	496
Total long-term investments	$ 113,969	$ 741	$ (87)	$ 114,623
Total cash equivalents, restricted cash equivalents, and investments	$ 509,349	$ 1,630	$ (102)	$ 510,877

	December 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents				
Money market funds	$ 62,085	$ —	$ —	$ 62,085
Commercial paper	4,991	—	—	4,991
Total cash equivalents	$ 67,076	$ —	$ —	$ 67,076
Short-term investments				
Commercial paper	$ 33,627	$ —	$ —	$ 33,627
U.S. treasury securities	149,353	53	—	149,406
Corporate notes and obligations	148,993	215	(7)	149,201
Total short-term investments	$ 331,973	$ 268	$ (7)	$ 332,234
Restricted cash equivalents				
Money market funds	$ 28,371	$ —	$ —	$ 28,371
Long-term investments				
Corporate notes and obligations	$ 78,353	$ 121	$ (46)	$ 78,428
U.S. agency obligations	26,436	1	(4)	26,433
Certificates of deposit	944	—	—	944
Total long-term investments	$ 105,733	$ 122	$ (50)	$ 105,805
Total cash equivalents, restricted cash equivalents, and investments	$ 533,153	$ 390	$ (57)	$ 533,486

The amortized cost and fair value of the Company's investments based on their stated maturities consisted of the following as of September 30, 2020 (in thousands):

	Amortized Cost	Fair Value
Due within one year	$ 303,203	$ 304,077
Due between one and two years	113,969	114,623
Total investments	$ 417,172	$ 418,700

The Company reviews the individual securities that have unrealized losses in its investment portfolio on a regular basis to evaluate whether or not any declines in fair value are the result of credit losses. The Company evaluates, among other factors, whether it has the intention to sell any of these investments and whether it is more likely than not that it will be required to sell any of them before recovery of the amortized cost basis. Based on this evaluation, the Company determined that the unrealized losses were primarily related to investments in corporate notes and obligations, and were due to increases in credit spreads and temporary declines in liquidity for the asset class that were not specific to the underlying issuer of the investments. The Company does not intend to sell the investments with unrealized losses and it is not more likely than not that the Company will be required to sell its investments before the recovery of the amortized cost basis. As a result of this evaluation, no credit losses were recorded for investments as of September 30, 2020. The investments with unrealized loss positions have been in an unrealized loss position for less than 12 months.

Note 5. Fair Value Measurements

The Company measures and records certain financial assets at fair value on a recurring basis. Fair value is based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial instruments that are measured at fair value on a recurring basis consist of money market funds and investments in available-for-sale debt securities. The following three levels of inputs are used to measure the fair value of financial instruments:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The fair value of the Company's financial instruments was as follows (in thousands):

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	$ 75,409	$ —	$ —	$ 75,409
Short-term investments				
Commercial paper	$ —	$ 24,449	$ —	$ 24,449
U.S. treasury securities	—	129,971	—	129,971
Corporate notes and obligations	—	142,133	—	142,133
Foreign government obligations	—	7,076	—	7,076
Certificates of deposit	—	448	—	448
Total short-term investments	$ —	$ 304,077	$ —	$ 304,077
Restricted cash equivalents				
Money market funds	$ 16,768	$ —	$ —	$ 16,768
Long-term investments				
Corporate notes and obligations	$ —	$ 114,127	$ —	$ 114,127
Certificates of deposit	—	496	—	496
Total long-term investments	$ —	$ 114,623	$ —	$ 114,623

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	$ 62,085	$ —	$ —	$ 62,085
Commercial paper	—	4,991	—	4,991
Total cash equivalents	$ 62,085	$ 4,991	$ —	$ 67,076
Short-term investments				
Commercial paper	$ —	$ 33,627	$ —	$ 33,627
U.S. treasury securities	—	149,406	—	149,406
Corporate notes and obligations	—	149,201	—	149,201
Total short-term investments	$ —	$ 332,234	$ —	$ 332,234
Restricted cash equivalents				
Money market funds	$ 28,371	$ —	$ —	$ 28,371
Long-term investments				
Corporate notes and obligations	$ —	$ 78,428	$ —	$ 78,428
U.S. agency obligations	—	26,433	—	26,433
Certificates of deposit	—	944	—	944
Total long-term investments	$ —	$ 105,805	$ —	$ 105,805

Convertible Senior Notes

As of September 30, 2020, the estimated fair value of the Company's convertible senior notes, with aggregate principal totaling $593.5 million, was $528.8 million. The Company estimates the fair value based on quoted market prices in an inactive market on the last trading day of the reporting period (Level 2). These convertible senior notes are recorded at face value less unamortized debt discount and transaction costs on the Company's condensed consolidated balance sheet. Refer to Note 10—Convertible Senior Notes for further information.

Fair Value of Other Financial Instruments

The carrying amounts of the Company's accounts receivable, accounts payable, accrued expenses, and other liabilities approximate their fair values due to the short maturities of these assets and liabilities.

Note 6. Balance Sheet Components

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	September 30, 2020	December 31, 2019
Prepaid expenses	$ 16,366	$ 11,469
Other current assets	2,481	2,705
Prepaid expenses and other current assets	$ 18,847	$ 14,174

Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	September 30, 2020	December 31, 2019
Accrued compensation	$ 30,691	$ 23,310
Accrued income and other taxes payable	6,988	7,116
Accrued other current liabilities	9,411	10,277
Accrued expenses	$ 47,090	$ 40,703

Note 7. Property and Equipment

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

	September 30, 2020	December 31, 2019
Computer equipment	$ 7,415	$ 9,047
Software	546	2,047
Capitalized internal-use software costs	24,272	23,021
Furniture and fixtures	2,732	5,826
Leasehold improvements	9,150	9,871
Construction in progress	48,019	4,427
Total property and equipment	92,134	54,239
Less: Accumulated depreciation	(27,076)	(31,343)
Property and equipment, net	$ 65,058	$ 22,896

Depreciation expense totaled $3.0 million and $2.4 million for the three months ended September 30, 2020 and 2019, respectively, and $8.9 millions and $7.0 million for the nine months ended September 30, 2020 and 2019, respectively.

Note 8. Acquisition of GitPrime, Inc.

On May 9, 2019, the Company completed the acquisition of GitPrime, Inc. ("GitPrime"), a leading provider of software developer productivity software. Under the terms of the agreement, the Company acquired all of the outstanding stock of GitPrime for approximately $163.8 million in cash, excluding cash acquired and including working capital adjustments.

The Company accounted for the transaction as a business combination using the acquisition method of accounting. The Company allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective estimated fair values on the acquisition date. The excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The goodwill is attributable to GitPrime's assembled workforce and synergies acquired, and is not deductible for income tax purposes.

The following table summarizes the acquisition date fair values of assets acquired and liabilities assumed at the date of acquisition (in thousands):

	Fair Value
Cash and cash equivalents	$ 5,290
Accounts receivable	1,798
Other assets acquired	207
Property and equipment	223
Right-of-use assets	549
Goodwill	139,413
Intangible assets	24,800
Lease liabilities	(549)
Deferred revenue	(1,367)
Other liabilities assumed	(1,303)
Total fair value of net assets acquired	$ 169,061

The useful lives, primarily based on the period of benefit to the Company, and fair values of the identifiable intangible assets at acquisition date were as follows:

	Fair Value of Intangible Assets Acquired (in thousands)	Useful Lives (in years)
Technology	$ 24,000	5 years
Customer relationships	800	4 years
Total fair value of intangible assets acquired	$ 24,800	

The fair value of the technology acquired in the acquisition was determined using the excess earnings model and the customer relationships acquired was determined using a distributor model. These models utilize certain unobservable inputs, including discounted cash flows, historical and projected financial information, customer attrition rates, and technology obsolescence rates, classified as Level 3 measurements as defined by Fair Value Measurement (Topic 820). The Company engaged third-party valuation specialists to assist in management's analysis of the fair value of the acquired intangibles. All estimates, key assumptions, and forecasts were reviewed by the Company. While the Company chose to utilize a third-party valuation specialist for assistance, the fair value analysis and related valuations reflect the conclusions of management and not those of any third party.

During the year ended December 31, 2019, the Company incurred acquisition costs of $0.8 million. These costs include legal and accounting fees, and other costs directly related to the acquisition and are classified within general and administrative expenses in the Company's consolidated statements of operations.

Unaudited Pro Forma Information

The following unaudited pro forma information has been prepared for illustrative purposes only and assumes the acquisition occurred on January 1, 2018. It includes pro forma adjustments related to the amortization of acquired intangible assets, equity-based compensation expense, adjustments for ASC 606, and fair value adjustments for deferred revenue. The unaudited pro forma results have been prepared based on estimates and assumptions, which management believes are reasonable, however, the results are not necessarily indicative of the consolidated results of operations had the acquisition occurred on January 1, 2018, or of future results of operations (in thousands, except per share amounts):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Revenue	$ 82,620	$ 231,989
Net loss	(45,462)	(125,518)
Net loss per share, basic and diluted	$ (0.32)	$ (0.91)

Note 9. Intangible Assets

Intangible assets, net are summarized as follows (in thousands):

	September 30, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Content library:			
Acquired content library	$ 32,835	$ 32,807	$ 28
Course creation costs	22,585	10,733	11,852
Total	$ 55,420	$ 43,540	$ 11,880
Intangible assets:			
Technology	$ 28,500	$ 10,644	$ 17,856
Trademarks	120	120	—
Noncompetition agreements	320	320	—
Customer relationships	3,550	3,029	521
Domain names	39	—	39
Total	$ 32,529	$ 14,113	$ 18,416

	December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Content library:			
Acquired content library	$ 32,835	$ 32,780	$ 55
Course creation costs	17,717	8,814	8,903
Total	$ 50,552	$ 41,594	$ 8,958
Intangible assets:			
Technology	$ 28,500	$ 6,585	$ 21,915
Trademarks	162	162	—
Noncompetition agreements	390	390	—
Customer relationships	3,550	2,879	671
Database	40	40	—
Domain names	45	—	45
Total	$ 32,687	$ 10,056	$ 22,631

Intangible assets are amortized using the straight-line method over the estimated useful lives. Amortization expense of acquired intangible assets was $1.4 million for the three months ended September 30, 2020 and 2019, and $4.2 million and $3.0 million for the nine months ended September 30, 2020 and 2019, respectively. Amortization expense of course creation costs was $0.9 million and $0.7 million for the three months ended September 30, 2020 and 2019, respectively, and $2.5 million and $1.8 million for the nine months ended September 30, 2020 and 2019, respectively.

