DEVRY INC
Form 10-Q
November 05, 2013

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

Form 10-Q

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

For the quarterly period ended: September 30, 2013

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: 1-13988

DeVry Inc.
(Exact name of registrant as specified in its charter)

DELAWARE *(State or other jurisdiction of Incorporation or organization)*	**36-3150143** *(I.R.S. Employer Identification No.)*
3005 HIGHLAND PARKWAY DOWNERS GROVE, ILLINOIS *(Address of principal executive offices)*	**60515** *(Zip Code)*

Registrant's telephone number; including area code:
(630) 515-7700

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 R No ¨

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

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

Large accelerated filer R	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: October 31, 2013 63,259,000 shares of Common Stock, $0.01 par value

DEVRY INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

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DEVRY INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2013	June 30, 2013	September 30, 2012
	(Dollars in thousands)		
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	$ 308,544	$ 196,576	$ 247,572
Marketable Securities and Investments	3,104	2,975	2,750
Restricted Cash	7,251	7,019	4,546
Accounts Receivable, Net	183,487	139,778	167,045
Deferred Income Taxes, Net	33,336	29,758	25,078
Refundable Income Taxes	618	154	34,651
Prepaid Expenses and Other	51,083	49,685	35,983
Current Assets of Business Held for Sale	5,053	16,219	28,428
Total Current Assets	592,476	442,164	546,053
Land, Building and Equipment:			
Land	67,101	71,122	65,249
Building	427,194	424,902	389,057
Equipment	471,905	475,656	458,340
Construction in Progress	44,226	33,724	35,931
	1,010,426	1,005,404	948,577
Accumulated Depreciation	(439,933)	(433,747)	(386,797)
Land, Building and Equipment of Business Held for Sale, Net	-	-	5,879
Land, Building and Equipment, Net	570,493	571,657	567,659
Other Assets:			
Intangible Assets, Net	298,419	281,998	297,054
Goodwill	517,655	508,937	564,841
Perkins Program Fund, Net	13,450	13,450	13,450
Other Assets	32,805	33,025	31,263
Other Assets of Business Held for Sale	1,509	5,787	-
Total Other Assets	863,838	843,197	906,608
TOTAL ASSETS	$ 2,026,807	$ 1,857,018	$ 2,020,320
LIABILITIES:			
Current Liabilities:			
Accounts Payable	$ 57,798	$ 55,131	$ 61,543
Accrued Salaries, Wages and Benefits	96,100	88,444	83,242
Accrued Expenses	82,496	74,451	69,697
Deferred and Advance Tuition	243,353	97,478	255,222
Current Liabilities of Business Held for Sale	-	713	4,545
Total Current Liabilities	479,747	316,217	474,249
Other Liabilities:			
Deferred Income Taxes, Net	63,850	60,103	67,286
Deferred Rent and Other	88,175	82,576	102,245
Total Other Liabilities	152,025	142,679	169,531
Other Liabilities of Business Held for Sale	-	112	144
TOTAL LIABILITIES	631,772	459,008	643,924

COMMITMENTS AND CONTINGENCIES (NOTE 12)			
NON-CONTROLLING INTEREST	5,890	854	8,637
SHAREHOLDERS' EQUITY			
Common Stock, $0.01 Par Value, 200,000,000 Shares Authorized: 63,198,000, 62,946,000 and 63,782,000 Shares Issued and Outstanding at September 30, 2013, June 30, 2013 and September 30, 2012, Respectively	751	745	743
Additional Paid-in Capital	298,386	291,269	278,144
Retained Earnings	1,562,662	1,575,009	1,520,415
Accumulated Other Comprehensive Loss	(17,605)	(17,101)	(5,412)
Treasury Stock, at Cost (11,662,000, 11,581,000 and 10,544,000 Shares, Respectively)	(455,049)	(452,766)	(426,131)
TOTAL SHAREHOLDERS' EQUITY	1,389,145	1,397,156	1,367,759
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,026,807	$ 1,857,018	$ 2,020,320

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

DEVRY INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands Except Per Share Amounts)
(Unaudited)

	For the Three Months Ended September 30, 2013		2012	
REVENUES:				
Tuition	$	419,318	$	448,685
Other Educational		31,595		31,235
Total Revenues		450,913		479,920
OPERATING COSTS AND EXPENSES:				
Cost of Educational Services		241,737		239,453
Student Services and Administrative Expense		189,158		191,019
Gain on Sale of Asset		(1,918)		-
Restructuring Expenses		11,665		-
Total Operating Costs and Expenses		440,642		430,472
Operating Income		10,271		49,448
INTEREST (EXPENSE) INCOME:				
Interest Income		583		561
Interest Expense		(1,000)		(1,491)
Net Interest (Expense) Income		(417)		(930)
Income from Continuing Operations Before Income Taxes		9,854		48,518
Income Tax Provision		(1,703)		(14,522)
Income from Continuing Operations		8,151		33,996
DISCONTINUED OPERATIONS (NOTE 3):				
Loss from Operations of Held for Sale Component		(16,324)		(3,658)
Income Tax Benefit		996		1,484
Loss on Discontinued Operations		(15,328)		(2,174)
NET (LOSS) INCOME		(7,177)		31,822
Net Loss Attributable to Non-controlling Interest		45		167
NET (LOSS) INCOME ATTRIBUTABLE TO DEVRY INC.	$	(7,132)	$	31,989
AMOUNTS ATTRIBUTABLE TO DEVRY INC.:				
Income from Continuing Operations, Net of Income Taxes		8,196		34,163
Loss from Discontinuing Operations, Net of Income Taxes		(15,328)		(2,174)
NET (LOSS) INCOME ATTRIBUTABLE TO DEVRY INC.	$	(7,132)	$	31,989
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO DEVRY INC. SHAREHOLDERS				
Basic:				
Continuing Operations	$	0.13	$	0.52
Discontinued Operations		(0.24)		(0.03)
	$	(0.11)	$	0.49
Diluted:				
Continuing Operations	$	0.13	$	0.52
Discontinued Operations		(0.24)		(0.03)

