DEVRY INC
Form 10-Q
February 07, 2008

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, 2007

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 or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer R Accelerated Filer £ Non-Accelerated Filer £

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:

January 31, 2008 — 71,419,315 shares of Common Stock, $0.01 par value

DEVRY INC.

FORM 10-Q FOR THEQUARTERLY PERIOD ENDED DECEMBER 31, 2007

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PART I – Financial Information DEVRY INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2007	June 30, 2007	December 31, 2006
	(Dollars in thousands)		
Current Assets:			
Cash and Cash Equivalents	$ 98,912	$ 129,155	$ 171,346
Marketable Securities	142,144	—	—
Restricted Cash	9,823	14,483	24,091
Accounts Receivable, Net	76,842	43,084	60,350
Inventories	142	141	118
Deferred Income Taxes, Net	17,938	13,915	15,344
Prepaid Expenses and Other	22,456	18,207	21,255
Total Current Assets	368,257	218,985	292,504
Land, Buildings and Equipment:			
Land	51,431	60,570	61,789
Buildings	206,003	218,836	212,171
Equipment	271,594	260,847	252,269
Construction In Progress	6,375	15,816	12,880
	535,403	556,069	539,109
Accumulated Depreciation and Amortization	(301,362)	(296,742)	(282,458)
Land, Buildings and Equipment, Net	234,041	259,327	256,651
Other Assets:			
Intangible Assets, Net	65,372	56,920	60,150
Goodwill	308,598	291,113	291,113
Perkins Program Fund, Net	13,450	13,450	13,450
Other Assets	6,614	4,318	5,933
Total Other Assets	394,034	365,801	370,646
TOTAL ASSETS	$ 996,332	$ 844,113	$ 919,801
LIABILITIES:			
Current Liabilities:			
Current Portion of Debt	$ —	$ —	$ 50,000
Accounts Payable	37,029	34,295	32,975
Accrued Salaries, Wages and Benefits	43,249	47,093	43,642
Accrued Expenses	31,312	32,737	29,059
Advance Tuition Payments	10,804	14,402	7,367
Deferred Tuition Revenue	124,539	37,348	119,950
Total Current Liabilities	246,933	165,875	282,993
Other Liabilities:			
Deferred Income Taxes, Net	16,053	18,343	12,407
Accrued Postemployment Agreements	4,342	4,901	5,341
Deferred Rent and Other	25,839	13,028	14,698
Total Other Liabilities	46,234	36,272	32,446
TOTAL LIABILITIES	293,167	202,147	315,439
SHAREHOLDERS' EQUITY:			

Common Stock, $0.01 Par Value, 200,000,000 Shares Authorized; 71,361,000; 71,131,000 and 70,907,000 Shares Issued and Outstanding at December 31, 2007, June 30, 2007 and December 31, 2006, Respectively	721	716	710
Additional Paid-in Capital	158,663	143,580	129,928
Retained Earnings	568,463	510,979	475,665
Accumulated Other Comprehensive Loss	(1,788)	(918)	(50)
Treasury Stock, at Cost (688,706; 436,786 and 86,490 Shares, Respectively)	(22,894)	(12,391)	(1,891)
TOTAL SHAREHOLDERS' EQUITY	703,165	641,966	604,362
TOTAL LIABILITIES AND SHAREHOLDERS'EQUITY	$ 996,332	$ 844,113	$ 919,801

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 Quarter Ended December 31,		For the Six Months Ended December 31,	
	2007	2006	2007	2006
REVENUES:				
Tuition	$ 250,695	$ 217,076	$ 480,916	$ 419,709
Other Educational	23,042	18,528	43,139	35,110
Total Revenues	273,737	235,604	524,055	454,819
COSTS AND EXPENSES:				
Cost of Educational Services	123,887	120,580	244,915	240,884
Loss (Gain) on Sale of Assets	-	-	3,743	(19,855)
Student Services and Administrative Expense	102,917	93,238	194,562	179,036
Total Costs and Expenses	226,804	213,818	443,220	400,065
Operating Income	46,933	21,786	80,835	54,754
INTEREST:				
Interest Income	2,892	1,932	5,299	3,370
Interest Expense	(98)	(1,720)	(319)	(3,889)
Net Interest Income (Expense)	2,794	212	4,980	(519)
Income Before Income Taxes	49,727	21,998	85,815	54,235
Income Tax Provision	13,914	5,601	23,167	16,918
NET INCOME	$ 35,813	$ 16,397	$ 62,648	$ 37,317
EARNINGS PER COMMON SHARE:				
Basic	$ 0.50	$ 0.23	$ 0.88	$ 0.53
Diluted	$ 0.49	$ 0.23	$ 0.87	$ 0.52
CASH DIVIDEND DECLARED PER COMMON SHARE	$ 0.06	$ 0.05	$ 0.06	$ 0.05