Based on the recorded content library and intangible assets at September 30, 2020, estimated amortization expense is expected to be as follows (in thousands):

Year Ending December 31,	Amortization
2020 (remaining three months)	2,286
2021	8,848
2022	7,990
2023	7,330
2024	3,370
2025	433
Total	$ 30,257

Note 10. Convertible Senior Notes

Convertible Senior Notes

In March 2019, Pluralsight, Inc. issued $633.5 million aggregate principal amount of 0.375% convertible senior notes due in 2024 (the "Notes"), in a private placement to qualified institutional buyers exempt from registration under the Securities Act. The net proceeds from the issuance of the Notes were $616.7 million after deducting the initial purchasers' discounts and estimated issuance costs.

The Notes are governed by an indenture (the "Indenture") between the Company, as the issuer, and U.S. Bank National Association, as trustee. The Notes are Pluralsight, Inc.'s senior unsecured obligations and rank senior in right of payment to any of its indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of the Company's unsecured indebtedness then existing and future liabilities that are not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness, to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of its subsidiaries. The Indenture does not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness, or the issuance or repurchase of securities by the Company or any of its subsidiaries. The Notes mature on March 1, 2024 unless earlier repurchased or converted. Interest is payable semi-annually in arrears on March 1 and September 1 of each year.

The Notes have an initial conversion rate of 25.8023 shares of the Company's Class A common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $38.76 per share of its Class A common stock and is subject to adjustment if certain events occur. Following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate for a holder who elects to convert its Notes in connection with such corporate event. Additionally, upon the occurrence of a corporate event that constitutes a "fundamental change" per the Indenture, holders of the Notes may require the Company to repurchase for cash all or a portion of their Notes at a purchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest.

Holders of the Notes may convert all or any portion of their Notes at any time prior to the close of business on December 1, 2023, in integral multiples of $1,000 principal amount, only under the following circumstances:

- During any calendar quarter commencing after the calendar quarter ended on June 30, 2019 (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- During the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price as defined in the Indenture per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; or
- Upon the occurrence of specified corporate events described in the Indenture. These events include a change in control transaction, or a recapitalization, liquidation, or delisiting of the Company's Class A common stock.

On or after December 1, 2023, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at the conversion rate at any time irrespective of the foregoing conditions. Upon conversion, holders will receive cash, shares of the Company's Class A common stock or a combination of cash and shares of Class A common stock, at the Company's election.

During the three months ended September 30, 2020, the conditions allowing holders of the Notes to convert were not met. The Notes are therefore not currently convertible and are classified as long-term debt.

The Company accounts for the Notes as separate liability and equity components. The Company determined the carrying amount of the liability component as the present value of its cash flows using a discount rate of approximately 5.5% based on comparable debt transactions for similar companies. The estimated interest rate was applied to the Notes, which resulted in a fair value of the liability component of $492.7 million upon issuance, calculated as the present value of future contractual payments based on the $633.5 million aggregate principal amount. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense over the term of the Notes using the effective interest method. The $140.8 million difference between the gross proceeds received from issuance of the Notes of $633.5 million and the estimated fair value of the liability component represents the equity component, or the conversion option, of the Notes and was recorded in additional paid-in capital. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

The Company allocated issuance costs related to the issuance of the Notes to the liability and equity components using the same proportions as the initial carrying value of the Notes. Issuance costs attributable to the liability component were $13.1 million and are being amortized to interest expense using the effective interest method over the term of the Notes. Issuance costs attributable to the equity components were $3.7 million and are netted with the equity component of the Notes in stockholders' equity on the condensed consolidated balance sheets.

In September 2019, Pluralsight, Inc. repurchased a total of $40.0 million in aggregate principal of its Notes for approximately $35.0 million in cash. The Company first allocated the cash paid to repurchase the Notes to the liability component based on the estimated fair value of that component immediately prior to the extinguishment. The difference between the fair value of the liability component and the carrying value of the repurchased Notes resulted in a loss on debt extinguishment of $1.0 million. The remaining consideration of approximately $3.0 million was allocated to the reacquisition of the equity component and recorded as a reduction of stockholders' equity.

The net carrying value of the liability component of the Notes was as follows (in thousands):

	September 30, 2020
Principal	$ 593,500
Less: Unamortized debt discount	(94,362)
Less: Unamortized issuance costs	(8,783)
Net carrying amount	$ 490,355

The net carrying value of the equity component of the Notes was as follows (in thousands):

		September 30, 2020
Proceeds allocated to the conversion option (debt discount)	$	140,776
Less: Issuance costs		(3,743)
Less: Reacquisition of conversion option related to the repurchases of convertible senior notes		(2,965)
Net carrying amount	$	134,068

The interest expense recognized related to the Notes was as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Contractual interest expense	$	556	$	585	$	1,669	$	1,311
Amortization of debt issuance costs and discount		6,853		6,826		20,128		15,120
Total	$	7,409	$	7,411	$	21,797	$	16,431

Capped Calls

In connection with the offering of the Notes, the Company entered into privately-negotiated capped call transactions ("Capped Calls") with certain counterparties. The Capped Calls each have an initial strike price of approximately $38.76 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Notes. The Capped Calls have initial cap prices of $58.50 per share, subject to certain adjustments. As of September 30, 2020, the Capped Calls cover, subject to anti-dilution adjustments, 15,313,665 shares of the Company's Class A common stock. The Capped Calls are generally intended to reduce or offset the potential dilution from shares of Class A common stock issued upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. As the Capped Call transactions are considered indexed to the Company's own stock and are considered equity classified, they are recorded in stockholders' equity and are not accounted for as derivatives. The cost of $69.4 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

In connection with the repurchase of the convertible senior notes in September 2019, the Company terminated a portion of its existing Capped Calls that cover 1,032,092 shares of the Company's Class A common stock, which corresponds to the number of shares underlying the principal amount of Notes that were repurchased. The Company received proceeds of $1.3 million in connection with the portion of the Capped Calls that were terminated in September 2019.

Intercompany Convertible Promissory Note with Pluralsight Holdings

In connection with the issuance of the Notes, Pluralsight, Inc. entered into an intercompany convertible promissory note with Pluralsight Holdings, whereby Pluralsight, Inc. provided the net proceeds from the issuance of the Notes to Pluralsight Holdings. The terms of the convertible promissory note mirror the terms of the Notes issued by Pluralsight, Inc. The intent of the convertible promissory note is to maintain the parity of shares of Class A common stock with LLC Units as required by the LLC Agreement in order to preserve the Company's legal structure. This note was amended in September 2019 in connection with the Repurchase. All effects of the convertible promissory note on the condensed consolidated financial statements have been eliminated in consolidation.

Note 11. Leases

The Company leases office space under non-cancellable operating leases with lease terms expiring between 2020 and 2035. These leases require monthly lease payments that may be subject to annual increases throughout the lease term. Certain of these leases also include renewal options at the election of the Company to renew or extend the lease for an additional three to five years. These optional periods have not been considered in the determination of the right-of-use assets or lease liabilities associated with these leases as the Company did not consider it reasonably certain it would exercise the options.

The Company performed evaluations of its contracts and determined that each of its identified leases are operating leases. The components of operating lease expense were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease expense	$ 3,335	$ 1,570	$ 7,402	$ 4,536
Variable lease expense	630	97	945	241
Short-term lease expense	182	221	640	307
Total lease expense	$ 4,147	$ 1,888	$ 8,987	$ 5,084

Variable lease expense consists of the Company's proportionate share of operating expenses, property taxes, and insurance and is classified as lease expense due to the Company's election to not separate lease and non-lease components.

Cash paid for amounts included in the measurement of operating lease liabilities for the three months ended September 30, 2020 and 2019 was $1.7 million and $1.4 million, respectively, and $5.2 million and $4.1 million for the nine months ended September 30, 2020 and 2019, respectively, and was included in net cash used in operating activities in the consolidated statements of cash flows.

As of September 30, 2020, the maturities of the Company's operating lease liabilities were as follows (in thousands):

Year Ending December 31,	
2020 (remaining three months)	$ 1,508
2021	11,892
2022	11,858
2023	11,370
2024	10,633
Thereafter	100,176
Total lease payments	147,437
Less: Imputed interest	(62,860)
Lease liabilities	$ 84,577

As of September 30, 2020, the weighted average remaining lease term is 13.2 years and the weighted average discount rate used to determine operating lease liabilities was 8.3%.

The Company has various sublease agreements with third parties. These subleases have remaining lease terms of up to two years. Sublease income, which is recorded within other income, was $0.1 million during the three months ended September 30, 2020 and 2019.

In August 2018, the Company entered into a non-cancellable lease agreement to rent office space for the Company's headquarters in Draper, Utah for a period of 15 years. In May 2020, certain construction milestones were met and as a result the lease agreement was amended to establish the rent commencement date and define the basic rent for the lease beginning in July 2020. At the lease commencement date, the Company classified the lease as an operating lease and recorded a lease liability of $70.3 million with a corresponding right-of-use asset and an increase to property and equipment for tenant improvements that were deemed lease incentives. The lease liability was measured using an estimated incremental borrowing rate derived from comparable market data. The lease agreement provides the Company with three extension periods of five years each. The Company did not include these extension periods in the lease term as the extension options are not reasonably certain to be exercised.

