DEVRY INC
Form 10-Q
February 06, 2009

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

Form 10-Q

(Mark One)

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: December 31, 2008

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.)
ONE TOWER LANE, SUITE 1000, OAKBROOK TERRACE, ILLINOIS (Address of principal executive offices)	60181 (Zip Code)

Registrant’s telephone number; including area code:
(630) 571-7700

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 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:
February 2, 2009 — 71,614,700 shares of Common Stock, $0.01 par value

DEVRY INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2008

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PART I – Financial Information
Item 1. Financial Statements

DEVRY INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2008	June 30, 2008	December 31, 2007
	(Dollars in thousands)		
Current Assets:			
Cash and Cash Equivalents	$ 203,326	$ 217,199	$ 98,912
Marketable Securities	1,861	2,308	142,144
Restricted Cash	31,948	4,113	9,823
Accounts Receivable, Net	137,602	55,214	76,842
Deferred Income Taxes, Net	16,312	14,975	17,938
Prepaid Expenses and Other	33,903	31,779	22,598
Total Current Assets	424,952	325,588	368,257
Land, Buildings and Equipment:			
Land	50,797	50,726	51,431
Buildings	235,640	216,048	206,003
Equipment	295,636	282,273	271,594
Construction In Progress	8,209	4,874	6,375
	590,282	553,921	535,403
Accumulated Depreciation and Amortization	(325,452)	(314,606)	(301,362)
Land, Buildings and Equipment, Net	264,830	239,315	234,041
Other Assets:			
Intangible Assets, Net	187,612	62,847	65,372
Goodwill	494,488	308,024	308,598
Perkins Program Fund, Net	13,450	13,450	13,450
Investments	57,757	57,171	0
Other Assets	11,798	11,961	6,614
Total Other Assets	765,105	453,453	394,034
TOTAL ASSETS	$ 1,454,887	$ 1,018,356	$ 996,332
LIABILITIES:			
Current Liabilities:			
Current Portion of Debt	$ 135,124	$ —	$ —
Accounts Payable	40,905	70,368	37,029
Accrued Salaries, Wages and Benefits	54,200	51,300	43,249
Accrued Expenses	41,470	31,175	31,312
Advance Tuition Payments	44,443	16,972	10,804
Deferred Tuition Revenue	181,616	40,877	124,539
Total Current Liabilities	497,758	210,692	246,933
Other Liabilities:			
Revolving Loan	20,000	—	—
Deferred Income Taxes, Net	66,497	22,163	16,053
Deferred Rent and Other	30,463	29,512	30,181
Total Other Liabilities	116,960	51,675	46,234

TOTAL LIABILITIES	614,718	262,367	293,167
SHAREHOLDERS' EQUITY:			
Common Stock, $0.01 Par Value, 200,000,000 Shares Authorized; 71,636,000; 71,377,000 and 71,361,000 Shares Issued and Outstanding at December 31, 2008, June 30, 2008 and December 31, 2007, Respectively	726	724	721
Additional Paid-in Capital	181,758	168,405	158,663
Retained Earnings	699,027	627,064	568,463
Accumulated Other Comprehensive Loss	469	(2,963)	(1,788)
Treasury Stock, at Cost (1,064,367; 989,579 and 688,706 Shares, Respectively)	(41,811)	(37,241)	(22,894)
TOTAL SHAREHOLDERS' EQUITY	840,169	755,989	703,165
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,454,887	$ 1,018,356	$ 996,332

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

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DEVRY INC.