	$	(0.11)	$	0.49

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

DEVRY INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Dollars in Thousands)
(Unaudited)

	For the Three Months Ended September 30,			
	2013		2012	
NET (LOSS) INCOME	$	(7,177)	$	31,822
OTHER COMPREHENSIVE INCOME , NET OF TAX				
Currency Translation (Loss) Gain		(624)		410
Change in Fair Value of Available -For- Sale Securities		120		67
COMPREHENSIVE (LOSS) INCOME		(7,681)		32,299
COMPREHENSIVE (INCOME) LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST		80		79
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO DEVRY INC.	$	(7,601)	$	32,378

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

DEVRY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended September 30, 2013	2012
	(Dollars in thousands)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net (Loss) Income	$ (7,177)	$ 31,822
Loss from Discontinued Operations	15,328	2,174
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Stock Based Compensation Expense	5,816	5,716
Depreciation	19,980	19,826
Amortization	1,649	2,442
Provision for Refunds and Uncollectible Accounts	17,819	20,376
Deferred Income Taxes	(1,122)	4,942
Loss on Disposal of Land, Buildings and Equipment	592	361
Realized Gain on Sale of Assets	(1,918)	-
Changes in Assets and Liabilities, Net of Effects from Acquisition of Businesses:		
Restricted Cash	(232)	(2,048)
Accounts Receivable	(60,565)	(90,909)
Prepaid Expenses and Other	(3,163)	7,513
Accounts Payable	2,666	(290)
Accrued Salaries, Wages, Benefits and Expenses	7,984	6,376
Deferred and Advanced Tuition	144,840	156,927
Net Cash Provided by Operating Activities-Continuing Operations	142,497	165,228
Net Cash Used by Operating Activities- Discontinued Operations	(1,277)	(1,106)
NET CASH PROVIDED BY OPERATING ACTIVITIES	141,220	164,122
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(22,180)	(25,622)
Payment for Purchase of Business, Net of Cash Acquired	(12,343)	(29,538)
Marketable Securities Purchased	(9)	(8)
Cash Received on Sale of Assets	6,662	-
Net Cash Used in Investing Activities-Continuing Operations	(27,870)	(55,168)
Net Cash Used in Investing Activities- Discontinued Operations	-	(615)
NET CASH USED IN INVESTING ACTIVITIES	(27,870)	(55,783)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Exercise of Stock Options	1,197	1,030
Proceeds from Stock Issued Under Employee Stock Purchase Plan	339	487
Repurchase of Common Stock for Treasury	-	(25,712)
Cash Dividends Paid	(14)	(9,793)
Excess Tax Benefit from Stock-Based Payments	-	6
Payments of Seller Financed Debt	(2,138)	-
NET CASH USED IN FINANCING ACTIVITIES	(616)	(33,982)
Effects of Exchange Rate Differences	(1,334)	(867)
NET INCREASE IN CASH AND CASH EQUIVALENTS	111,400	73,490
Cash and Cash Equivalents at Beginning of Period	197,144	174,076

Cash and Cash Equivalents at End of Period		308,544		247,566
Less: Cash and Cash Equivalents of Discontinued Operations at End of Period		-		(6)
Cash and Cash Equivalents at End of Period	$	308,544	$	247,572
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash Paid During the Period For:				
Interest	$	30	$	263
Income Taxes, Net		381		616
Non-cash Investing and Financing Activity:				
Accretion of Non-controlling Interest Put Option		5,081		562

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

DEVRY INC.

Notes to Consolidated Financial Statements

NOTE 1: INTERIM FINANCIAL STATEMENTS

The interim consolidated financial statements include the accounts of DeVry Inc. (“DeVry”) and its wholly-owned and majority-owned subsidiaries. These financial statements are unaudited but, in the opinion of management, contain all adjustments, consisting only of normal, recurring adjustments, necessary to present fairly the financial condition and results of operations of DeVry. The June 30, 2013 data that is presented is derived from audited financial statements.

The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in DeVry's Annual Report on Form 10-K for the fiscal year ended June 30, 2013, as filed with the Securities and Exchange Commission.

The results of operations for the three months ended September 30, 2013, are not necessarily indicative of results to be expected for the entire fiscal year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts of revenues and expenses reported during the period. Actual results could differ from those estimates.