In connection with the lease agreement, the Company is required to maintain a deposit of $16.0 million with a financial institution for the benefit of the landlord to secure the Company's obligations under the lease. The deposit is recorded within restricted cash and cash equivalents on the condensed consolidated balance sheets. The lease agreement provides for both a partial and full release of the deposit funds to the Company, provided the Company meets certain liquidity and other financial conditions. Additionally, as of September 30, 2020 and December 31, 2019, the Company recorded a deposit of $0.7 million and $11.6 million, respectively, into restricted cash and cash equivalents on its condensed consolidated balance sheet for use in constructing tenant improvements in connection with the Draper headquarters.

Note 12. Commitments and Contingencies

Letters of Credit

As of September 30, 2020 and December 31, 2019, the Company had a total of $2.1 million in letters of credit outstanding with financial institutions. These outstanding letters of credit were issued for purposes of securing certain of the Company's obligations under facility leases.

Other Commitments

The Company has also entered into certain non-cancellable agreements primarily related to cloud infrastructure and software subscriptions in the ordinary course of business. There have been no material changes in the Company's commitments and contingencies, as disclosed in the Annual Report.

Legal Proceedings

In August 2019, a class action complaint was filed by a stockholder of the Company in the U.S. District Court for the Southern District of New York against the Company, and certain of the Company's officers alleging violation of securities laws and seeking unspecified damages. In October 2019, the action was transferred to the U.S. District Court for the District of Utah and in March 2020, a lead plaintiff was appointed. An amended complaint was filed in June 2020. The amended complaint names us as defendants, along with certain of the Company's officers, members of the Board of Directors, and Morgan Stanley & Co. LLC and J.P. Morgan Securities LLC, the lead underwriters from the Company's March 2019 common stock offering. The Company filed a motion to dismiss the amended complaint on August 14, 2020.

The Company believes this suit is without merit and intends to defend it vigorously. The Company is unable to estimate a range of loss, if any, that could result were there to be an adverse final decision. If an unfavorable outcome were to occur, it is possible that the impact could be material to the Company's results of operations in the period(s) in which any such outcome becomes probable and estimable.

In March 2020, a derivative lawsuit was filed by a shareholder in the United States District Court for the District of Delaware as an outgrowth of the aforementioned class action. It includes as defendants certain of the Company's officers and the Board of Directors, alleging violations of fiduciary duties to the Company. The Company is named as a nominal defendant. On May 18, 2020, the Court entered a stipulated order that stays the derivative lawsuit until the class action is dismissed with prejudice, the defendants' motion to dismiss the class action complaint is denied, or the defendants file an answer to the class action complaint.

The Company is involved in other legal proceedings from time to time arising in the normal course of business. The Company is unable to estimate a range of loss, if any, that could result were there to be an adverse final decision. Management believes that the outcome of these proceedings will not have a material impact on the Company's financial condition, results of operations, or liquidity.

Warranties and Indemnification

The performance of the Company's cloud-based technology skills platform is typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable. The Company's contractual arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third-party's intellectual property rights. In addition, the Company has some contractual arrangements with provisions for indemnifying customers against liabilities in the case of breaches of the Company's platform or the other systems or networks used in the Company's business, including those of vendors, contractors, or others with which the Company has strategic relationships. To date, the Company has not incurred any material costs as a result of such obligations and has not accrued any material liabilities related to such obligations in the accompanying condensed consolidated financial statements.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines, and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as the Company's director or officer or that person's services provided to any other company or enterprise at the Company's request. The Company maintains director and officer insurance coverage that would generally enable the Company to recover a portion of any future amounts paid. The Company may also be subject to indemnification obligations by law with respect to the actions of its employees under certain circumstances and in certain jurisdictions.

Note 13. Non-Controlling Interests

In connection with the Reorganization Transactions, Pluralsight, Inc. became the sole managing member of Pluralsight Holdings and as a result consolidates the results of operations of Pluralsight Holdings. The non-controlling interests balance represents the economic interests of the LLC Units held by other members of Pluralsight Holdings. As these members exchange these LLC Units for shares of Class A common stock, these LLC Units are then owned by Pluralsight, Inc. and a portion of the non-controlling interests balance is reclassified to additional paid-in capital. During the three months ended September 30, 2020, the adjustments to the non-controlling interests were primarily related to equity-based compensation and the issuance and settlement of equity-based awards. Income or loss is attributed to the non-controlling interests based on the weighted-average ownership percentages of LLC Units outstanding during the period, excluding LLC Units that are subject to time-based vesting requirements. As of September 30, 2020, the non-controlling interests of Pluralsight Holdings owned 17.6% of the outstanding LLC Units, with the remaining 82.4% owned by Pluralsight, Inc. The ownership of the LLC Units is summarized as follows:

	September 30, 2020		December 31, 2019	
	Units	Ownership %	Units	Ownership %
Pluralsight, Inc.'s ownership of LLC Units	119,381,936	82.4 %	104,083,271	74.3 %
LLC Units owned by the Continuing Members[(1)]	25,421,392	17.6 %	35,936,804	25.7 %
	144,803,328	100.0 %	140,020,075	100.0 %

(1) Excludes 688,341 and 1,543,813 LLC Units still subject to time-based vesting requirements as of September 30, 2020 and December 31, 2019, respectively.

Note 14. Equity-Based Compensation

Equity Incentive Plans

In June 2017, Pluralsight Holdings adopted the 2017 Equity Incentive Plan ("2017 Plan") and issued RSUs to employees. In connection with the IPO, the 2017 Plan was terminated. In May 2018, Pluralsight, Inc. adopted the 2018 Equity Incentive Plan ("2018 Plan"). The 2018 Plan provides for the grant of nonstatutory stock options, restricted stock, RSUs, stock appreciation rights, performance units, and performance shares to employees, directors, and consultants of the Company. The number of shares available for issuance under the 2018 Plan also includes an annual increase on the first day of each fiscal year, equal to the lesser of: (i) 14,900,000 shares, (ii) 5.0% of the outstanding shares of capital stock as of the last day of the immediately preceding fiscal year, or (iii) a lower number of shares determined by the 2018 Plan administrator. The number of shares available under the 2018 Plan also includes shares under the 2017 Plan that expire, terminate, are forfeited or repurchased by the Company, or are withheld by the Company to cover tax withholding obligations. As of September 30, 2020, a total of 19,937,719 shares were available for issuance under the 2018 Plan.

Stock Options

In connection with the IPO, the Company granted to employees stock options under the 2018 Plan to purchase shares of Class A common stock at an exercise price equal to the IPO price of $15.00 per share. As of September 30, 2020, these options have fully vested.

In connection with the GitPrime acquisition, the stock options granted to GitPrime employees under GitPrime's 2015 and 2018 Equity Incentive Plans were replaced with options to purchase shares of the Company's Class A common stock, subject to appropriate adjustments to the number of shares issuable pursuant to such options and the exercise price of such options as provided in the Merger Agreement. The options are subject to time-based vesting conditions and continue to vest over the remaining vesting period of the original award ranging from two to four years.

The following table summarizes the stock option activity for the nine months ended September 30, 2020:

	Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2019	4,361,718	$ 14.55		
Granted	—	—		
Exercised	(458,553)	13.94		
Forfeited or cancelled	(20,581)	6.17		
Outstanding as of September 30, 2020	3,882,584	$ 14.67	7.6	$ 9.6
Vested and exercisable as of September 30, 2020	3,821,085	$ 14.88	7.6	$ 8.6

The total intrinsic value of options exercised during the nine months ended September 30, 2020 was $3.0 million. As of September 30, 2020, the total unrecognized equity-based compensation cost related to the stock options was $1.9 million, which is expected to be recognized over a weighted-average period of 1.6 years.

RSUs

The Company has granted RSUs to employees under the 2018 Plan and previously under the 2017 Plan. RSUs represent the right to receive shares of Pluralsight Inc.'s Class A common stock at a specified future date. Restricted share units of Pluralsight Holdings under the 2017 Plan are subject to both a service condition and a liquidity condition, whereas RSUs under the 2018 Plan are generally subject to service conditions only. The service conditions are generally satisfied over four years, whereby 25% of the share units satisfy this condition on the first anniversary of the grant date and then ratably on a quarterly basis thereafter through the end of the vesting period. The liquidity condition for RSUs granted under the 2017 Plan is deemed a performance condition and was satisfied upon the expiration of the lock-up period following the IPO. RSUs with both performance and service conditions, including shares issued under the 2017 Plan, are recognized using the accelerated attribution method. RSUs issued under the 2018 Plan are primarily subject to service conditions only and are recognized over the remaining requisite service period using the straight-line attribution method.

Under the 2017 Plan, all restricted share units granted were initially restricted share units of Pluralsight Holdings. In connection with the IPO, all restricted share units were converted into RSUs of Pluralsight, Inc., except for restricted share units of Pluralsight Holdings that convey the right to receive LLC Units and corresponding shares of Class C common stock of Pluralsight, Inc. upon vesting.

The activity for RSUs of Pluralsight, Inc. and restricted share units of Pluralsight Holdings for the nine months ended September 30, 2020 was as follows:

	Number of RSUs or Units		Weighted-Average Grant Date Fair Value
RSUs of Pluralsight, Inc.:			
Balance at December 31, 2019	7,672,038	$	22.71
Granted	6,833,790		19.17
Forfeited or cancelled	(1,012,966)		21.62
Vested	(2,595,661)		23.33
Balance at September 30, 2020	10,897,201	$	20.45
Restricted Share Units of Pluralsight Holdings:			
Balance at December 31, 2019	1,312,500	$	8.24
Vested	(562,500)		8.24
Balance at September 30, 2020	750,000	$	8.24

As of September 30, 2020, the total unrecognized equity-based compensation cost related to the RSUs, including the restricted share units of Pluralsight Holdings, was $179.4 million, which is expected to be recognized over a weighted-average period of 2.9 years.

401(k) Equity Match

In May 2020, the Compensation Committee of the Board of Directors of Pluralsight, Inc. approved the issuance of Class A common shares to pay the Company's 401(k) matching contributions to employees during the year ended December 31, 2020. The Company's matching contribution is equal to 50% of eligible wages contributed up to a maximum of 6%. As of September 30, 2020, the Company had recorded a matching liability of $1.3 million that is expected to be settled in shares of Class A common stock on a quarterly basis.