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

	For the Quarter Ended December 31, 2008	For the Quarter Ended December 31, 2007	For the Six Months Ended December 31, 2008	For the Six Months Ended December 31, 2007
REVENUES:				
Tuition	$ 342,044	$ 250,695	$ 621,171	$ 480,916
Other Educational	27,571	23,042	52,161	43,139
Total Revenues	369,615	273,737	673,332	524,055
COSTS AND EXPENSES:				
Cost of Educational Services	167,107	123,887	306,720	244,915
Loss on Sale of Assets	-	-	-	3,743
Student Services and Administrative Expense	139,968	102,917	257,260	194,562
Total Operating Costs and Expenses	307,075	226,804	563,980	443,220
Operating Income	62,540	46,933	109,352	80,835
INTEREST AND OTHER (EXPENSE) INCOME:				
Interest Income	1,710	2,892	3,852	5,299
Interest Expense	(1,176)	(98)	(1,529)	(319)
Net Investment Loss	(1,718)	-	(1,718)	-
Net Interest and Other (Expense) Income	(1,184)	2,794	605	4,980
Income Before Income Taxes	61,356	49,727	109,957	85,815
Income Tax Provision	18,491	13,914	32,262	23,167
NET INCOME	$ 42,865	$ 35,813	$ 77,695	$ 62,648
EARNINGS PER COMMON SHARE:				
Basic	$ 0.60	$ 0.50	$ 1.09	$ 0.88
Diluted	$ 0.59	$ 0.49	$ 1.07	$ 0.87
CASH DIVIDEND DECLARED PER COMMON SHARE	$ 0.08	$ 0.06	$ 0.08	$ 0.06

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

DEVRY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended December 31, 2008	2007
	(Dollars in Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 77,695	$ 62,648
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Stock-Based Compensation Charge	4,809	2,880
Depreciation	19,200	17,263
Amortization	3,904	2,471
Provision for Refunds and Uncollectible Accounts	34,056	28,080
Deferred Income Taxes	(503)	(3,632)
(Gain) Loss on Disposals of Land, Buildings and Equipment	(7)	3,730
Unrealized Net Loss on Investments	1,718	—
Changes in Assets and Liabilities, Net of Effects from Acquisition of Business:		
Restricted Cash	(27,712)	4,667
Accounts Receivable	(87,520)	(57,763)
Prepaid Expenses and Other	(592)	(4,497)
Accounts Payable	(31,143)	2,652
Accrued Salaries, Wages, Benefits and Expenses	5,525	(7,403)
Advance Tuition Payments	22,716	(3,640)
Deferred Tuition Revenue	116,627	84,674
NET CASH PROVIDED BY OPERATING ACTIVITIES	138,773	132,130
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(25,208)	(27,957)
Net Proceeds from Sale of Land and Building	—	38,528
Payment for Purchase of Business, Net of Cash Acquired	(286,500)	(27,454)
Marketable Securities Purchased	(37)	(264,122)
Marketable Securities-Maturities and Sales	—	121,836
NET CASH (USED IN) INVESTING ACTIVITIES	(311,745)	(159,169)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Exercise of Stock Options	7,764	11,315
Reissuance of Treasury Stock	1,570	577
Repurchase of Common Stock for Treasury	(5,358)	(10,187)
Cash Dividends Paid	(4,282)	(3,557)
Excess Tax Benefit from Stock-Based Payments	2,095	1,210
Borrowings Under Collateralized Line of Credit	46,187	—
Repayments Under Collateralized Line of Credit	(1,063)	—
Borrowings Under Revolving Credit Facility	210,000	25,000
Repayments Under Revolving Credit Facility	(100,000)	(26,895)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	156,913	(2,537)
Effects of Exchange Rate Differences	2,186	(667)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,873)	(30,243)
Cash and Cash Equivalents at Beginning of Period	217,199	129,155

Cash and Cash Equivalents at End of Period	$	203,326	$	98,912
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash Paid During the Period For:				
Interest	$	1,057	$	231
Income Taxes, Net		18,119		32,679
Non-cash Financing Activity:				
Declaration of Cash Dividends to be Paid		5,732		4,283

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

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DEVRY INC.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1: INTERIM FINANCIAL STATEMENTS

The interim consolidated financial statements include the accounts of DeVry Inc. ("DeVry") and its wholly-owned subsidiaries. These financial statements are unaudited but, in the opinion of management, contain all adjustments, consisting only of normal, recurring adjustments, necessary to fairly present the financial condition and results of operations of DeVry. The June 30, 2008 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, 2008, and in conjunction with DeVry's quarterly report on Form 10-Q for the quarter ended September 30, 2008, each as filed with the Securities and Exchange Commission.