Revenue Recognition

DeVry University tuition revenues are recognized ratably on a straight-line basis over the applicable academic term. Ross University School of Medicine, Ross University School of Veterinary Medicine (together “Ross University”) and American University of the Caribbean School of Medicine (“AUC”) basic science curriculum revenues are recognized ratably on a straight-line basis over the academic term. The clinical portion of the Ross University and AUC education programs are conducted under the supervision of U.S. teaching hospitals and veterinary schools. Ross University and AUC are responsible for the billing and collection of tuition from its students during the period of clinical education. Revenues are recognized on a weekly basis based on actual program attendance during the period of the clinical program. Fees paid to the hospitals and veterinary schools for supervision of Ross University and AUC students are charged to expense on the same basis. Carrington, Chamberlain and DeVry Brasil tuition and fee revenues are recognized ratably on a straight-line basis over the applicable academic term. The provision for refunds, which is reported as a reduction to Tuition Revenues in the Consolidated Statements of Income, and the provision for uncollectible accounts, which is included in the Cost of Educational Services in the Consolidated Statements of Income, also are recognized in the same ratable fashion as revenue to most appropriately match these costs with the tuition revenue in that term.

Estimates of DeVry’s expected refunds are determined at the outset of each academic term, based upon actual experience in previous terms, and monitored and adjusted as necessary within the term. If a student leaves school prior to completing a term, federal, state and/or Canadian provincial regulations and accreditation criteria permit DeVry to retain only a set percentage of the total tuition received from such student, which varies with, but generally equals or exceeds, the percentage of the term completed by such student. Payment amounts received by DeVry in excess of such set percentages of tuition are refunded to the student or the appropriate funding source. All refunds are netted against revenue during the applicable academic term. The allowance for uncollectible accounts is determined by analyzing the current aging of accounts receivable and historical loss rates on collections of accounts receivable. In addition, management considers projections of future receivable levels and collection loss rates. We monitor the inputs to this analysis periodically throughout the year. Provisions required to maintain the allowance at appropriate levels are charged to expense in each period as required. Related reserves with respect to uncollectible accounts and refunds totaled $50.4 million and $63.1 million at September 30, 2013 and September 30, 2012, respectively.

Sales of textbooks, electronic course materials, and other educational products, including training services and the Becker self-study products, are included in Other Educational Revenues in the Consolidated Statements of Income. Textbook, electronic course materials and other educational product revenues are recognized when the sale occurs. Revenues from training services, which are generally short-term in duration, are recognized when the training service is provided. In addition, fees from international licensees of the Becker programs are included in Other Educational Revenues and recognized when confirmation of course delivery is received.

Internal-Use Software Development Costs

DeVry capitalizes certain internal-use software development costs that are amortized using the straight-line method over the estimated lives of the software, not to exceed five years. Capitalized costs include external direct costs of equipment, materials and services consumed in developing or obtaining internal-use software and payroll-related costs for employees directly associated with the internal-use software development project. Capitalization of such costs ceases at the point at which the project is substantially complete and ready for its intended purpose. Capitalized internal-use software development costs for projects not yet complete are included as construction in progress in the Land, Buildings and Equipment section of the Consolidated Balance Sheets. There were no costs capitalized during the three months ended September 30, 2013. For the three months ended September 30, 2012, capitalized costs were approximately $2.1 million, primarily related to Project DELTA (a new student information system for DeVry University and Chamberlain College of Nursing). As of September 30, 2013 and 2012, the net balance of capitalized software development costs was $57.5 and $73.0 million, respectively.

Perkins Program Fund

DeVry University is required, under federal aid program regulations, to make contributions to the Perkins Student Loan Fund, most recently at a rate equal to 33% of new contributions by the federal government. No new federal contributions were received during the three months ended September 30, 2013 or 2012. DeVry carries its investment in such contributions at original values, net of allowances for expected losses on loan collections of $2.6 million at September 30, 2013 and 2012. The allowance for future loan losses is based upon an analysis of actual loan losses experienced since the inception of the program. As previous borrowers repay their Perkins loans, their payments are used to fund new loans thus creating a revolving loan fund. The federal contributions to this revolving loan program do not belong to DeVry and are not recorded in its financial statements. Under current law, upon termination of the program by the federal government or withdrawal from future program participation by DeVry University, subsequent student loan repayments would be divided between the federal government and DeVry University to satisfy their respective cumulative contributions to the fund.

Non-Controlling Interest

DeVry maintains a 96.3 percent ownership interest in DeVry Brasil with the remaining 3.7 percent owned by some of the current DeVry Brasil senior management group. Prior to a June 2013 purchase of additional DeVry Brasil stock, DeVry's ownership percentage was 93.5 percent. Beginning July 1, 2015, DeVry has the right to exercise a call option and purchase any remaining DeVry Brasil stock from DeVry Brasil management. Likewise, DeVry Brasil management has the right to exercise a put option and sell its remaining ownership interest in DeVry Brasil to DeVry. Since the put option is out of the control of DeVry, authoritative guidance requires the non-controlling interest, which includes the value of the put option, to be displayed outside of the equity section of the consolidated balance sheet.

The DeVry Brasil management put option is being accreted to its redemption value in accordance with the stock purchase agreement. The adjustment to increase or decrease the put option to its expected redemption value each reporting period is recorded to retained earnings in accordance with United States Generally Accepted Accounting Principles. The adjustment to increase or decrease the DeVry Brasil non-controlling interest each reporting period for its proportionate share of DeVry Brasil's profit/loss will continue to flow through the consolidated income statement based on DeVry's historical non-controlling interest accounting policy.