Employee Stock Purchase Plan

In May 2018, Pluralsight Inc.'s Board of Directors adopted the ESPP. The number of shares of Class A common stock available for issuance under the ESPP will be increased on the first day of each fiscal year equal to the lesser of: (i) 2,970,000 shares of Class A common stock, (ii) 1.5% of the outstanding shares of all classes of common stock of the Company on the last day of the immediately preceding fiscal year, or (iii) an amount determined by the plan administrator. As of September 30, 2020, the total number of shares available for issuance under the ESPP was 4,386,452.

The ESPP generally provides for consecutive overlapping 24-month offering periods comprised of four six-month purchase periods. The offering periods are scheduled to start on the first trading day on or after May 31 and November 30 of each year.

The ESPP permits participants to elect to purchase shares of Class A common stock through fixed contributions from eligible compensation paid during each purchase period during an offering period, provided that this fixed contribution amount will not exceed $12,500. A participant may purchase a maximum of 5,000 shares during each purchase period. Amounts deducted and accumulated by the participant will be used to purchase shares of Class A common stock at the end of each purchase period. The purchase price of the shares will be 85% of the lower of the fair market value of Class A common stock on the first trading day of each offering period or on the purchase date. If the fair market value of the common stock on any purchase date within an offering period is lower than the stock price as of the beginning of the offering period, the offering period will immediately reset after the purchase of shares on such purchase date and participants will automatically be re-enrolled in a new offering period. Participants may end their participation at any time during an offering period and will be paid their accrued contributions that have not yet been used to purchase shares of common stock. Participation ends automatically upon termination of employment.

As of September 30, 2020, a total of 1,835,746 shares were issuable to employees based on contribution elections made under the ESPP. As of September 30, 2020, total unrecognized equity-based compensation costs was $14.1 million, which is expected to be recognized over a weighted-average period of 1.5 years.

ESPP employee payroll contributions accrued at September 30, 2020 and December 31, 2019 totaled $5.7 million and $1.6 million, respectively, and are included within accrued expenses in the condensed consolidated balance sheets. Employee payroll contributions ultimately used to purchase shares under the ESPP will be reclassified to stockholders' equity at the end of the purchase period.

Incentive Unit Plan

The Company granted incentive units of Pluralsight Holdings to certain employees and directors prior to its IPO pursuant to the Incentive Unit Plan ("2013 Plan"). In connection with the Reorganization Transactions and the IPO, the 2013 Plan was terminated and all outstanding incentive units were converted into LLC Units of Pluralsight Holdings. In addition, certain holders elected to exchange LLC Units for shares of Class A common stock of Pluralsight, Inc. Shares of Class A common stock and LLC Units issued as a result of the exchange or conversion of unvested incentive units remain subject to the same time-based vesting requirements that existed prior to the Reorganization Transactions, and as such the Company continues to record equity-based compensation expense for unvested awards.

The activity of unvested LLC Units during the nine months ended September 30, 2020 was as follows:

	Unvested Units	Weighted-Average Grant Date Fair Value
Unvested LLC Units outstanding—December 31, 2019	1,543,813	$ 8.72
Vested	(855,472)	8.68
Unvested LLC Units outstanding—September 30, 2020	688,341	$ 8.78

As of September 30, 2020, total unrecognized equity-based compensation related to all unvested LLC Units was $4.7 million, which is expected to be recognized over a weighted-average period of 0.8 years. The total fair value of LLC Units vested during the nine months ended September 30, 2020 was $15.5 million.

Equity-Based Compensation Expense

Equity-based compensation expense was classified as follows in the accompanying condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	$ 312	$ 138	$ 878	$ 355
Sales and marketing	10,908	8,739	31,308	22,967
Technology and content	6,361	6,666	19,581	15,513
General and administrative	6,633	9,114	24,450	28,822
Total equity-based compensation	$ 24,214	$ 24,657	$ 76,217	$ 67,657

Equity-based compensation costs capitalized as internal-use software was $0.3 million and $0.4 million for the three months ended September 30, 2020 and 2019, respectively, and $1.0 million and $0.9 million for the nine months ended September 30, 2020 and 2019, respectively.

Note 15. Income Taxes

Pluralsight, Inc. is the sole managing member of Pluralsight Holdings, which is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, Pluralsight Holdings is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by Pluralsight Holdings is passed through to, and included in, the taxable income or loss of its members, including Pluralsight, Inc., on a pro rata basis, except as otherwise provided under Section 704 of the Internal Revenue Code. Pluralsight, Inc. is subject to U.S. federal income taxes, in addition to state and local income taxes with respect to its allocable share of any taxable income of Pluralsight Holdings. The Company is also subject to taxes in foreign jurisdictions.

The tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of its annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period. The quarterly tax provision and estimate of the Company's annual effective tax rate are subject to variation due to several factors including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, changes in how the Company conducts business, and tax law developments.

For the three months ended September 30, 2020 and 2019 the Company's estimated effective tax rate was (1.4)% and (0.9)%, respectively. For the nine months ended September 30, 2020 and 2019 the Company's estimated effective tax rate was (0.2)% and (0.6)%, respectively. The variations between the Company's estimated effective tax rate and the U.S. statutory rate are primarily due to the portion of the Company's earnings (or loss) attributable to non-controlling interests and the domestic valuation allowance. In addition, a portion of the Company's state valuation allowance was released as a result of the Company meeting the conditions to file a unitary tax return in certain state jurisdictions, resulting in a reduction of income tax expense during the nine months ended September 30, 2020.

The Company is subject to income tax in the U.S. as well as other tax jurisdictions in which the Company operates. The provision for income taxes consists primarily of income taxes and withholding taxes in foreign jurisdictions in which the Company conducts business. The Company's U.S. operations have resulted in losses, and as such, the Company maintains a valuation allowance against substantially all its U.S. deferred tax assets. While the Company believes its current valuation allowance is appropriate, the Company assesses the need for an adjustment to the valuation allowance on a quarterly basis. The assessment is based on estimates of future sources of taxable income for the jurisdictions in which the Company operates and the periods over which deferred tax assets will be realizable. In the event the Company determines that it will be able to realize all or part of its net deferred tax assets in the future, all or part of the valuation allowance will be released in the period in which the Company makes such determination. The release of all or part of the valuation allowance against deferred tax assets may cause greater volatility in the effective tax rate in the periods in which it is released.

Tax Receivable Agreement

On the date of the IPO, the Company entered into a Tax Receivable Agreement ("TRA") with Continuing Members that provides for a payment to the Continuing Members of 85% of the amount of tax benefits, if any, that Pluralsight, Inc. realizes, or is deemed to realize as a result of redemptions or exchanges of LLC Units.

During the nine months ended September 30, 2020, certain Continuing Members exchanged 11,683,854 LLC Units for shares of Class A common stock. The Company has concluded that, based on applicable accounting standards, it is more-likely-than-not that its deferred tax assets subject to the TRA will not be realized; therefore, the Company has not recorded a TRA liability related to the tax savings it may realize from the utilization of deferred tax assets arising from the exchanges that have occurred through September 30, 2020. The total unrecorded TRA liability as of September 30, 2020 is approximately $333.8 million.

Note 16. Net Loss Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net loss	$ (33,771)	$ (45,462)	$ (121,014)	$ (120,110)
Less: Net loss attributable to non-controlling interests	(6,410)	(12,983)	(28,405)	(39,429)
Net loss attributable to Pluralsight, Inc.	$ (27,361)	$ (32,479)	$ (92,609)	$ (80,681)
Denominator:				
Weighted-average shares of Class A common stock outstanding, basic and diluted	115,196	101,407	109,009	91,741
Net loss per share:				
Net loss per share, basic and diluted	$ (0.24)	$ (0.32)	$ (0.85)	$ (0.88)

Shares of Class B and Class C common stock do not share in the earnings or losses of Pluralsight and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B and Class C common stock under the two-class method has not been presented.

During the three and nine months ended September 30, 2020, the Company incurred net losses and, therefore, the effect of the Company’s potentially dilutive securities were not included in the calculation of diluted loss per share as the effect would be anti-dilutive.

The following table contains outstanding share/unit totals with a potentially dilutive impact (in thousands):

	September 30, 2020
LLC Units held by Continuing Members	26,110
Stock options	3,883
RSUs of Pluralsight, Inc.	10,897
Restricted Share Units of Pluralsight Holdings	750
Purchase rights committed under the ESPP	1,836
Total	43,476

The Notes will not have an impact on the Company’s diluted earnings per share until the average market share price of Class A common stock exceeds the conversion price of $58.50 per share, as the Company intends and has the ability to settle the principal amount of the Notes in cash upon conversion. The Company is required under the treasury stock method to compute the potentially dilutive shares of common stock related to the Notes for periods it reports net income. However, upon conversion, until the average market price of the Company’s common stock exceeds the cap price of $58.50 per share, exercise of the Capped Calls will mitigate dilution from the Notes from the conversion price up to the cap price. Capped Calls are excluded from the calculation of diluted earnings per share, as they would be antidilutive under the treasury stock method.

Note 17. Related Party Transactions

The Company utilizes an aircraft owned by the Company’s Chief Executive Officer on an as-needed basis. The Company has agreed to reimburse the Chief Executive Officer for use of the private aircraft for business purposes at an hourly rate per flight hour. The reimbursement rate was approved by the Company’s Board of Directors based upon a review of comparable chartered aircraft rates. The Company accrued less than $0.1 million as of September 30, 2020 and approximately $0.3 million as of December 31, 2019 included within accrued expenses on the condensed consolidated balance sheets. A total of $0.5 million and $0.7 million has been paid under the arrangement during the nine months ended September 30, 2020 and 2019, respectively.

Tax Receivable Agreement

On the date of the IPO, the Company entered into a TRA with Continuing Members that provides for a payment to the Continuing Members of 85% of the amount of tax benefits, if any, that Pluralsight, Inc. realizes, or is deemed to realize as a result of redemptions or exchanges of LLC Units. As discussed in Note 15—Income Taxes, no amounts were paid or payable to

Continuing Members under the TRA as it is more-likely-than-not that the Company's tax benefits obtained from exchanges subject to the TRA will not be realized.

