DEVRY EDUCATION GROUP INC.
Form 10-Q
February 05, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended: December 31, 2014

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 Education Group Inc.

(Exact name of registrant as specified in its charter)

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

January 30, 2015 — 63,792,100 shares of Common Stock, $0.01 par value

DEVRY EDUCATION GROUP INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2014

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DEVRY EDUCATION GROUP INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2014	June 30, 2014	December 31, 2013
	(Dollars in thousands, except share and par value amounts)		
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	$ 379,965	$ 358,188	$ 262,034
Marketable Securities and Investments	3,520	3,448	3,263
Restricted Cash	10,534	8,347	11,873
Accounts Receivable, Net	89,318	132,621	117,812
Deferred Income Taxes, Net	45,104	39,679	31,169
Prepaid Expenses and Other	44,338	34,808	49,594
Total Current Assets	572,779	577,091	475,745
Land, Building and Equipment:			
Land	63,261	68,185	66,539
Building	467,330	464,944	429,463
Equipment	492,716	488,322	472,944
Construction in Progress	26,666	17,405	44,115
	1,049,973	1,038,856	1,013,061
Accumulated Depreciation	(506,984)	(483,019)	(455,018)
Land, Building and Equipment, Net	542,989	555,837	558,043
Other Assets:			
Intangible Assets, Net	289,160	294,932	293,720
Goodwill	519,748	519,879	514,757
Perkins Program Fund, Net	13,450	13,450	13,450
Other Assets	29,740	36,447	33,398
Total Other Assets	852,098	864,708	855,325
TOTAL ASSETS	$ 1,967,866	$ 1,997,636	$ 1,889,113
LIABILITIES:			
Current Liabilities:			
Accounts Payable	$ 55,737	$ 52,260	$ 62,721
Accrued Salaries, Wages and Benefits	73,460	94,501	77,447
Accrued Expenses	69,427	70,891	69,259
Deferred and Advance Tuition	66,356	99,160	97,725
Total Current Liabilities	264,980	316,812	307,152
Other Liabilities:			
Deferred Income Taxes, Net	48,339	47,921	59,941
Deferred Rent and Other	90,533	93,117	91,054
Total Other Liabilities	138,872	141,038	150,995

TOTAL LIABILITIES	403,852	457,850	458,147
COMMITMENTS AND CONTINGENCIES (NOTE 13)			
NONCONTROLLING INTEREST	8,139	6,393	5,975
SHAREHOLDERS' EQUITY			
Common Stock, $0.01 Par Value, 200,000,000 Shares Authorized: 63,840,000, 63,624,000 and 63,332,000 Shares Issued and Outstanding at December 31, 2014, June 30, 2014 and December 31, 2013, respectively	769	753	752
Additional Paid-in Capital	338,710	320,703	304,807
Retained Earnings	1,731,976	1,682,071	1,599,985
Accumulated Other Comprehensive Loss	(44,066)	(15,394)	(25,573)
Treasury Stock, at Cost, 12,022,000, 11,655,000 and 11,661,000 Shares, respectively	(471,514)	(454,740)	(454,980)
TOTAL SHAREHOLDERS' EQUITY	1,555,875	1,533,393	1,424,991
TOTAL LIABILITIES AND EQUITY	$ 1,967,866	$ 1,997,636	$ 1,889,113

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

DEVRY EDUCATION GROUP INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
	(Dollars in thousands except per share amounts)			
REVENUE:				
Tuition	$453,609	$457,888	$ 875,482	$ 877,205
Other Educational	31,271	33,381	71,442	64,976
Total Revenue	484,880	491,269	946,924	942,181
OPERATING COST AND EXPENSE:				
Cost of Educational Services	250,809	242,997	497,140	484,732
Student Services and Administrative Expense	174,913	185,046	352,666	374,205
Gain on Sale of Asset	-	-	-	(1,918)
Restructuring Expense	10,188	4,664	23,505	16,329
Total Operating Cost and Expense	435,910	432,707	873,311	873,348
Operating Income	48,970	58,562	73,613	68,833
INTEREST INCOME:				
Interest Income	300	310	697	893
Interest Expense	(352)	(1,052)	(745)	(2,052)
Net Interest (Expense) Income	(52)	(742)	(48)	(1,159)
Income from Continuing Operations Before Income Taxes	48,918	57,820	73,565	67,674
Income Tax Provision	(6,116)	(8,492)	(10,326)	(10,195)
Income from Continuing Operations	42,802	49,328	63,239	57,479
DISCONTINUED OPERATIONS:				
Loss from Operations of Divested Component	-	(1,387)	-	(17,711)
Income Tax Benefit	-	467	-	1,463
Loss on Discontinued Operations	-	(920)	-	(16,248)
NET INCOME	42,802	48,408	63,239	41,231
Net Income Attributable to Noncontrolling Interest	(389)	(253)	(386)	(208)
NET INCOME ATTRIBUTABLE TO DEVRY EDUCATION GROUP	$42,413	$48,155	$ 62,853	$ 41,023
AMOUNTS ATTRIBUTABLE TO DEVRY EDUCATION GROUP:				
Income from Continuing Operations, Net of Income Taxes	42,413	49,075	62,853	57,271
Loss from Discontinued Operations, Net of Income Taxes	-	(920)	-	(16,248)
NET INCOME ATTRIBUTABLE TO DEVRY EDUCATION GROUP	$42,413	$48,155	$ 62,853	$ 41,023

EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO DEVRY EDUCATION GROUP SHAREHOLDERS				
Basic:				
Continuing Operations	$0.66	$0.76	$ 0.97	$ 0.89
Discontinued Operations	-	(0.01)	-	(0.25)
	$0.66	$0.75	$ 0.97	$ 0.64
Diluted:				
Continuing Operations	$0.65	$0.75	$ 0.96	$ 0.88
Discontinued Operations	-	(0.01)	-	(0.25)
	$0.65	$0.74	$ 0.96	$ 0.63

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

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DEVRY EDUCATION GROUP INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
	(Dollars in thousands)			
NET INCOME	$42,802	$48,408	$63,239	$41,231
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Currency Translation Loss	(12,037)	(8,030)	(28,630)	(8,654)
Change in Fair Value of Available-For-Sale Securities	(14)	62	(42)	182
COMPREHENSIVE INCOME	30,751	40,440	34,567	32,759
COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	40	60	642	153
COMPREHENSIVE INCOME ATTRIBUTABLE TO DEVRY EDUCATION GROUP	$30,791	$40,500	$35,209	$32,912

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

DEVRY EDUCATION GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended December 31,	
	2014	2013
	(Dollars in Thousands)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 63,239	$ 41,231
Loss from Discontinued Operations	-	16,248
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Stock-Based Compensation Expense	9,530	9,860
Depreciation	41,362	40,719
Amortization	1,293	3,590
Provision for Refunds and Uncollectible Accounts	45,627	37,274
Deferred Income Taxes	(2,996)	1,699
Loss on Disposal and Adjustments to Land, Building and Equipment	2,430	1,333
Unrealized Loss on Assets Held for Sale	-	244
Realized Gain on Sale of Assets	-	(1,918)
Changes in Assets and Liabilities, Net of Effects from Acquisition and Divestiture of Components:		
Restricted Cash	(2,187)	(4,854)
Accounts Receivable	(6,367)	(17,170)
Prepaid Expenses and Other	(540)	1,338
Accounts Payable	3,481	7,592
Accrued Salaries, Wages, Benefits and Expenses	(29,795)	(23,279)
Deferred and Advance Tuition	(32,768)	(589)
Net Cash Provided by Operating Activities-Continuing Operations	92,309	113,318
Net Cash Used by Operating Activities- Discontinued Operations	-	(197)
NET CASH PROVIDED BY OPERATING ACTIVITIES	92,309	113,121
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(43,061)	(33,426)
Payment for Purchase of Businesses, Net of Cash Acquired	(9,649)	(12,343)
Marketable Securities Purchased	(140)	(106)
Cash Received on Sale of Assets	6,100	8,662
NET CASH USED IN INVESTING ACTIVITIES	(46,750)	(37,213)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Exercise of Stock Options	5,380	3,576
Proceeds from Stock Issued Under Employee Stock Purchase Plan	674	708
Repurchase of Common Stock for Treasury	(11,541)	-
Cash Dividends Paid	(11,639)	(10,941)
Payments of Seller Financed Obligations	(4,097)	(2,138)
NET CASH USED IN FINANCING ACTIVITIES	(21,223)	(8,795)

Effects of Exchange Rate Differences	(2,559)	(2,223)
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,777	64,890
Cash and Cash Equivalents at Beginning of Period	358,188	197,144
Cash and Cash Equivalents at End of Period	$ 379,965	$ 262,034
Non-cash Investing Activity:		
Accretion of Noncontrolling Interest Put Option	$ 1,360	$ 4,913

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

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DEVRY EDUCATION GROUP INC.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1: INTERIM FINANCIAL STATEMENTS

The interim consolidated financial statements include the accounts of DeVry Education Group Inc. (“DeVry Group”) 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 Group. The June 30, 2014 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 Group's Annual Report on Form 10-K for the fiscal year ended June 30, 2014, and DeVry Group’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, each as filed with the Securities and Exchange Commission.

The results of operations for the three and six months ended December 31, 2014, are not necessarily indicative of results to be expected for the entire fiscal year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of DeVry Group and its wholly-owned and majority-owned domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Where our ownership interest is less than 100 percent, the noncontrolling ownership interests are reported on our consolidated balance sheet. The noncontrolling ownership interest in our earnings is classified as “Net Income Attributable to Noncontrolling Interest” in our Consolidated Statements of Income. Unless indicated, or the context requires otherwise, references to years refer to DeVry Group’s fiscal years.