The following is a reconciliation of the non-controlling interest balance (in thousands):

	Three Months Ended September 30,	
	2013	2012

Balance at Beginning of Period	$	854	$	8,242
Net Income Attributable to Non-controlling Interest		(45)		(167)
Accretion of Non-controlling Interest Put Option		5,081		562
Balance at End of Period	$	5,890	$	8,637

Earnings per Common Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period plus unvested participating restricted share units. Diluted earnings per share is computed by dividing net income attributable to DeVry Inc. by the weighted average number of shares assuming dilution. Dilutive shares are computed using the Treasury Stock Method and reflect the additional shares that would be outstanding if dilutive stock options were exercised during the period. Excluded from the September 30, 2013 and 2012 computations of diluted earnings per share were options to purchase 2,169,000 and 2,498,000 shares of common stock, respectively. These outstanding options were excluded because the option exercise prices were greater than the average market price of the common shares or the assumed proceeds upon exercise under the Treasury Stock Method resulted in the repurchase of more shares than would be issued; thus, their effect would be anti-dilutive.

The following is a reconciliation of basic shares to diluted shares (amounts in thousands).

	Three Months Ended September 30,	
	2013	2012
Weighted Average Shares Outstanding	63,061	64,245
Unvested Participating Restricted Shares	922	628
Basic Shares	63,983	64,873
Effect of Dilutive Stock Options	527	236
Diluted Shares	64,510	65,109

Treasury Stock

DeVry's Board of Directors has authorized stock repurchase programs on eight occasions. The eighth repurchase program was approved by the DeVry Board of Directors on August 29, 2012 and commenced in November 2012. Share repurchases under this plan were suspended as of May 2013. Shares that are repurchased by DeVry are recorded as Treasury Stock at cost and result in a reduction of Shareholders' Equity.

From time to time, shares of its common stock are delivered back to DeVry under a swap arrangement resulting from employees' exercise of incentive stock options pursuant to the terms of the DeVry Stock Incentive Plans (see "Note 4 Stock-Based Compensation"). These shares are recorded as Treasury Stock at cost and result in a reduction of Shareholders' Equity.

Treasury shares are reissued on a monthly basis at market value, to the DeVry Employee Stock Purchase Plan in exchange for employee payroll deductions. When treasury shares are reissued, DeVry uses an average cost method to reduce the Treasury Stock balance. Gains on the difference between the average cost and the reissuance price are credited to Additional Paid-in Capital. Losses on the difference are charged to Additional Paid-in Capital to the extent that previous net gains from reissuance are included therein; otherwise such losses are charged to Retained Earnings.

Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is comprised of the change in cumulative translation adjustment and unrealized gains and losses on available-for-sale marketable securities, net of the effects of income taxes.

The Accumulated Other Comprehensive Loss balance at September 30, 2013, consists of $17.7 million of cumulative translation losses ($17.2 million attributable to DeVry Inc. and $0.5 million attributable to non-controlling interests) and $0.1 million of unrealized gains on available-for-sale marketable securities, net of tax of $0.1 million and all attributable to DeVry Inc. At September 30, 2012, this balance consisted of $5.2 million of cumulative translation losses ($4.6 million attributable to DeVry Inc. and $0.6 million attributable to non-controlling interests) and $0.2 million of unrealized losses on available-for-sale marketable securities, net of tax of $0.1 million and all attributable to DeVry Inc.

Advertising Expense

Advertising costs are recognized as expense in the period in which materials are purchased or services are performed. Advertising expense, which is included in student services and administrative expense in the Consolidated Statements of Income, was $73.0 million, and $66.7 million for the three months ended September 30, 2013 and 2012, respectively.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-11: “Income Taxes (Topic 740): Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists”. This guidance requires an unrecognized tax benefit related to a net operating loss carryforward, a similar tax loss or a tax credit carryforward to be presented as a reduction to a deferred tax asset, unless the tax benefit is not available at the reporting date to settle any additional income taxes under the tax law of the applicable tax jurisdiction. The guidance is effective for the fiscal years and interim periods beginning December 15, 2013 with early adoption permitted. Management is in the process of evaluating the effects of this guidance but does not believe it will have a significant impact on DeVry’s consolidated financial statements.

Reclassifications

The previously reported amounts in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows for Advance Tuition Payments and Deferred Tuition Revenue have been combined as Deferred and Advance Tuition to conform to the current presentation format.

NOTE 3: ASSETS AND LIABILITIES OF BUSINESS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets and Liabilities of Business Held for Sale

During the fourth quarter of fiscal year 2013, management determined its Advanced Academics Inc. ("AAI") subsidiary no longer coincides with DeVry's long-term strategic plan and management is in the process of divesting AAI. As such, the assets and operations of AAI are considered "held for sale" at September 30, 2013. The assets and liabilities of AAI are separately disclosed on the Consolidated Balance Sheets as "Held for Sale". The following is a summary of balance sheet information of "held for sale" assets and liabilities at September 30, 2013 and 2012 (dollars in thousands).

	September 30, 2013		June 30, 2013		September 30, 2012	
ASSETS:						
Current Assets:						
Cash and Cash Equivalents	$	(84)	$	568	$	(6)
Accounts Receivable, Net		12,192		12,050		23,682
Deferred Income Taxes, Net		3,053		2,757		201
Prepaid Expenses and Other		736		844		4,551
Fair Market Value Reserve		(10,844)		-		-
Total Current Assets of Business Held for Sale		5,053		16,219		28,428
Land, Building and Equipment of Business Held for Sale, Net		-		-		5,879
Other Assets:						
Deferred Income Taxes, Net		1,509		2,602		-
Other Assets		3,715		3,185		-
Fair Market Value Reserve		(3,715)		-		-
Total Other Assets of Business Held for Sale		1,509		5,787		-
Total Assets of Business Held for Sale	$	6,562	$	22,006	$	34,307
LIABILITIES:						
Current Liabilities:						
Accounts Payable	$	279	$	178	$	562
Accrued Salaries, Wages and Benefits		415		482		411
Accrued Expenses		4		47		34
Deferred and Advance Tuition		1,483		6		3,538
Fair Market Value Reserve		(2,181)		-		-
Total Current Liabilities of Business Held for Sale		-		713		4,545
Other Liabilities:						
Deferred Rent and Other		41		112		144
Fair Market Value Reserve		(41)		-		-
Total Other Liabilities of Business Held for Sale		-		112		144
Liabilities of Business Held for Sale	$	-	$	825	$	4,689