Note 18. Subsequent Events

On October 9, 2020, the Company entered into a Membership Interest Purchase Agreement to acquire DevelopIntelligence, LLC, a provider of strategic skills consulting and virtual instructor-led training. The Company paid preliminary cash consideration of $38.0 million on the closing date. The final consideration is subject to certain revenue-based earnout performance targets during an earn-out period that ends on December 31, 2021. The purchase price is also subject to certain working capital adjustments that are expected to be finalized within 120 days of the closing date.

The Company is evaluating the fair value of the contingent consideration and the estimated fair values of the assets and liabilities acquired. As a result, the Company cannot reasonably estimate all of the effects of the acquisition on its consolidated financial statements at this time.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements included in our Annual Report. As discussed in the section titled "Special Note Regarding Forward-Looking Statements," the following discussion contains forward-looking statements that involve risks and uncertainties, including statements regarding the ongoing and potential impact of the COVID-19 pandemic and related public health measures on our business. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" in our Annual Report and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 filed with the SEC.

Overview

We are a leading technology skills development and engineering management platform committed to closing the global technology skills gap. Learners on our platform can quickly acquire today's most valuable technology skills through on-demand, high-quality learning experiences delivered by subject-matter experts. Skills can be measured and assessed in real-time providing technology leaders with visibility into the capabilities of their teams and confidence their teams will deliver on critical objectives. Our platform empowers teams to keep up with the pace of technological change, puts the right people on the right projects and boosts productivity.

We started operations in 2004 and focused initially on in-person instructor-led training. Anticipating the increasing demand for online solutions, we began offering online courses in 2008 and shifted entirely to an online delivery model in 2011. Since 2011, we extended our offering to include new content areas and additional features which expanded our addressable market, attracted new users, and deepened our foothold within businesses.

We expanded our platform both organically through internal initiatives and through acquisitions, which have been focused on adding content and capabilities to our offerings. In 2019, we completed the acquisition of GitPrime, and we believe the addition of GitPrime, now Pluralsight Flow, enhances our platform by measuring software developer productivity. Pluralsight Flow aggregates data from code commits, pull requests and tickets, and packages this data into actionable metrics. Pluralsight Flow enables technology leaders to enhance skills and drive productivity by identifying talent and areas of improvement within their teams.

Our additions and improvements to our platform have enabled us to strengthen our relationships with our business customers and increase our revenue over time. We derive substantially all of our revenue from the sale of subscriptions to our platform. We sell subscriptions to our platform primarily to business customers through our direct sales team and our website. We also sell subscriptions to our skills development platform to individual customers directly through our website. In addition, small teams often represent the "top of the funnel" for larger deployments, bringing our technology into their workplaces and proliferating usage of our platform within their companies.

We are focused on attracting businesses, particularly large enterprises, to our platform and expanding their use of our platform over time. We believe there exists a significant opportunity to drive sales to large enterprises, including expanding relationships with existing customers and attracting new customers. Our ability to attract large enterprises to our platform and to expand their use of our platform will be important for the success of our business and our results of operations.

In October 2020, we acquired DevelopIntelligence, a provider of strategic skills consulting and virtual instructor-led training for IT, software development, and engineering teams. We believe the acquisition will enable us to create tailored, hands-on upskilling solutions to further drive digital transformation efforts.

COVID-19 Update

On March 11, 2020 COVID-19 was characterized by the World Health Organization ("WHO") as a global pandemic. The unpredictability of the COVID-19 pandemic continues to have a widespread impact on economies, governments, communities, and business practices. In efforts to mitigate the harmful effects of the COVID-19 pandemic and curtail the spread of the virus, federal, state and local authorities have implemented and may continue implementing safety measures, including the closure of businesses deemed "non-essential;" social distancing; international border closures; and travel restrictions. Since March 2020, responsive measures we have undertaken include shifting customer events to virtual-only experiences; temporarily closing our offices and implementing a mandatory work-from-home policy for our worldwide workforce; and restricting employee travel. We actively monitor the situation closely and our response to the COVID-19 pandemic continues to evolve with a focus on the best interests of our employees, customers, vendors and stockholders. The ongoing effects of these operational modifications on our financial performance, including revenue, billings and results of operations are unknown and may not be realized until future reporting periods.

The COVID-19 pandemic has impacted and may continue to impact our business and financial operations. The duration and magnitude of the United States' recession and the extent to which the COVID-19 pandemic continues to impact our business operations and overall financial performance remains unknown at this time. Certain developments, some of which are uncertain and not within our control, including the span and spread of the outbreak; the severity and transmission rate of the virus; the measures implemented or suggested by governing bodies to slow the spread of the virus; travel restrictions; international border closures; the effect on our vendors, customers, and community; the global economy and political conditions; the health of our employees, contractors, and their families; the duration of the recession; how quickly and to what extent normal economic and operating activities can resume; and other factors that are not predictable. After the COVID-19 pandemic has subsided, we may continue experiencing adverse effects to our business, including those resulting from the COVID-19 pandemic-driven recession.

The economic effects of the COVID-19 pandemic has and may continue to financially constrain some of our prospective and existing customers' technology related spending, which has affected our revenue and billings growth rates. For example, during the three and nine months ended September 30, 2020, our billings growth rate declined compared to prior periods, due in part to the global economic effects of the COVID-19 pandemic. Additionally, some customers' ability to pay in accordance with our agreed upon payment terms has been compromised by the financial hardships presented by the COVID-19 pandemic, which has resulted and continues to result in extended pay periods and a short-term negative impact on our cash flows. As a result, we have made and will continue to make adjustments to our expenses and cash flow to correlate with potential declines in billings and cash collections from customers. These adjustments include the restriction of employee travel and other non-essential operating costs, and a temporary reduction in hiring. Our platform is provided under a subscription-based model, and as a result, the effect of the COVID-19 pandemic on our results of operations and financial condition may not be fully realized until future periods.

Key Business Metrics

We monitor billings and certain related key business metrics to help us evaluate our business, identify trends affecting our business, formulate business plans, and make strategic decisions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Billings	$ 100,022	$ 92,123	$ 279,334	$ 250,603
Billings from business customers	$ 88,599	$ 80,707	$ 246,766	$ 216,967
% of billings from business customers	89 %	88 %	88 %	87 %

Billings

We use billings to measure and monitor our ability to provide our business with the working capital generated by upfront payments from our customers and our ability to sell subscriptions to our platform to both new and existing customers. Billings represent our total revenue plus the change in deferred revenue in the period, as presented in our condensed consolidated statements of cash flows, less the change in contract assets and unbilled accounts receivable in the period. Billings in any particular period represent amounts invoiced to our customers and reflect subscription renewals and upsells to existing customers plus sales to new customers. Our pricing and subscription periods vary for business customers and individual customers. Subscription periods for our business customers generally range from one to three years, with a majority being one year. We typically invoice our business customers in advance in annual installments. Subscription periods for our individual customers range from one month to one year and we typically invoice them in advance in monthly or annual installments.

We use billings from business customers and our percentage of billings from business customers to measure and monitor our ability to sell subscriptions to our platform to business customers. We believe that billings from business customers will be a significant source of future revenue growth and a key factor affecting our long-term performance. We expect our billings from business customers to continue to increase as a percentage of billings over the long term.

As our billings continue to grow in absolute terms, our billings growth rate may decline over the long term as we achieve scale in our business. As we recognize revenue from subscription fees ratably over the term of the contract, due to the difference in timing of billings received and when we recognize revenue, changes to our billings and billings growth rates are not immediately reflected in our revenue and revenue growth rates.

During the three and nine months ended September 30, 2020, our billings growth rate declined compared to prior results, due in part to the global economic effects of the COVID-19 pandemic and the shift in timing of our annual user event from the third quarter to the fourth quarter. As a result, we expect that the recent decline in our billings growth rate during the three and nine months ended September 30, 2020, and any future declines in billings, will reduce the growth rate of our revenue in future periods. Given the economic uncertainty and ongoing impact from the COVID-19 pandemic, we cannot predict the impact on our billings growth rate in the foreseeable future.

Components of Results of Operations

Revenue

We derive substantially all of our revenue from the sale of subscriptions to our platform. We also derive revenue from providing professional services, which generally consist of implementation, integration, or consulting services. Amounts that have been invoiced are initially recorded as deferred revenue and are recognized ratably as revenue over the subscription period. Subscription terms generally range from one year to three years for business customers and one month to one year for individual customers, and begin on the date access to our platform is made available to the customer. Most of our subscriptions to business customers are billed in annual installments even if customers are contractually committed to multi-year agreements. Subscriptions that allow the customer to take software on-premise without significant penalty are recognized at a point in time when the software is made available to the customer.

Cost of Revenue, Gross Profit and Gross Margin

Cost of revenue includes certain direct costs associated with delivering our platform and includes costs for author fees, amortization of our content library, hosting and delivery fees, merchant processing fees, depreciation of capitalized software development costs for internal-use software, and employee-related costs, including equity-based compensation associated with our customer support and professional services organizations.

Gross profit, or revenue less cost of revenue, and gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by various factors, including the mix of subscriptions we sell, the cost of author fees, the costs associated with third-party hosting services, and the extent to which we expand our customer support and professional services organizations. We expect our gross margin to increase over the long term primarily due to a decrease in author fees as a percentage of revenue, although our gross margin may fluctuate from period to period depending on the interplay of the factors described above.

Operating Expenses

Our operating expenses are classified as sales and marketing, technology and content, and general and administrative. For each of these categories, the largest component is employee-related costs, which include salaries and bonuses, equity-based compensation, and employee benefit costs. We allocate shared overhead costs such as information technology infrastructure and facility-related costs based on headcount in that category.

We expect that our operating expenses may fluctuate as a percentage of our revenue from period to period depending on the timing of expenditures. We expect operating expenses to decrease as a percentage of revenue over the long term.

Due to the effects of the COVID-19 pandemic, we have taken measures to reduce operating expenses, including delaying planned hiring activities and curtailing discretionary spending. In addition, the restrictions resulting from the pandemic have and will reduce travel expenses and the costs associated with our customer events, which are transitioning to virtual-only experiences in the near term.