The results of operations for the three and six months ended December 31, 2008, 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 during the reported period. Actual results could differ from those estimates.

Marketable Securities and Investments

DeVry owns investments in marketable securities that have been designated as "available for sale" or "trading securities" in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Available for sale securities are carried at fair value with the unrealized gains and losses reported in the Consolidated Balance Sheets as a component of Accumulated Other Comprehensive Income (Loss). Trading securities are carried at fair value with unrealized gains and losses reported in the Consolidated Statements of Income as a component of interest and other income and expense.

Marketable securities and investments consist of auction-rate certificates and put rights on these certificates which are classified as trading securities and investments in mutual funds which are classified as available-for-sale securities. The following is a summary of our available-for-sale marketable securities at December 31, 2008 (dollars in thousands):

	Cost	Gross Unrealized (Loss)	Gross Unrealized Gain	Fair Value
Short-term Investments:				
Bond Mutual Fund	$ 766	$ -	$ 4	$ 770
Stock Mutual Funds	1,955	(864)	-	1,091
Total Short-term Investments	$ 2,721	$ (864)	$ 4	$ 1,861

Investments are classified as short-term if they are readily convertible to cash or have other characteristics of short-term investments such as highly liquid markets or maturities within one year. All mutual fund investments are recorded at fair market value based upon quoted market prices. At December 31, 2008, all of the Bond and Stock mutual fund investments are held in a rabbi trust for the purpose of paying benefits under DeVry's non-qualified deferred compensation plan.

As of December 31, 2008, all unrealized losses in the above table have been in a continuous unrealized loss position for more than one year. When evaluating its investments for possible impairment, DeVry reviews factors such as length of time and extent to which fair value has been less than cost basis, the financial condition of the issuer, and DeVry's ability and intent to hold the investment for a period of time that may be sufficient for anticipated recovery in fair value. The decline in value of the above investments is considered temporary in nature and, accordingly, DeVry does not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

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The following is a summary of our long-term investments at December 31, 2008 (dollars in thousands):

	Cost	Gross Unrealized (Loss)	Gross Unrealized Gain	Fair Value
Long-term Investments:				
Auction Rate Securities (ARS)	$ 59,475	$ (10,317)	$ -	$ 49,158
Put Rights on ARS	-	-	8,599	8,599
Total Long-term Investments	$ 59,475	$ (10,317)	$ 8,599	$ 57,757

As shown in the table above, as of December 31, 2008, DeVry held auction-rate debt securities in the aggregate principal amount of $59.5 million. The auction-rate securities are triple-A rated, long-term debt obligations with contractual maturities ranging from 18 to 33 years. They are secured by student loans, which are guaranteed by U.S. and state governmental agencies. Liquidity for these securities has in the past been provided by an auction process that has allowed DeVry and other investors in these instruments to obtain immediate liquidity by selling the securities at their face amounts. Disruptions in credit markets over the past year, however, have adversely affected the auction market for these types of securities. Auctions for these securities have not produced sufficient bidders to allow for successful auctions since February 2008. As a result, DeVry has been unable to liquidate its auction-rate securities and there can be no assurance that DeVry will be able to access the principal value of these securities prior to their maturity.

For each unsuccessful auction, the interest rates on these securities are reset to a maximum rate defined by the terms of each security, which in turn is reset on a periodic basis at levels which are generally higher than defined short-term interest rate benchmarks. To date DeVry has collected all interest payable on all of its auction-rate securities when due and expects to continue to do so in the future. Auction failures relating to this type of security are symptomatic of current conditions in the broader debt markets and are not unique to DeVry. DeVry intends to hold its portfolio of auction-rate securities until successful auctions resume; a buyer is found outside of the auction process; the issuers establish a different form of financing to replace these securities; or its broker, UBS Financial Services (UBS), purchases the securities (as discussed below).