Discontinued Operations

The operating results of AAI are separately disclosed in the Consolidated Income Statements as "Discontinued Operations Loss from Operations of Held for Sale Component". The following is a summary of operating results of the discontinued operations for the periods ended September 30, 2013 and 2012 (dollars in thousands).

	For the Three Months Ended September 30, 2013		2012
DISCONTINUED OPERATIONS:			
Loss from Operations of Held for Sale Component	$ (2,847)	$	(3,658)
Asset Impairment Charge (Note 5)	(13,477)		-
Income Tax Benefit	996		1,484
Loss from Discontinued Operations, Net of Income Taxes	$ (15,328)	$	(2,174)

NOTE 4: STOCK-BASED COMPENSATION

DeVry maintains four stock-based award plans: the 1994 Stock Incentive Plan, the 1999 Stock Incentive Plan, the 2003 Stock Incentive Plan and the Amended and Restated Incentive Plan of 2005. Under these plans, directors, key executives and managerial employees are eligible to receive incentive stock or nonqualified options to purchase shares of DeVry's common stock. The Amended and Restated Incentive Plan of 2005 also permits the award of stock appreciation rights, restricted stock, performance stock and other stock and cash based compensation. Though options remain outstanding under the 1994, 1999 and 2003 Stock Incentive Plans, no further stock based awards will be issued from these plans. The 2003 Stock Incentive Plans and the Amended and Restated Incentive Plan of 2005 are administered by the Compensation Committee of the Board of Directors. Options are granted for terms of up to 10 years and can vest immediately or over periods of up to five years. The requisite service period is equal to the vesting period. The option price under the plans is the fair market value of the shares on the date of the grant.

DeVry accounts for options granted to retirement eligible employees that fully vest upon an employees' retirement under the non-substantive vesting period approach to these options. Under this approach, the entire compensation cost is recognized at the grant date for options issued to retirement eligible employees.

At September 30, 2013, 6,245,754 authorized but unissued shares of common stock were reserved for issuance under DeVry's stock incentive plans.

Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period, reduced by an estimated forfeiture rate.

The following is a summary of options activity for the three months ended September 30, 2013:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ($000)
Outstanding at July 1, 2013	3,327,668	$ 32.64		
Options Granted	556,050	$ 28.32		
Options Exercised	(58,157)	$ 21.79		
Options Canceled and Forfeited	(30,629)	$ 39.98		

Outstanding at September 30, 2013	3,794,932	$	32.13	6.45	$	16,358
Exercisable at September 30, 2013	2,352,083	$	35.32	4.88	$	8,143

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The following is a summary of stock appreciation rights activity for the three months ended September 30, 2013:

	Stock Appreciation Rights Outstanding	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ($000)	
Outstanding at July 1, 2013	117,015	$	42.87			
Rights Granted	1,050	$	28.32			
Rights Exercised	-	$	-			
Rights Canceled and Forfeited	-	$	-			
Outstanding at September 30, 2013	118,065	$	42.74	6.45	$	3
Exercisable at September 30, 2013	85,855	$	45.25	5.45	$	-

The total intrinsic value of options exercised for the three months ended September 30, 2013 and 2012 was $0.5 million, and $0.3 million, respectively.

The fair value of DeVry's stock-based awards was estimated using a binomial model. This model uses historical cancellation and exercise experience of DeVry to determine the option value. It also takes into account the illiquid nature of employee options during the vesting period.

The weighted average estimated grant date fair values for options granted at market price under DeVry's stock option plans during the first three months of fiscal years 2014 and 2013 were $11.68 and $7.61, per share, respectively. The fair values of DeVry's stock option awards were estimated assuming the following weighted average assumptions:

	Fiscal Year 2013		2012	
Expected life (in years)	6.58		6.63	
Expected volatility	43.76	%	43.67	%
Risk-free interest rate	2.16	%	1.03	%
Dividend yield	0.90	%	0.61	%
Pre-vesting forfeiture rate	3.00	%	3.00	%

The expected life of the options granted is based on the weighted average exercise life with age and salary adjustment factors from historical exercise behavior. DeVry's expected volatility is computed by combining and weighting the implied market volatility, the most recent volatility over the expected life of the option grant, and DeVry's long-term historical volatility. The pre-vesting forfeiture rate is based on DeVry's historical stock option forfeiture experience.

If factors change and different assumptions are employed in the valuation of stock-based awards in future periods, the stock-based compensation expense that DeVry records may differ significantly from what was recorded in previous periods.