Sales and Marketing

Sales and marketing expenses consist primarily of employee compensation costs of our sales and marketing employees, including salaries, benefits, bonuses, commissions, equity-based compensation, and allocated overhead costs. Other sales and marketing costs include user events, search engine and email marketing, content syndication, lead generation, and online banner and video advertising.

Technology and Content

Technology costs consist principally of research and development activities including personnel costs, consulting services, other costs associated with platform development efforts, and allocated overhead costs. Content costs consist principally of personnel costs and other activities associated with content development, course production, curriculum direction, and allocated overhead costs. Technology and content costs are expensed as incurred, except for certain costs relating to the development of internal-use software, including software used to upgrade and enhance our platform and applications supporting our business, which are capitalized and amortized over the estimated useful lives of one to three years.

General and Administrative

General and administrative expenses consist of personnel costs and related expenses for executive, finance, legal, people operations, and administrative personnel, including salaries, benefits, bonuses, and equity-based compensation; professional fees for external legal, accounting, recruiting, and other consulting services; and allocated overhead costs.

Other Income (Expense)

Other income (expense) consists primarily of interest expense on the Notes and other long-term debt, gains or losses on foreign currency transactions, and interest income earned on our cash, cash equivalents, and investments.

Results of Operations

The following tables set forth selected unaudited condensed consolidated statements of operations data and such data as a percentage of revenue for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Revenue	$ 99,465	$ 82,620	$ 286,876	$ 228,099
Cost of revenue(1)(2)	20,426	17,829	59,151	52,344
Gross profit	79,039	64,791	227,725	175,755
Operating expenses(1)(2):				
Sales and marketing	57,206	55,797	177,380	150,014
Technology and content	29,345	27,847	89,003	72,937
General and administrative	20,366	20,844	66,733	63,610
Total operating expenses	106,917	104,488	333,116	286,561
Loss from operations	(27,878)	(39,697)	(105,391)	(110,806)
Other income (expense):				
Interest expense	(7,409)	(7,412)	(21,799)	(16,436)
Loss on debt extinguishment	—	(950)	—	(950)
Other income, net	1,992	3,001	6,429	8,783
Loss before income taxes	(33,295)	(45,058)	(120,761)	(119,409)
Income tax expense	(476)	(404)	(253)	(701)
Net loss	$ (33,771)	$ (45,462)	$ (121,014)	$ (120,110)

(1) Includes equity-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Cost of revenue	$ 312	$ 138	$ 878	$ 355
Sales and marketing	10,908	8,739	31,308	22,967
Technology and content	6,361	6,666	19,581	15,513
General and administrative	6,633	9,114	24,450	28,822
Total equity-based compensation	$ 24,214	$ 24,657	$ 76,217	$ 67,657

(2) Includes amortization of acquired intangible assets as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Cost of revenue	$ 1,208	$ 1,209	$ 3,626	$ 2,436
Sales and marketing	50	50	150	79
Technology and content	122	176	459	529
Total amortization of acquired intangible assets	$ 1,380	$ 1,435	$ 4,235	$ 3,044

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	21	22	21	23
Gross profit	79	78	79	77
Operating expenses:				
Sales and marketing	58	68	62	66
Technology and content	30	34	31	32
General and administrative	20	25	23	28
Total operating expenses	108	127	116	126
Loss from operations	(29)	(49)	(37)	(49)
Other income (expense):				
Interest expense	(7)	(9)	(8)	(7)
Loss on debt extinguishment	—	(1)	—	—
Other income, net	2	4	2	4
Loss before income taxes	(34)	(55)	(43)	(52)
Income tax expense	—	—	—	—
Net loss	(34)%	(55)%	(43)%	(52)%

Comparison of the Three Months Ended September 30, 2020 and 2019

Revenue

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Revenue	$ 99,465	$ 82,620	$ 16,845	20 %

Revenue was $99.5 million for the three months ended September 30, 2020, compared to $82.6 million for the three months ended September 30, 2019, an increase of $16.8 million, or 20%. The increase in revenue was primarily due to a $15.8 million, or 22%, increase in revenue from business customers, driven primarily by increases in users at our existing business customers. In addition, there was an increase of $1.1 million in revenue from individual customers.

Cost of Revenue and Gross Profit

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Cost of revenue	$ 20,426	$ 17,829	$ 2,597	15 %
Gross profit	79,039	64,791	14,248	22 %

Cost of revenue was $20.4 million for the three months ended September 30, 2020, compared to $17.8 million for the three months ended September 30, 2019, an increase of $2.6 million, or 15%. The increase in cost of revenue was primarily due to an increase of $0.8 million in employee compensation costs, including $0.2 million in equity-based compensation expense, as we added headcount to support our growth. In addition, there was an increase of $0.7 million in author fees, and an increase of $0.5 million in hosting and delivery costs.

Gross profit was $79.0 million for the three months ended September 30, 2020, compared to $64.8 million for the three months ended September 30, 2019, an increase of $14.2 million, or 22%. The increase in gross profit was the result of the increase in our revenue during the three months ended September 30, 2020. Gross margin increased from 78% for the three months ended September 30, 2019 to 79% for the three months ended September 30, 2020 due to a decrease in author fees as a percentage of revenue.

Operating Expenses

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Sales and marketing	$ 57,206	$ 55,797	$ 1,409	3 %
Technology and content	29,345	27,847	1,498	5 %
General and administrative	20,366	20,844	(478)	(2)%
Total operating expenses	$ 106,917	$ 104,488	$ 2,429	2 %

Sales and Marketing

Sales and marketing expenses were $57.2 million for the three months ended September 30, 2020, compared to $55.8 million for the three months ended September 30, 2019, an increase of $1.4 million, or 3%. The increase was primarily due to an increase of $9.1 million in employee compensation costs, including $2.2 million in equity-based compensation, as we added headcount to support our growth. These increases were partially offset by a decrease of $3.6 million in travel expenses as a result of the COVID-19 pandemic, an increase of $1.8 million in deferred contract acquisition costs, and a decrease of $2.3 million in marketing and event costs as a result of shifting our annual user event to a virtual-only experience in response to the COVID-19 pandemic.

Technology and Content

Technology and content expenses were $29.3 million for the three months ended September 30, 2020, compared to $27.8 million for the three months ended September 30, 2019, an increase of $1.5 million, or 5%. The increases were primarily due to an increase of $3.0 million in employee compensation costs, as we added headcount to support our growth. This increase was partially offset by a decrease of $0.7 million in travel expenses as a result of the COVID-19 pandemic and a decrease of $0.3 million in equity-based compensation.

General and Administrative

General and administrative expenses were $20.4 million for the three months ended September 30, 2020, compared to $20.8 million for the three months ended September 30, 2019, a decrease of $0.5 million, or 2%. The decrease was primarily due to a decrease of $2.5 million in equity-based compensation, as certain stock options granted at the time of the IPO have vested. In addition, there was a decrease of $0.8 million in travel expenses as a result of the COVID-19 pandemic. These decreases were partially offset by an increase of $2.2 million in employee compensation costs and an increase of $0.5 million in overhead costs, as we added headcount to support our growth.

Other Income (Expense)

	Three Months Ended September 30,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Interest expense	$ (7,409)	$ (7,412)	$ 3	— %
Loss on debt extinguishment	—	(950)	950	NM
Other income, net	1,992	3,001	(1,009)	(34)%

We repurchased $40.0 million in aggregate principal of the Notes in September 2019, resulting in the loss on debt extinguishment.

Other income, net decreased primarily as a result of a decrease of market interest rates earned on our investments.

Comparison of the Nine Months Ended September 30, 2020 and 2019

Revenue

	Nine Months Ended September 30,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Revenue	$ 286,876	$ 228,099	$ 58,777	26 %

Revenue was $286.9 million for the nine months ended September 30, 2020, compared to $228.1 million for the nine months ended September 30, 2019, an increase of $58.8 million, or 26%. The increase in revenue was primarily due to a $56.7

million, or 29%, increase in revenue from business customers, driven primarily by increases in users at our existing business customers. In addition, there was an increase of $2.1 million in revenue from individual customers.

Cost of Revenue and Gross Profit

	Nine Months Ended September 30,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Cost of revenue	$ 59,151	$ 52,344	$ 6,807	13 %
Gross profit	227,725	175,755	51,970	30 %

Cost of revenue was $59.2 million for the nine months ended September 30, 2020, compared to $52.3 million for the nine months ended September 30, 2019, an increase of $6.8 million, or 13%. The increase was primarily due to an increase of $2.5 million in employee compensation costs, including $0.5 million in equity-based compensation, as we added headcount to support our growth. In addition, there was an increase of $2.0 million in author fees, an increase of $1.8 million in amortization of acquired intangible assets and course creation costs, and an increase of $1.4 million in depreciation expense.

Gross profit was $227.7 million for the nine months ended September 30, 2020, compared to $175.8 million for the nine months ended September 30, 2019, an increase of $52.0 million, or 30%. The increase in gross profit was the result of the increase in our revenue during the nine months ended September 30, 2020. Gross margin increased from 77% for the nine months ended September 30, 2019 to 79% for the nine months ended September 30, 2020 due to a decrease in author fees as a percentage of revenue.

Operating Expenses

	Nine Months Ended September 30,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Sales and marketing	$ 177,380	$ 150,014	$ 27,366	18 %
Technology and content	89,003	72,937	16,066	22 %
General and administrative	66,733	63,610	3,123	5 %
Total operating expenses	$ 333,116	$ 286,561	$ 46,555	16 %

Sales and Marketing

Sales and marketing expenses were $177.4 million for the nine months ended September 30, 2020, compared to $150.0 million for the nine months ended September 30, 2019, an increase of $27.4 million, or 18%. The increase was primarily due to an increase of $33.4 million in employee compensation costs, including $8.4 million in equity-based compensation, as we added headcount to support our growth. These increases were partially offset by an increase of $3.8 million in deferred contract acquisition costs and a decrease of $3.5 million in travel expenses as a result of the COVID-19 pandemic.