On August 8, 2008, UBS announced that it had reached a settlement, in principle, with the New York Attorney General, the Massachusetts Securities Division, the Securities and Exchange Commission and other state regulatory agencies represented by North American Securities Administrators Association to restore liquidity to all remaining clients' holdings of auction rate securities. Under this agreement in principle, UBS has committed to provide liquidity solutions to institutional investors, including DeVry. During the second quarter of fiscal year 2009, DeVry agreed to accept Auction Rate Security Rights (the Rights) from UBS. The Rights permit DeVry to sell, or put, its auction rate securities back to UBS at par value at any time during the period from June 30, 2010 through July 2, 2012. We expect to exercise our Rights and put our auction rate securities back to UBS on June 30, 2010, the earliest date allowable under the Rights, unless auctions resume; a buyer is found outside of the auction process; or the issuers establish a different form of financing to replace these securities.

Prior to accepting the Rights agreement, DeVry had the intent and ability to hold these securities until anticipated recovery. As a result, we had recognized the unrealized loss previously as a temporary impairment in other comprehensive income in stockholders' equity. After accepting the Rights, DeVry no longer has the intent to hold the auction rate securities until anticipated recovery. As a result, DeVry has elected to classify the Rights and reclassify our investments in auction rate securities as trading securities, as defined by FAS No. 115, on the date of our acceptance of the Rights. Therefore, we recognized an other-than-temporary impairment charge of approximately $10.3 million in the second quarter of fiscal 2009. The charge was measured as the difference between the par value and market value of the auction rate securities on December 31, 2008. However, as DeVry will be permitted to put the auction rate securities back to UBS at par value, we will account for the Rights as a separate asset that will be measured at its fair value, resulting in a gain of approximately $8.6 million recorded at December 31, 2008. The Rights do not meet the definition of a derivative instrument under SFAS 133. Therefore, we have elected to measure the Rights at fair value under SFAS 159, which permits an entity to elect the fair value option for recognized financial assets, in order to match the changes in the fair value of the auction rate securities. DeVry will be required to assess the fair value of these two individual assets and record changes each period until the Rights are exercised and the auction rate securities are redeemed. As a result, unrealized gains and losses will be included in earnings in future periods. We expect that future changes in the fair value of the Rights will approximate fair value movements in the related auction rate securities. Although the Rights represent the right to sell the securities back to UBS at par, we will be required to periodically assess the economic ability of UBS to meet that obligation in assessing the fair value of the Rights. UBS's obligations under the Rights are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the Rights. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Rights. We will continue to classify the auction rate securities as long-term investments until June 30, 2009, one year prior to the expected settlement.

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As detailed above, changing market conditions have reduced liquidity for Auction Rate Securities. These investments, including the put rights, are valued using internally-developed pricing models with observable and unobservable inputs. Realized gains and losses are computed on the basis of specific identification and are included in interest and other income and expense in the Consolidated Statements of Income. DeVry has not recorded any realized gains or realized losses for fiscal 2009. See Note 4 for further disclosures on the Fair Value of Financial Instruments.

While the recent auction failures will limit DeVry's ability to liquidate these investments for some period of time, DeVry believes that based on its current cash, cash equivalents and marketable securities balances of $205 million (exclusive of auction-rate securities) and its current borrowing capacity of approximately $50 million under its $175 million revolving credit facility (DeVry has the option to expand the revolving credit facility to $275 million), the current lack of liquidity in the auction-rate market will not have a material impact on its ability to fund its operations, nor will it interfere with external growth plans. Also, as of December 31, 2008, DeVry has borrowed through its broker, UBS, $45.1 million using the auction rate securities portfolio as collateral (See Note 11). Should DeVry need to liquidate such securities and auctions of these securities continue to fail, and UBS is unable to meet their obligations under the Rights, future impairment of the carrying value of these securities could cause DeVry to recognize a material charge to net income in future periods.