During the first quarter of fiscal year 2014, DeVry granted 399,860 shares of restricted stock to selected employees and non-employee directors. Of these, 73,010 are performance based shares which are earned by the recipients over a three year period based on achievement of specified academic and student outcome goals when a minimum level of DeVry return on invested capital is attained. The remaining 326,850 shares and all other previously granted shares of restricted stock are subject to restrictions which lapse ratably over three and four-year periods on the grant anniversary date based on the recipient's continued service on the Board of Directors or employment with DeVry, or upon retirement. During the restriction period, the recipient of the non-performance based shares shall have the right to receive dividend equivalents. This right does not pertain to the performance based shares. The following is a summary of restricted stock activity for the year ended September 30, 2013:

	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Nonvested at July 1, 2013	1,058,443	$ 27.03
Shares Granted	399,860	$ 28.32
Shares Vested	(269,543)	$ 31.07
Shares Cancelled	(23,986)	$ 27.89
Nonvested at September 30, 2013	1,164,774	$ 26.52

The following table shows total stock-based compensation expense included in the Consolidated Statements of Earnings (dollars in thousands):

	For the Three Months Ended September 30, 2013	2012
Cost of Educational Services	$ 1,861	$ 1,829
Student Services and Administrative Expense	3,955	3,887
	5,816	5,716
Income Tax Benefit	(1,946)	(1,854)
Net Stock-Based Compensation Expense	$ 3,870	$ 3,862

As of September 30, 2013, $32.8 million of total pre-tax unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of 2.7 years. The total fair value of options vested during the quarters ended September 30, 2013 and 2012 was approximately $6.3 million and $9.2 million, respectively.

There were no capitalized stock-based compensation costs at September 30, 2013 and 2012.

DeVry has an established practice of issuing new shares of common stock to satisfy share option exercises. However, DeVry also may issue treasury shares to satisfy option exercises under certain of its plans.

NOTE 5: FAIR VALUE MEASUREMENTS

DeVry has elected not to measure any assets or liabilities at fair value other than those required to be measured at fair value on a recurring basis, assets measured at fair value on a non-recurring basis such as goodwill and intangible assets and assets of businesses where the long-term value of the operations have been impaired. Management has fully considered all authoritative guidance when determining the fair value of DeVry's financial assets as of September 30, 2013.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The guidance specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The guidance establishes fair value measurement classifications under the following hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

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Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level 3 Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, DeVry uses quoted market prices to determine fair value, and such measurements are classified within Level 1. In some cases where market prices are not available, DeVry makes use of observable market based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates and yield curves. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

Assets measured at fair value on a non-recurring basis include goodwill and indefinite-lived intangibles arising from a business combination. These assets are not amortized and charged to expense over time. Instead, goodwill and indefinite-lived intangibles must be reviewed annually for impairment or more frequently if circumstances arise indicating potential impairment. This impairment review was most recently completed during the fourth quarter of fiscal year 2013. See "Note 8: Intangible Assets" for further discussion on the impairment review including valuation techniques and assumptions.

During the first quarter of fiscal year 2014, it was determined that net assets of AAI reporting unit had been impaired. This determination was made after review of the updated third party offers to purchase the assets of the business. Assets measured at fair value in circumstances where the long-term value of a business has been impaired include the assets of AAI. To determine the fair value of the AAI assets, management incorporated assumptions that a reasonable market participant would use regarding the impact of the current operating losses and the increased uncertainty impacting future operations. We used significant unobservable inputs (Level 3) in our analysis including third party offers received to acquire the assets of AAI along with estimated costs to dispose of the assets. Based on this analysis, the fair market value less the costs to sell exceeded the carrying value by approximately $13.5 million. As a result management recorded a pre-tax $13.5 million asset impairment charge in the first quarter of fiscal year 2014. See "Note 3: Assets and Liabilities of Business Held for Sale and Discontinued Operations" for further discussions on AAI.

The following tables present DeVry's assets and liabilities at September 30, 2013, that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (dollars in thousands).

	Level 1	Level 2	Level 3
Cash and Cash Equivalents	$308,544	$-	$-
Available for Sale Investments:			
Marketable Securities, short-term	3,104	-	-
Favip Contingent Consideration	-	-	2,519
Total Financial Assets at Fair Value	$311,648	$-	$2,519

Cash Equivalents and investments in short-term Marketable Securities are valued using a market approach based on the quoted market prices of identical instruments. The Favip Contingent Consideration is valued at management's estimate of the percentage likelihood of the contingency being realized. Management assumes that there is a 70 percent likelihood that Favip will receive status of a university center and that the contingency will be payable.

The fair value of the institutional loans receivable included in Accounts Receivable, Net and Other Assets on the Consolidated Balance Sheet as of September 30, 2013 is estimated by discounting the future cash flows using current rates for similar arrangements. As of September 30, 2013, the carrying value and the estimated fair value of these financial instruments was approximately $44.5 million. See “Note 6: Financing Receivables” for further discussion on these institutional loans receivable.

Below is a roll-forward of liabilities measured at fair value using Level 3 inputs for the three months ended September 30, 2013 (dollars in thousands). The amount recorded as foreign currency translation gain is classified as student services and administrative expense in the Consolidated Statements of Income.

	Accrued Expenses	
Balance at Beginning of Period	$	2,509
Total Unrealized Gains (Losses) Included in AOCI:		
Foreign Currency Translation Changes		10
Balance at September 30, 2013	$	2,519

NOTE 6: FINANCING RECEIVABLES

DeVry's institutional loan programs are available to students at its DeVry University, Chamberlain College of Nursing, Carrington College and Carrington College of California schools as well as selected students at Ross University School of Medicine and Ross University School of Veterinary Medicine. These loan programs are designed to assist students who are unable to completely cover educational costs by other means. These loans may be used for tuition, books, and fees, and are available only after all other student financial assistance has been applied toward those purposes. In addition, Ross University School of Medicine and Ross University School of Veterinary Medicine loans may be used for students' living expenses. Repayment plans for institutional loan program balances are developed to address the financial circumstances of the particular student. Interest charges accrue each month on the unpaid balance. DeVry University, Chamberlain College of Nursing, Carrington College and Carrington College of California require that students begin repaying a small portion of the loans while they are still in school, and then payments increase upon completing or departing the program. After a student leaves school, the student typically will have a monthly installment repayment plan with all balances due within 12 to 60 months. In addition, the Becker CPA Review Course can be financed through Becker with a zero percent, 18-month term loan.