Technology and Content

Technology and content expenses were $89.0 million for the nine months ended September 30, 2020, compared to $72.9 million for the nine months ended September 30, 2019, an increase of $16.1 million, or 22%. The increase was primarily due to an increase of $18.8 million in employee compensation costs, including $4.0 million in equity-based compensation, as we added headcount to support our growth. These increases were partially offset by a decrease of $1.2 million in travel expenses as a result of the COVID-19 pandemic and an increase of $0.9 million in capitalized software development costs.

General and Administrative

General and administrative expenses were $66.7 million for the nine months ended September 30, 2020, compared to $63.6 million for the nine months ended September 30, 2019, an increase of $3.1 million, or 5%. The increase was primarily due to an increase of $7.2 million in employee compensation costs and an increase of $1.6 million in allocated overhead costs, as we added headcount to support our growth. These increases were partially offset by a decrease of $4.4 million in equity-based compensation, as certain stock options granted at the time of the IPO vested. In addition, there was a decrease of $1.2 million in travel expenses as a result of the COVID-19 pandemic.

Other Income (Expense)

	Nine Months Ended September 30,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Interest expense	$ (21,799)	$ (16,436)	$ (5,363)	33 %
Loss on debt extinguishment	—	(950)	950	NM
Other income, net	6,429	8,783	(2,354)	(27)%

Interest expense increased primarily as a result of the increase in contractual interest expense and amortization of debt discount and issuance costs related to the Notes issued in March 2019. We repurchased $40.0 million in aggregate principal of the Notes in September 2019, resulting in the loss on debt extinguishment.

Other income, net decreased primarily as a result of a decrease of market interest rates earned on our investments.

Non-GAAP Financial Measures

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Non-GAAP gross profit	$ 80,569	$ 66,140	$ 232,271	$ 178,564
Non-GAAP gross margin	81 %	80 %	81 %	78 %
Non-GAAP operating loss	$ (1,398)	$ (13,272)	$ (20,418)	$ (35,246)
Free cash flow	$ (14,861)	$ (6,585)	$ (30,129)	$ (15,264)

Non-GAAP Gross Profit and Non-GAAP Gross Margin

Non-GAAP gross profit is a non-GAAP financial measure that we define as gross profit plus equity-based compensation, amortization of acquired intangible assets, and employer payroll taxes related to employee stock transactions. We define non-GAAP gross margin as our non-GAAP gross profit divided by our revenue. We believe non-GAAP gross profit and non-GAAP gross margin are useful to investors as these metrics generally eliminate the effects of certain items that may vary from company to company for reasons unrelated to overall profitability or operating performance.

See the section below titled "—Reconciliation of Non-GAAP Financial Measures" for information regarding the limitations of using our non-GAAP gross profit and non-GAAP gross margin as financial measures and for a reconciliation of our non-GAAP gross profit to gross profit, the most directly comparable financial measure calculated in accordance with GAAP.

Non-GAAP Operating Loss

Non-GAAP operating loss is a non-GAAP financial measure that we define as loss from operations plus equity-based compensation, amortization of acquired intangible assets, employer payroll taxes on employee stock transactions, and, as applicable, other special items such as acquisition related costs and secondary offering costs. We believe non-GAAP operating loss provides investors with useful information on period-to-period performance as evaluated by management and comparison with our past financial performance. We believe non-GAAP operating loss is useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary from company to company for reasons unrelated to overall operating performance.

See the section below titled "—Reconciliation of Non-GAAP Financial Measures" for information regarding the limitations of using our non-GAAP operating loss as a financial measure and for a reconciliation of our non-GAAP operating loss to loss from operations, the most directly comparable financial measure calculated in accordance with GAAP.

Free Cash Flow

We define free cash flow as net cash provided by (used in) operating activities less purchases of property and equipment and purchases of our content library and other intangible assets. We consider free cash flow to be an important measure because it measures the amount of cash we spend or generate and reflects changes in our working capital.

See the section below titled "—Reconciliation of Non-GAAP Financial Measures" for information regarding the limitations of using free cash flow as a financial measure and for a reconciliation of free cash flow to net cash used in operations, the most directly comparable financial measure calculated in accordance with GAAP.

Reconciliation of Non-GAAP Financial Measures

We use non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, and free cash flow in conjunction with traditional GAAP measures as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies, and to communicate with our Board of Directors concerning our financial performance. Our definitions may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Thus, our non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, and free cash flow should be considered in addition to, not as substitutes for, or in isolation from, measures prepared in accordance with GAAP.

We compensate for these limitations by providing a reconciliation of non-GAAP gross profit, non-GAAP operating loss, and free cash flow to the related GAAP financial measures, gross profit, loss from operations, and net cash provided by (used in) operating activities, respectively. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, and free cash flow in conjunction with their respective related GAAP financial measures.

The following table provides a reconciliation of gross profit to non-GAAP gross profit:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Gross profit	$ 79,039	$ 64,791	$ 227,725	$ 175,755
Equity-based compensation	312	138	878	355
Amortization of acquired intangible assets	1,208	1,209	3,626	2,436
Employer payroll taxes on employee stock transactions	10	2	42	18
Non-GAAP gross profit	$ 80,569	$ 66,140	$ 232,271	$ 178,564
Gross margin	79 %	78 %	79 %	77 %
Non-GAAP gross margin	81 %	80 %	81 %	78 %

The following table provides a reconciliation of loss from operations to non-GAAP operating loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Loss from operations	$ (27,878)	$ (39,697)	$ (105,391)	$ (110,806)
Equity-based compensation	24,214	24,657	76,217	67,657
Amortization of acquired intangible assets	1,380	1,435	4,235	3,044
Employer payroll taxes on employee stock transactions	545	333	2,920	3,106
Secondary offering costs	—	—	1,260	918
Acquisition-related costs	341	—	341	835
Non-GAAP operating loss	$ (1,398)	$ (13,272)	$ (20,418)	$ (35,246)

The following table provides a reconciliation of net cash (used in) provided by operating activities to free cash flow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net cash (used in) provided by operating activities	$ (2,352)	$ (2,175)	$ 6,693	$ (3,823)
Less: Purchases of property and equipment[(1)]	(10,706)	(3,029)	(31,226)	(7,619)
Less: Purchases of content library	(1,803)	(1,381)	(5,596)	(3,822)
Free cash flow	$ (14,861)	$ (6,585)	$ (30,129)	$ (15,264)

(1) Purchases of property and equipment included cash paid for the construction of tenant improvements at our new headquarters in Utah of $7.6 million and $22.5 million for the three and nine months ended September 30, 2020, respectively.

Liquidity and Capital Resources

As of September 30, 2020, our principal sources of liquidity were cash, cash equivalents, restricted cash and cash equivalents, and investments totaling $536.9 million, which were held for working capital purposes. Our cash equivalents and investments are comprised primarily of highly liquid investments in money market funds, U.S. treasury securities, U.S. government agency securities, commercial paper, and corporate debt securities. Since our inception, we have financed our operations primarily through sales of equity securities, long-term debt facilities, the issuance of the Notes, and our net cash provided by operating activities.

We believe our existing cash, cash equivalents, restricted cash and cash equivalents, and investments, as well as our projected cash flows from operations, will be sufficient to meet our projected operating requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our pace of growth, subscription renewal activity, the timing and extent of spend to support the expansion of sales and marketing activities, technology and content efforts, the continuing market acceptance of our platform, future acquisitions, and the economic effects of the COVID-19 pandemic. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would be adversely affected.

In connection with the IPO and our UP-C structure, we entered into the TRA with members of Pluralsight Holdings who did not exchange their LLC Units of Pluralsight Holdings in the Reorganization Transactions, or the TRA Members. As a result of the TRA, we will be obligated to pass along certain tax benefits and cash flows by making future payments to the TRA Members. Although the actual timing and amount of any payments we make to the TRA Members under the TRA will vary, such payments may be significant. Any payments we make to TRA Members under the TRA will generally reduce the amount of overall cash flow that might have otherwise been available to us and, to the extent that we are unable to make payments under the TRA for any reason, the unpaid amounts generally will be deferred and will accrue interest until paid by us. To date, we have not made any payments under the TRA. We do not expect to make or accrue payments to TRA Members in the near future as payments to TRA members are not owed until the tax benefits generated by TRA Members are more-likely-than-not to be realized.

The following table shows cash flows for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
	2020	2019
	(in thousands)	
Net cash provided by (used in) operating activities	$ 6,693	$ (3,823)
Net cash used in investing activities	(17,122)	(586,903)
Net cash provided by financing activities	9,136	528,382
Effect of exchange rate change on cash, cash equivalents, and restricted cash and cash equivalents	81	(108)
Net decrease in cash, cash equivalents, and restricted cash and cash equivalents	$ (1,212)	$ (62,452)

Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2020 of $6.7 million was primarily due to a net loss of $121.0 million and the net change in assets and liabilities of $3.9 million, offset by equity-based compensation of $76.2 million, amortization of debt discount and issuance costs of $20.1 million, amortization of deferred contract acquisition costs of $19.0 million, depreciation of property and equipment of $8.9 million, and amortization of acquired intangible assets of $4.2 million. The net change in operating assets and liabilities was primarily due to an increase in deferred contract acquisition costs of $22.5 million, a decrease in deferred revenue of $5.6 million, an increase in prepaid expenses and other assets of $4.2 million, a decrease in lease liabilities of $3.6 million, and a decrease of accounts payable of $3.1 million, partially offset by a decrease of accounts receivable of $23.5 million, an increase of accrued expenses and other liabilities of $6.9 million, and a decrease of right-of-use assets of $4.5 million.

Cash used in operating activities for the nine months ended September 30, 2019 of $3.8 million was primarily due to a net loss of $120.1 million, partially offset by equity-based compensation of $67.7 million, amortization of deferred contract acquisition costs of $17.3 million amortization of debt discount and issuance costs of $15.1 million, depreciation of property and equipment of $7.0 million, a favorable change in operating assets and liabilities of $5.3 million, amortization of acquired intangible assets of $3.0 million, and loss on debt extinguishment of $1.0 million. The net change in operating assets and liabilities was primarily due to an increase in the deferred revenue balance of $22.5 million, an increase in accrued expenses and other liabilities of $5.2 million and a decrease in right-of-use assets of $4.3 million, partially offset by an increase in deferred contract acquisition costs of $18.7 million, a decrease of lease liabilities of $5.1 million, and an increase in prepaid expenses and other assets of $3.5 million.