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. Diluted earnings per share is computed by dividing net income 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 computations of diluted earnings per share were options to purchase 487,000 and 405,000 shares of common stock for the three and six months ended December 31, 2008, respectively, and 35,000 and 395,000 shares of common stock, for the three and six months ended December 31, 2007, respectively. These outstanding options were excluded because the option exercise prices were greater than the average market price of the common shares; thus, their effect would be anti-dilutive.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Basic shares	71,597	71,282	71,511	71,194
Effect of Dilutive Stock Options	1,065	1,238	1,095	1,080
Diluted Shares	72,662	72,520	72,606	72,274

Treasury Stock

DeVry's Board of Directors has authorized stock repurchase programs on two occasions (see "Note 5 – Dividends and Stock Repurchase Program"). The first repurchase program was completed in April 2008. The second repurchase program was approved by the DeVry Board of Directors in May 2008. 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 3 –

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. In the first quarter of fiscal year 2009, 21,575 treasury shares were resold at a 10% discount to market value to three employees of U.S. Education Corporation (“U.S. Education”) upon the acquisition of that business (see “Note 6 – Business Combinations”). 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.

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Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss) is composed of the change in cumulative translation adjustment, unrealized gains and losses on available-for-sale marketable securities, net of the effects of income taxes, and the differences between changes in the fair values of the cash flow hedging instruments and the amount of these instruments being amortized to earnings. The following are the amounts recorded in Accumulated Other Comprehensive Income (Loss) for the three and six months ended December 31 (dollars in thousands).

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Balance at Beginning of Period	$ (2,557)	$ (1,550)	$ (2,963)	$ (918)
Net Unrealized Investment Losses	(5,112)	(149)	(5,253)	(142)
Net Unrealized Investment Losses Recognized	6,378	-	6,378	-
Translation Adjustments	1,760	(89)	2,307	(728)
Balance at End of Period	$ 469	$ (1,788)	$ 469	$ (1,788)

The Accumulated Other Comprehensive Income (Loss) balance at December 31, 2008, consists of $1,000,000 of cumulative translation gains and $531,000 of unrealized losses on available-for-sale marketable securities, net of tax of $328,000. At December 31, 2007, this balance consisted of $1,646,000 of cumulative translation losses and $142,000 of unrealized gains on available-for-sale marketable securities.

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 $44.3 million and $84.1 million for the three and six months ended December 31, 2008, respectively. Advertising expense for the three and six months ended December 31, 2007, was $30.5 million and $59.1 million, respectively. Advanced Academics, which was acquired on October 31, 2007, and U.S. Education, which was acquired on September 18, 2008, accounted for a significant portion of the increase in advertising expense.

Recent Accounting Pronouncements

SFAS 141(R)

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) retains the fundamental requirements of Statement of Financial Accounting Standards No. 141 (“SFAS 141”) that the acquisition method of accounting be used for all business combinations. SFAS 141(R) also retains the guidance in SFAS 141 for identifying and recognizing intangible assets separately from goodwill. However, the new accounting requirements of SFAS 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. For DeVry, SFAS 141(R) is effective beginning in fiscal year 2010.

SFAS 160

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB number 51” (“SFAS 160”). SFAS 160 establishes accounting and reporting standards to improve the relevance, comparability and transparency of the financial information provided in a company’s financial statements as it relates to minority interests in the equity of a subsidiary. These minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. For DeVry, SFAS 160 is effective beginning in fiscal year 2010. DeVry does not expect that the adoption of SFAS 160 will have a material impact on its consolidated financial statements as all current subsidiaries are wholly owned.

SFAS 161

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. For DeVry, SFAS 161 is effective beginning in the third quarter of fiscal year 2009. The adoption of SFAS 161 is not expected to have a material impact on DeVry’s consolidated financial statements as DeVry does not currently maintain derivative instruments or engage in hedging activities.

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NOTE 3: 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 2005 Incentive Plan. 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 2005 Incentive Plan also permits the award of stock appreciation rights, restricted stock, performance stock and other stock and cash based compensation. The 1999 and 2003 Stock Incentive Plans are administered by a Plan Committee of the Board of Directors subject to approval by the Compensation Committee of the Board of Directors. The 2005 Incentive Plan is 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 December 31, 2008, 5,551,231 authorized but unissued shares of common stock were reserved for issuance under DeVry's stock incentive plans.