Reserves for uncollectible loans are determined by analyzing the current aging of accounts receivable and historical loss rates of loans at each educational institution. Management performs this analysis periodically throughout the year. Since all of DeVry's financing receivables are generated through the extension of credit to students to fund educational costs, all such receivables are considered part of the same loan portfolio.

The following table details the institutional loan balances along with the related allowances for credit losses as of September 30, 2013 and 2012 (dollars in thousands).

	As of September 30,			
	2013		2012	
Gross Institutional Student Loans	$	64,023	$	56,106
Allowance for Credit Losses		(19,476)		(18,145)
Net Institutional Student Loans	$	44,547	$	37,961

Of the net balances above, $20.8 million and $19.5 million were classified as Accounts Receivable, Net in the Consolidated Balance Sheets at September 30, 2013 and 2012, respectively, and $23.7 million and $18.5 million, representing amounts due beyond one year, were classified in the Consolidated Balance Sheets as Other Assets at September 30, 2013 and 2012, respectively.

The following tables detail the credit risk profiles of the institutional student loan balances based on payment activity and provide an aging analysis of past due institutional student loans as of September 30, 2013 and 2012. Loans are considered nonperforming if they are more than 120 days past due (dollars in thousands).

	As of September 30, 2013	2012
Institutional Student Loans:		
Performing	$ 47,670	$ 42,008
Nonperforming	16,353	14,098
Total Institutional Student Loans	$ 64,023	$ 56,106

	30-59 Days Past Due	60-89 Days Past Due	90-119 Days Past Due	Greater Than 120 Days Past Due	Total Past Due	Current	Total Institutional Student Loans
Institutional Student Loans:							
September 30, 2013	$ 4,283	$ 1,725	$ 2,068	$ 16,353	24,429	$ 39,594	$ 64,023
September 30, 2012	$ 3,876	$ 1,579	$ 1,330	$ 14,098	20,883	$ 35,223	$ 56,106

NOTE 7: BUSINESS COMBINATIONS

Faculdade Diferencial Integral

On July 1, 2013, DeVry Educacional do Brasil S/A (f/k/a Fanor-Faculdades Nordeste S/A) (DeVry Brasil), a subsidiary of DeVry, acquired the stock of Faculdade Diferencial Integral ("Facid"), located in the state of Piaui, Brazil, for approximately $16.1 million in cash. In addition, DeVry Brasil will be required to make additional payments of approximately $9.0 million over the next four years. Facid currently serves approximately 2,500 students at two campuses in the city of Teresina, and offers degree programs primarily in healthcare, including a Doctor of Medicine (M.D.) program. Facid also offers undergraduate degrees in other healthcare fields such as nursing, pharmacy, and dentistry, as well as a law program. Facid joins DeVry Brasil, which now operates six institutions at 13 campuses in northeast Brazil. With the addition of Facid, these institutions provide education programs to nearly 30,000 students.

The operations of Facid are included in DeVry's International and Professional Education segment. The results of Facid's operations have been included in the Consolidated Financial Statements of DeVry since the date of acquisition.

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

	At July 1, 2013
Current Assets	$ 4,699
Property and Equipment	2,037
Other Long-term Assets	167
Intangible Assets	17,723
Goodwill	8,238
Total Assets Acquired	32,864
Liabilities Assumed	16,801
Net Assets Acquired	$ 16,063

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Goodwill, which represents the excess of cost over the fair value of the net tangible and intangible assets acquired, was all assigned to the DeVry Brasil reporting unit which is classified within the International and Professional Education segment. Factors that contributed to a purchase price resulting in the recognition of goodwill include Facid's strategic fit into DeVry's expanding presence in northeast Brazil, the reputation of the educational programs and the acquired assembled workforce. None of the goodwill acquired is expected to be deductible for income tax purposes. Of the $17.7 million of acquired intangible assets, $15.2 million was assigned to Accreditations and $1.9 million was assigned to Trade Names, both of which have been determined not to be subject to amortization. The remaining acquired intangible asset was determined to be subject to amortization with an average useful life of approximately 15 years. Their values and estimated useful lives by asset type are as follows (dollars in thousands):

	At July 1, 2013 Value Assigned	Estimated Useful Life
Clinical Agreement	$ 583	15 years

There is no pro forma presentation of operating results for this acquisition due to the insignificant effect on consolidated operations.

Faculdade do Vale do Ipojuca

On September 3, 2012, DeVry Educacional do Brasil S/A (f/k/a, Fanor-Faculdades Nordeste S/A) ("DeVry Brasil"), a subsidiary of DeVry acquired the business operations of Faculdade do Vale do Ipojuca ("Favip"), which is located in the state of Pernambuco, Brazil. Under the terms of the agreement, DeVry Brasil paid approximately $32.2 million in cash in exchange for the stock of Favip. In addition, DeVry Brasil will be required to make an additional payment of approximately $3.9 million over the next 12 months should Favip receive status of a university center. As of September 30, 2013, $2.5 million is accrued for this additional payment.