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, 2007	2006
	(Dollars in Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 62,648	$ 37,317
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Stock-Based Compensation Charge	2,880	3,113
Depreciation	17,263	17,365
Amortization	2,471	4,585
Provision for Refunds and Uncollectible Accounts	28,080	26,440
Deferred Income Taxes	(3,632)	(1,848)
Loss (Gain) on Disposals of Land, Buildings and Equipment	3,730	(19,677)
Changes in Assets and Liabilities, Net of Effects from Acquisition of Business:		
Restricted Cash	4,667	(3,462)
Accounts Receivable	(57,763)	(40,241)
Inventories	10	9
Prepaid Expenses and Other	(4,507)	(7,531)
Accounts Payable	2,652	(6,699)
Accrued Salaries, Wages, Benefits and Expenses	(7,403)	5,950
Advance Tuition Payments	(3,640)	(9,186)
Deferred Tuition Revenue	84,674	88,181
NET CASH PROVIDED BY OPERATINGACTIVITIES	132,130	94,316
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(27,957)	(16,202)
Net Proceeds from Sale of Land and Building	38,528	34,778
Payment for Purchase of Business, Net of Cash Acquired	(27,454)	—
Marketable Securities Purchased	(264,122)	—
Marketable Securities-Maturities and Sales	121,836	—
NET CASH (USED IN) PROVIDED BY INVESTINGACTIVITIES	(159,169)	18,576
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Exercise of Stock Options	11,315	2,098
Reissuance of Treasury Stock	577	398
Repurchase of Common Stock for Treasury	(10,187)	—
Cash Dividends Paid	(3,557)	—
Excess Tax Benefit from Stock-Based Payments	1,210	47
Borrowings from Revolving Credit Facility	25,000	40,000
Repayments Under Revolving Credit Facilities	(26,895)	—
Repayments Under Senior Notes	—	(115,000)
NET CASH USED IN FINANCINGACTIVITIES	(2,537)	(72,457)
Effects of Exchange Rate Differences	(667)	328
NET (DECREASE) INCREASE IN CASH AND CASHEQUIVALENTS	(30,243)	40,763
Cash and Cash Equivalents at Beginningof Period	129,155	130,583
Cash and Cash Equivalents at End ofPeriod	$ 98,912	$ 171,346

SUPPLEMENTAL DISCLOSURE OF CASH FLOWINFORMATION:				
Cash Paid During the Period For:				
Interest	$	231	$	4,014
Income Taxes, Net		32,679		17,219
Non-cash Financing Activity:				
Declaration of Cash Dividends to be Paid		4,283		3,545

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

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, 2007 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, 2007, and in conjunction with DeVry's quarterly report on Form 10-Q for the quarter ended September 30, 2007, each as filed with the Securities and Exchange Commission.

The results of operations for the three and six months ended December 31, 2007, are not necessarily indicative of results to be expected for the entire fiscal year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Marketable Securities

Marketable securities consist of municipal auction rate securities and investments in mutual funds all of which are classified as available-for-sale securities. All marketable securities are classified as short term investments because DeVry has the ability to divest the holdings within one year. The investments in the municipal auction rate securities generally have stated terms to maturity of greater than one year; however, the market is highly liquid and interest rates reset within 35 days. The investments in mutual funds are held in a rabbi trust for the purpose of paying benefits under DeVry's non-qualified deferred compensation plan.

All available-for-sale securities are recorded at fair market value based upon quoted market prices. Fair market value of the municipal auction rate securities approximates cost due to the short interest rate reset period. Unrealized gains or temporary unrealized losses, net of income tax effects, are reported as a component of accumulated other comprehensive loss on the consolidated balance sheets. Realized gains and losses are computed on the basis of specific identification and are included in interest income in the consolidated income statements. Realized gains of $80,000 were recorded in the second quarter of fiscal 2008. No realized losses have been recorded to date. The following table summarizes DeVry's available-for-sale securities as of December 31, 2007 (in thousands):

	Cost	Gross Unrealized (Loss)	Gross Unrealized Gain	Fair Value
Auction Rate Municipal Bonds	$ 139,632	$ -	$ -	$ 139,632
Bond Mutual Fund	723	-	21	744
Stock Mutual Funds	1,931	(163)	-	1,768
Total Marketable Securities	$ 142,286	$ (163)	21	$ 142,144

As of December 31, 2007, all unrealized losses in the above table have been in a continuous unrealized loss position for less than one year. When evaluating our investments for possible impairment, we review factors such as length of time and extent to which fair value has been less than cost basis, the financial condition of the investee, and our 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, we do not believe these investments are impaired as of December 31, 2007.

Postemployment Benefits

DeVry's employment agreements with its Chair of the Board of Directors and former Chief Executive Officer provide certain benefits upon a change in their respective responsibilities that required accrual over the service period which ended June 30, 2005. DeVry reduced expense by approximately $64,000 and $35,000, related to these agreements for the three and six months ended December 31, 2007, respectively. DeVry recognized expense of approximately $66,000 and $243,000, related to these agreements for the three and six months ended December 31, 2006, respectively. The amounts provided represent the present value of the obligation related to these agreements, discounted using a 6.22% rate as of December 31, 2007, and using the sinking fund accrual method.

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 35,000 and 395,000 shares of common stock for the three and six months ended December 31, 2007, respectively, and 932,000 and 1,487,000 shares of common stock, for the three and six months ended December 31, 2006, respectively, because 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,	
	2007	2006	2007	2006
Basic shares	71,282	70,859	71,194	70,827
Effect of Dilutive Stock Options	1,238	423	1,080	335
Diluted Shares	72,520	71,282	72,274	71,162

Treasury Stock

During the third quarter of fiscal 2007, the Company initiated a stock repurchase program (see "Note 4 – Dividends and Stock Repurchase Program"). Shares that are repurchased by the Company 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 second quarter of fiscal year 2008, 3,455 treasury shares were resold at a 10% discount to market value to two employees of Advanced Academics Inc. upon the acquisition of that business (see "Note 5 – Business Combination). 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.

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.