Effective July 1, 2005, DeVry adopted the provisions of SFAS 123(R) which establishes accounting for stock-based awards exchanged for employee services. Accordingly, 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's requisite service period.

The following is a summary of options activity for the six months ended December 31, 2008:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ($000)
Outstanding at July 1, 2008	3,039,796	$ 26.19		
Options Granted	433,283	$ 51.40		
Options Exercised	(333,783)	$ 23.41		
Options Canceled	(30,171)	$ 23.99		
Outstanding at December 31, 2008	3,109,125	$ 30.02	6.71	$ 85,170
Exercisable at December 31, 2008	1,718,792	$ 25.07	5.24	$ 55,597

The total intrinsic value of options exercised for the six months ended December 31, 2008 and 2007 was $10,053,000 and $11,269,000, 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, as defined by SFAS 123(R), for options granted at market price under DeVry's stock option plans during first six months of fiscal years 2009 and 2008 were $23.54 and $16.09, per share, respectively. The fair values of DeVry's stock option awards were estimated assuming the following weighted average assumptions:

	Fiscal Year	
	2009	2008
Expected Life (in Years)	6.79	6.60
Expected Volatility	41.57%	39.33%
Risk-free Interest Rate	3.39%	4.34%
Dividend Yield	0.23%	0.32%
Pre-vesting Forfeiture Rate	5.00%	5.00%

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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, it's 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 application of SFAS 123(R) in future periods, the stock-based compensation expense that DeVry records may differ significantly from what was recorded in the previous period.

During August and November 2008, DeVry granted 81,435 shares of restricted stock to selected employees. These shares are subject to restrictions which lapse ratably over a four-year period from the grant date based on the recipient's continued employment with DeVry, or upon retirement. During the restriction period, the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder, including the right to vote and receive dividends. The following is a summary of restricted stock activity for the six months ended December 31, 2008:

	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Nonvested at July 1, 2008	-	$ -
Shares Granted	81,435	$ 51.32
Shares Vested	-	$ -
Shares Canceled	-	$ -
Nonvested at December 31, 2008	81,435	$ 51.32

The following table shows total stock-based compensation expense included in the Consolidated Statement of Earnings:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Cost of Educational Services	$ 543	$ 438	$ 1,539	$ 922
Student Services and Administrative Expense	1,155	929	3,270	1,959
Income Tax Benefit	(279)	(184)	(741)	(388)
Net Stock-Based Compensation Expense	$ 1,419	$ 1,183	$ 4,068	$ 2,493

As of December 31, 2008, $19.9 million of total pre-tax unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of 3.4 years. The total fair value of options and shares vested during the six months ended December 31, 2008 and 2007 was approximately $4.9 million and $4.7 million, respectively.

There were no capitalized stock-based compensation costs at December 31, 2008 and 2007.

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 4: FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective July 1, 2008, DeVry adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157). In accordance with Financial Accounting Standards Board Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), we will defer the adoption of SFAS No. 157 for our nonfinancial assets and nonfinancial liabilities, including long-lived assets, goodwill and intangible assets, until July 1, 2009. The adoption of SFAS No. 157 did not have a material impact on our fair value measurements.

In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ("FSP FAS 157-3"). FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active. Management has fully considered this guidance when determining the fair value of our financial assets as of December 31, 2008.

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SFAS 157 defines fair value 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. SFAS 157 also 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. In accordance with SFAS 157, fair value measurements are classified under the following hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

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.