Investing Activities

Cash used in investing activities for the nine months ended September 30, 2020 of $17.1 million was due to purchases of property and equipment of $31.2 million, purchases of our content library of $5.6 million, purchases of investments of $427.1 million, partially offset by proceeds from maturities of short-term investments of $446.8 million. The increase in purchases of property and equipment is largely due to cash paid for the construction of tenant improvements at our new global headquarters in Utah, which was approximately $22.5 million during the nine months ended September 30, 2020.

Cash used in investing activities for the nine months ended September 30, 2019 of $586.9 million was primarily due to purchases of investments of $529.7 million, the purchase of a business of $163.8 million, purchases of property and equipment of $7.6 million, and purchases of our content library of $3.8 million, partially offset by proceeds from maturities of short-term investments of $113.0 million and proceeds from sales of investments of $5.0 million.

Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2020 of $9.1 million was due to proceeds from the issuance of common stock from employee equity plans of $14.7 million, partially offset by taxes paid related to net share settlement of $5.6 million.

Cash provided by financing activities for the nine months ended September 30, 2019 of $528.4 million was due to net proceeds from the issuance of the Notes of $616.7 million, proceeds from the issuance of common stock from employee equity plans of $14.9 million and the proceeds from terminations of Capped Calls related to repurchases of convertible senior notes of $1.3 million, partially offset by the purchase of the Capped Calls of $69.4 million and the repurchases of the Notes of $35.0 million.

Commitments and Contractual Obligations

There have been no material changes to the contractual obligations as disclosed in our Annual Report. Refer to “Note 10—Convertible Senior Notes”, “Note 11—Leases”, and “Note 12—Commitments and Contingencies” of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information regarding our commitments and contractual obligations.

Off-Balance Sheet Arrangements

As of September 30, 2020, and December 31, 2019, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that 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 management’s discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies and estimates are those that we consider critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management’s judgments and estimates.

The Company’s significant accounting policies are discussed in “Note 2—Summary of Significant Accounting Policies and Recent Accounting Pronouncements” in our Annual Report. There have been no significant changes to these policies for the three months ended September 30, 2020, except as noted in “Note 2—Summary of Significant Accounting Policies and Recent Accounting Pronouncements” of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

See “Note 2—Summary of Significant Accounting Policies and Recent Accounting Pronouncements” of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have operations in the United States and internationally, and we are exposed to market risk in the ordinary course of business. Our market risk is primarily a result of fluctuations in foreign currency exchange rates and variable interest rates.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound Sterling, Euro, and the Australian Dollar. Due to the relative size of our international operations to date, our foreign currency exposure has been fairly limited and thus we have not instituted a hedging program. We expect our international operations to continue to grow in the near term and we are continually monitoring our foreign currency exposure to determine when we should begin a hedging program. Today, our international contracts are mostly denominated in U.S. dollars, while our international operating expenses are often denominated in local currencies. In the future, we plan to begin denominating certain of our international contracts in local currencies, and over time, an increasing portion of our international contracts may be denominated in local currencies. Additionally, as we expand our international operations a larger portion of our operating expenses will be denominated in local currencies. Therefore, fluctuations in the value of the U.S. dollar and foreign currencies may affect our results of operations when translated into U.S. dollars. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical condensed consolidated financial statements for any of the periods presented.

Interest Rate Sensitivity

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate sensitivities. As of September 30, 2020, we had cash, cash equivalents, restricted cash and cash equivalents, and investments of $536.9 million, which consisted primarily of bank deposits and money market funds. Such interest-earning instruments carry a degree of interest rate risk; however, historical fluctuations of interest income have not been significant.

As of September 30, 2020, we had $593.5 million in aggregate principal amount of Notes outstanding. The Notes have a fixed annual interest rate of 0.375%, and, therefore, we do not have economic interest rate exposure on the Notes. However, the values of the Notes are exposed to interest rate risk. Generally, the fair value of our fixed interest rate Notes will increase as interest rates fall and decrease as interest rates rise. As of September 30, 2020, the fair value of the Notes was estimated to be $528.8 million. We carry the Notes as face value less unamortized discount on our balance, and we present the fair value for required disclosure purposes only.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as defined in Rule 13a–15(e) and Rule 15d–15(e) under the Exchange Act that are designed to provide reasonable assurance that information required to be disclosed by the Company 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020. Based on the evaluation of our disclosure controls and procedures as of September 30, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was (a) reported within the time periods specified by SEC rules and regulations and (b) communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding any required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the effects that the COVID-19 pandemic may have on our internal controls to minimize the impact on their design and operating effectiveness.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost–effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, subject to legal proceedings and claims arising from the normal course of business activities, and an unfavorable resolution of any of these matters could materially affect our future business, results of operations, financial condition, and cash flows.

The information required by this item is provided in Note 12 to our financial statements included in Part I, Item I of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

Future litigation may be necessary, among other things, to defend ourselves or our users by determining 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

Risk Factors

For a discussion of potential risks and uncertainties, see the information in the section titled "Risk Factors" in our Annual Report and each of our Quarterly Reports filed in 2020 with the SEC on Form 10-Q, which sections are incorporated herein by reference.

Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit Number	Filing Date with SEC	Filed or Furnished Herewith
10.1	Fourth Amendment to Office Lease, between Highline Office 1, L.C. and Pluralsight, LLC, dated as of July 14, 2020.					X
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).					

+Indicates a management contract or compensatory plan.

*The certifications attached as Exhibit 32.1 and 32.2 accompanying this Quarterly Report on 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 Pluralsight, 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 Quarterly Report on 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.

PLURALSIGHT, INC.

Date: November 5, 2020	By: /s/ Aaron Skonnard Aaron Skonnard Chief Executive Officer

PLURALSIGHT, INC.

Date: November 5, 2020	By: /s/ James Budge James Budge Chief Financial Officer

Exhibit 10.1

FOURTH AMENDMENT TO LEASE AGREEMENT

This Fourth Amendment to Lease Agreement (this "Amendment") is made and entered into as of this 14th day of July, 2020, by and between Highline Office 1, L.C., a Utah limited liability company (the "Landlord"), and Pluralsight, LLC, a Nevada limited liability company (the "Tenant").

RECITALS

WHEREAS, on August 31, 2018, Landlord and Tenant entered into that certain Lease Agreement pursuant to which Landlord agreed to lease to Tenant, and Tenant agreed to lease from Landlord, the Leased Premises, which Lease Agreement was amended by that certain First Amendment to Lease Agreement dated November 6, 2018, and which Lease Agreement was further amended by that certain Second Amendment to Lease Agreement dated February 13, 2019, as amended by that certain Third Amendment to Lease Agreement dated May 20, 2020 (collectively, the "Lease"). Capitalized terms used but not defined herein shall have their respective meanings set forth in the Lease.

WHEREAS, Landlord and Tenant desire to enter into this Amendment to amend the Lease on the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Recitals. The recitals are incorporated herein by reference.

2. Amendment to Section 4.1(b)(vi). Section 4.1(b)(vi) of the Lease is hereby deleted in its entirety and replaced with the following:

"(vi) Property management fees not to exceed four percent (4%) of all Basic Annual Rent;"

3. Entire Agreement. This Amendment contains the entire understanding of Tenant and Landlord and supersedes all prior oral or written understandings relating to the subject matter set forth herein. Except as expressly modified and amended hereby, all other terms and conditions of the Lease shall continue in full force and effect.

4. Counterparts. This Amendment may be executed in counterparts each of which shall be deemed an original. An executed counterpart of this Amendment transmitted by facsimile shall be equally as effective as a manually executed counterpart.

5. Successors and Assigns. This Amendment shall inure for the benefit of and shall be binding on each of the parties hereto and their respective successors and/or assigns.

6. Authority. Each individual executing this Amendment does thereby represent and warrant to each other person so signing (and to each other entity for which such other person

may be signing) that he or she has been duly authorized to deliver this Amendment in the capacity and for the entity set forth where she or he signs.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Landlord and Tenant have entered into this Amendment as of the date first set forth above.

LANDLORD: HIGHLINE OFFICE 1, L.C., a Utah limited liability company, by its Manager

KC GARDNER COMPANY, L.C.,
a Utah limited liability company

By: /s/ Christian Gardner
Name: Christian Gardner
Its: Manager

TRIPLE S INVESTMENT CO., L.L.C.,
a Utah limited liability company

By: /s/ S. Val Staker
Name: S. Val Staker
Its: Manager

TENANT: PLURALSIGHT, LLC, a Nevada Limited Liability company

By: Mark Hansen
Name: Mark Hansen
Its: Director of Finance and Accounting

Exhibit 31.1

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Skonnard, certify that:

1 I have reviewed this Quarterly Report on Form 10-Q of Pluralsight, 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)) 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;

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 5, 2020

/s/ Aaron Skonnard
Aaron Skonnard
Chief Executive Officer
(*Principal Executive Officer*)

Exhibit 31.2

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James Budge, certify that:

1 I have reviewed this Quarterly Report on Form 10-Q of Pluralsight, 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)) 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;

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 5, 2020

/s/ James Budge
James Budge
Chief Financial Officer
(*Principal Financial and Accounting Officer*)

Exhibit 32.1

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

I, Aaron Skonnard, Chief Executive Officer of Pluralsight, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1 the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2020 (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.

Date: November 5, 2020

/s/ Aaron Skonnard
Aaron Skonnard
Chief Executive Officer
(*Principal Executive Officer*)

Exhibit 32.2

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

I, James Budge, Chief Financial Officer of Pluralsight, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1 the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2020 (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.

Date: November 5, 2020

/s/ James Budge
James Budge
Chief Financial Officer
(*Principal Financial and Accounting Officer*)