Favip currently serves about 5,000 students and offers more than 30 undergraduate and graduate programs at two campuses located in Caruaru, the state's second largest city. The institution's largest programs are in the areas of law, business, psychology and nutrition. The acquisition of Favip is consistent with DeVry's growth and diversification strategy, increasing its international presence in Brazil.

The operations of Favip are included in DeVry's International and Professional Education segment. The results of Favip's operations have been included in the Consolidated Financial Statements of DeVry since the date of acquisition.

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

	At September 3, 2012
Current Assets	$ 4,414
Property and Equipment	2,897
Other Long-term Assets	844
Intangible Assets	13,571
Goodwill	16,120
Total Assets Acquired	37,846
Liabilities Assumed	5,677
Net Assets Acquired	$ 32,169

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Goodwill, which represents the excess of cost over the fair value of the net tangible and intangible assets acquired, was all assigned to the DeVry Brasil reporting unit which is classified within the International and Professional Education segment. Factors that contributed to a purchase price resulting in the recognition of goodwill include Favip's strategic fit into DeVry's expanding presence in northeast Brazil, the reputation of the educational programs and the acquired assembled workforce. None of the goodwill acquired is expected to be deductible for income tax purposes. Of the $13.6 million of acquired intangible assets, $10.2 million was assigned to Accreditations and $1.1 million was assigned to Trade Names, both of which have been determined not to be subject to amortization. The remaining acquired intangible assets were determined to be subject to amortization with an average useful life of approximately 4.9 years. Their values and estimated useful lives by asset type are as follows (dollars in thousands):

	At September 3, 2012 Value Assigned	Estimated Useful Lives
Student Relationships	$ 2,257	5 years
Curriculum	79	2 years

There is no pro forma presentation of operating results for this acquisition due to the insignificant effect on consolidated operations.

NOTE 8: INTANGIBLE ASSETS

Intangible assets relate mainly to acquired business operations. These assets consist of the acquisition fair value of certain identifiable intangible assets acquired and goodwill. Goodwill represents the excess of the purchase price over the fair value of assets acquired less liabilities assumed.

Intangible assets consist of the following (dollars in thousands):

	September 30, 2013 Gross Carrying Amount	Accumulated Amortization	Weighted Avg. Amortization Period
Amortizable Intangible Assets:			
Student Relationships	$ 81,619	$ (76,130)	(a)
Customer Relationships	3,554	(813)	12 years
Non-compete Agreements	2,517	(1,859)	(b)
Curriculum/Software	5,648	(4,424)	5 years
Outplacement Relationships	3,900	(1,309)	15 years
Trade Names	5,838	(4,828)	(c)
Clinical Agreement	585	(10)	15 years
Total	$ 103,661	$ (89,373)	
Indefinite-lived Intangible Assets:			
Trade Names	$ 40,894		
Trademark	1,645		
Ross Title IV Eligibility and Accreditations	14,100		
Intellectual Property	13,940		
Chamberlain Title IV Eligibility and Accreditations	1,200		
Carrington Title IV Eligibility and Accreditations	67,200		
AUC Title IV Eligibility and Accreditations	100,000		
DeVry Brasil Accreditations	45,152		

Total	$	284,131

(a) The total weighted average estimated amortization period for Student Relationships is 5 years for DeVry Brasil (Fanor, Ruy Barbosa and AREA 1), 6 years for FBV, 5 years for Favip and 4 years for AUC. All other student student relationships are fully amortized as of September 30, 2013.
(b) The total weighted average estimated amortization period for Non-compete Agreements is 1.5 years for ATC and 5 years for Falcon. All other and Non-compete agreements are fully amortized as of September 30, 2013.
(c) The total weighted average estimated amortization period for Trade Names is 2 years for ATC, 8.5 years for DeVry Brasil (Fanor, Ruy Barbosa and AREA1) and 1.5 years for Falcon. All other trade names are fully amortized at September 30, 2013.

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	As of September 30, 2012			
	Gross Carrying Amount		Accumulated Amortization	
Amortizable Intangible Assets:				
Student Relationships	$	82,700	$	(69,975)
Customer Relationships		3,550		(458)
License and Non-compete Agreements		3,716		(2,837)
Curriculum/Software		5,689		(3,763)
Outplacement Relationships		3,900		(1,049)
Trade Names		6,078		(4,546)
Total	$	105,633	$	(82,628)
Indefinite-lived Intangible Assets:				
Trade Names	$	39,233		
Trademark		1,645		
Ross Title IV Eligibility and Accreditations		14,100		
Intellectual Property		13,940		
Chamberlain Title IV Eligibility and Accreditations		1,200		
Carrington Title IV Eligibility and Accreditations		71,100		
AUC Title IV Eligibility and Accreditations		100,000		
DeVry Brasil Accreditations		32,831		
Total	$	274,049		

Amortization expense for amortized intangible assets was $1.6 million and $2.3 million for the three months ended September 30, 2013 and 2012, respectively. Estimated amortization expense for amortized intangible assets for the next five fiscal years ending June 30, by reporting unit, is as follows (dollars in thousands):

Fiscal Year	AUC		Becker		DeVry Brasil		Carrington		Total	
2014	$	3,347	$	935	$	1,882	$	295	$	6,459
2015		387		926		1,093		260		2,666
2016		-		892		701		260		1,853
2017		-		627						