The following tables present DeVry's assets at December 31, 2008, that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	Level 1	Level 2	Level 3
Cash Equivalents	$ 165,237	$ -	$ -
Available for Sale Investments:			
Marketable Securities, short-term	1,861	-	-
Trading Securities:			
Investments, long-term	-	-	57,757
Total Assets at Fair Value	$ 167,098	$ -	$ 57,757

Cash Equivalents and investments in short-term Marketable Securities are valued using a market approach based on the quoted market prices of identical instruments. Long-term Investments consist of auction rate securities and put rights on the auction rate securities. Both are valued using a discounted cash flow model using assumptions that, in management's judgment, reflect the assumptions a marketplace participant would use. Significant unobservable inputs include collateralization of the respective underlying security; credit worthiness of the issuer; duration for holding the security and quotes received from DeVry's broker. See "Note 2-Summary Of Significant Accounting Policies-Marketable Securities and Investments" for further information on these investments.

Below is a roll-forward of assets measured at fair value using Level 3 inputs for the six months ended December 31, 2008.

Investments - Long Term

	Three Months Ended December 31, 2008	Six Months Ended December 31, 2008
Balance at Beginning of Period	$ 57,128	$ 57,171
Total Unrealized Gains (Losses) Included in Income:		
Recognition of UBS Put Right	8,599	8,599
Transfer of ARS to Trading Security	(10,317)	(10,317)
Net Charged to Other Comprehensive Income (Loss) (1)	2,347	2,304
Purchases, Sales and Maturities	-	-
Balance at December 31, 2008	$ 57,757	$ 57,757

(1)– Upon the transfer of the auction rate securities from available for sale to trading securities, the cumulative unrealized loss was reversed from Other Comprehensive Income (Loss) and charged to earnings.

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NOTE 5: DIVIDENDS AND STOCK REPURCHASE PROGRAM

On November 13, 2008, the DeVry Board of Directors declared a cash dividend of $0.08 per share. This dividend was paid on January 9, 2009, to common stockholders of record as of December 12, 2008. The total dividend declared of $5.7 million was recorded as a reduction to retained earnings as of December 31, 2008. Future dividends will be at the discretion of the Board of Directors.

On May 13, 2008, the DeVry Board of Directors declared a cash dividend of $0.06 per share. This dividend was paid on July 10, 2008, to common stockholders of record as of June 19, 2008. The total dividend declared of $4.3 million was recorded as a reduction to retained earnings as of June 30, 2008. Future dividends will be at the discretion of the Board of Directors.

On May 13, 2008, the DeVry Board of Directors authorized a share repurchase program, which allows the company to repurchase up to $50 million of its common stock through December 31, 2010. As of December 31, 2008, DeVry has repurchased, on the open market, 98,100 shares of its common stock at a total cost of approximately $5.4 million. The timing and amount of any repurchase will be determined by management based on its evaluation of market conditions and other factors. These repurchases may be made through the open market, including block purchases, or in privately negotiated transactions, or otherwise. The buyback will be funded through available cash balances and/or borrowings, and may be suspended or discontinued at any time.

On November 15, 2006, the DeVry Board of Directors authorized a share repurchase program. The stock repurchase program allowed DeVry to repurchase up to $35 million of its common stock through December 31, 2008. As of April, 2008, DeVry completed this repurchase program having repurchased, on the open market, 908,399 shares of its common stock at a total cost of $35 million. These buybacks were funded through available cash balances.

Shares of stock repurchased under the programs are held as treasury shares. These repurchased shares have reduced the weighted average number of shares of common stock outstanding for basic and diluted earnings per share calculations

NOTE 6: BUSINESS COMBINATIONS

Advanced Academics, Inc.

On October 31, 2007, DeVry Inc. acquired the operations of Advanced Academics, Inc. (“AAI”) for $27.6 million in cash, including costs of acquisition. Funding was provided from DeVry’s existing operating cash balances. The results of AAI’s operations have been included in the consolidated financial statements of DeVry since the date of acquisition.

AAI is a leading provider of online secondary education. Founded in 2000 and headquartered in Oklahoma City, Oklahoma, AAI partners with school districts to help more students graduate high school. AAI supplements traditional classroom programs through Web-based course instruction using highly qualified teachers and a proprietary technology platform specifically designed for secondary education. AAI also operates virtual high schools in six states. Since its inception, AAI has delivered online learning programs to more than 40,000 students in more than 200 school districts. The addition of AAI has further diversified DeVry’s curricula.

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

At October 31, 2007

Current Assets	$	4,556
Property and Equipment		210
Other Long-term Assets		3,599
Intangible Assets		10,853
Goodwill		17,108
Total Assets Acquired		36,326
Liabilities Assumed		8,691
Net Assets Acquired	$	27,635

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Of the $10.9 million of acquired intangible assets, $1.3 million was assigned to the value of the AAI trade name which has been determined to not be subject to amortization. The remaining acquired intangible assets have all been determined to be subject to amortization and their values and estimated useful lives are as follows (dollars in thousands):

	As of October 31, 2007		
		Value Assigned	Estimated Useful Life
Customer Contracts-Direct to Student	$	4,100	6 yrs 8 mths
Customer Contracts-Direct to District		2,900	4 yrs 8 mths
Curriculum/Software		2,500	5 yrs
Other		53	1 yr

The $17.1 million of goodwill was all assigned to the AAI reporting unit which is classified within the DeVry University segment.

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

U.S. Education Corporation

On September 18, 2008, DeVry Inc. acquired the operations of U.S. Education, the parent organization of Apollo College and Western Career College, for $290 million. Including working capital adjustments and direct costs of acquisition, total consideration paid was approximately $302 million in cash. The results of U.S. Education's operations have been included in the consolidated financial statements of DeVry since that date. The total consideration was comprised of approximately $136 million of internal cash resources, approximately $120 million of borrowings under the Company's existing credit facility and approximately $46 million of borrowings against its outstanding auction rate securities. The final purchase price is subject to adjustment based upon adjustments to actual working capital at the closing date.

Apollo College and Western Career College prepare students for careers in healthcare through certificate and associate degree programs in such rapidly growing fields as nursing, ultrasound and radiography technology, surgical technology, veterinary technology, pharmacy technology, dental hygiene, and medical and dental assisting. The two colleges operate 17 campus locations in the western United States and currently serve more than 9,000 students and have more than 65,000 alumni. The addition of U.S. Education has further diversified DeVry's curricula.

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

	At September 18, 2008	
Current Assets	$	46,042
Property and Equipment		19,558
Other Long-term Assets		2,308
Intangible Assets		128,600
Goodwill		186,267
Total Assets Acquired		382,775
Liabilities Assumed		80,980

Net Assets Acquired	$	301,795

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Goodwill is all assigned to the U.S. Education reporting unit which is classified within the Medical and Healthcare segment. Approximately $25 million of the goodwill acquired is expected to be deductible for income tax purposes. Of the $128.6 million of acquired intangible assets, $112.3 million was assigned to the value of the U.S. Education Title IV Eligibility and Accreditations which has been determined to not be subject to amortization. The remaining acquired intangible assets have all been determined to be subject to amortization and their values and estimated useful lives are as follows (dollars in thousands):

	As of December 31, 2008	
	Value Assigned	Estimated Useful Life
Trade name-WCC	$ 1,500	1 yr 3 months
Trade name-Apollo	1,600	1 yr 3 months
Student Relationships	8,500	1 yr 3 months
Curriculum	800	5 yrs
Outplacement Relationships	3,900	15 yrs

The amount of goodwill recorded at December 31, 2008 and the final purchase price relating to the acquisition are subject to adjustment based on final determination of actual working capital as of the closing date. Deferred income taxes may also be affected by the goodwill and final purchase price determination. DeVry expects to finalize the working capital and purchase price no later than the fourth quarter of fiscal 2009.

The following unaudited pro forma financial information presents the results of operations of DeVry and U.S. Education as if the acquisition had occurred at the beginning of each period. The pro forma information is based on historical results of operations and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined enterprises (dollars in thousands except for per share amounts):

	Pro Forma			
	For the Three Months ended December 31, 2008	For the Three Months ended December 31, 2007	For the Six Months ended December 31, 2008	2007
	(Unaudited)			