Cash and Cash Equivalents

Cash and cash equivalents can include time deposits, high-grade commercial paper, money market funds and bankers acceptances with original maturities of three months or less. Short-term investment objectives are to minimize risk and maintain liquidity. These investments are stated at cost, which approximates fair value, because of their short duration or liquid nature. DeVry Group places its cash and temporary cash investments with high credit quality institutions. Cash and cash equivalent balances in U.S. bank accounts are generally in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limit. Cash and cash equivalent balances at DeVry Brasil are generally in excess of the deposit insurance limits for Brazilian banks. DeVry Group has not experienced any losses on its cash and cash equivalents.

Management periodically evaluates the creditworthiness of the security issuers and financial institutions with which it invests and maintains deposit accounts.

Financial Aid and Restricted Cash

Financial aid and assistance programs, in which most American University of the Caribbean School of Medicine (“AUC”), Ross University School of Medicine (“RUSM”), Ross University School of Veterinary Medicine (“RUSVM”), Chamberlain College of Nursing (“Chamberlain”), Carrington College (“Carrington”), DeVry Brasil and DeVry University students participate are subject to political and governmental budgetary considerations. There is no assurance that such funding will be maintained at current levels. Extensive and complex regulations in the United States, Canada and Brazil govern all of the government financial assistance programs in which students participate. Administration of these programs is periodically reviewed by various regulatory agencies. Any regulatory violation could be the basis for disciplinary action, which could include the suspension, limitation or termination from such financial aid programs.

A significant portion of revenue is received from students who participate in government financial aid and assistance programs. Restricted cash represents amounts received from the federal and state governments under various student aid grant and loan programs and such restricted funds are held in separate bank accounts. Once the financial aid authorization and disbursement process for the student has been completed, the funds are transferred to unrestricted accounts, and these funds then become available for use in DeVry Group's operations. This authorization and disbursement process that precedes the transfer of funds generally occurs within the period of the academic term for which such funds were authorized.

As a requirement of continuing operations in Pennsylvania, DeVry Group is required to maintain a "minimum protective endowment" of at least $500,000. These funds are required as long as DeVry Group operates campuses in the state. DeVry Group accounts for these funds as restricted cash.

Revenue Recognition

DeVry University, Carrington, Chamberlain and DeVry Brasil tuition revenue is recognized on a straight-line basis over their respective applicable academic terms. In addition, AUC, RUSM and RUSVM basic science curriculum revenue is recognized on a straight-line basis over the academic term. The clinical portion of the AUC, RUSM and RUSVM education programs are conducted under the supervision of U.S. teaching hospitals and veterinary schools. AUC, RUSM and RUSVM are responsible for the billing and collection of tuition from their students during the period of clinical education. Revenue is 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 AUC, RUSM and RUSVM students are charged to expense on the same basis. Becker Professional Education ("Becker") live classroom and online tuition revenue is recognized on a straight-line basis over the applicable delivery period. The provision for refunds, which is reported as a reduction to Tuition Revenue in the Consolidated Statements of Income, is recognized in the same ratable fashion as revenue to most appropriately match these costs with the tuition revenue in that term.

Estimates of DeVry Group'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 Group 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 Group 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. Provisions for refunds were $9.5 million and $18.5 million for the three and six months ended December 31, 2014, respectively, and $9.0 million and $17.4 million for the three and six months ended December 31, 2013, respectively.

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. Provisions for uncollectible accounts, which are included in the Cost of Educational Services in the Consolidated Statements of Income, for the three and six months ended December 31, 2014 were $15.5 million and $27.5 million, respectively, and for the three and six months ended December 31, 2013 were $10.4 million and $19.9 million, respectively. The increase in the provision was the result of a larger number of DeVry University undergraduate students departing their programs compared to the prior year. These accounts are reserved at a higher rate based on historical collection loss experience.

Reserves related to refunds and uncollectible accounts totaled $61.6 million and $44.4 million at December 31, 2014 and 2013, 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 Revenue in the Consolidated Statements of Income. Textbook, electronic course materials and other educational product revenue is recognized when the sale occurs. Revenue from training services, which are generally short-term in duration, is recognized when the training service is provided. In addition, fees from international licensees of the Becker programs are included in Other Educational Revenue and recognized when confirmation of course delivery is received.

Internal-Use Software Development Costs

DeVry Group 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 seven 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, Building and Equipment section of the Consolidated Balance Sheets. Costs capitalized during the three and six months ended December 31, 2014 were approximately $0.3 million and $0.6 million, respectively. Costs capitalized during the three and six months ended December 31, 2013 were approximately $0.3 million and $0.5 million, respectively. As of December 31, 2014 and 2013, the net balance of capitalized software development costs was $39.4 million and $54.1 million, respectively.

Impairment of Long-Lived Assets

DeVry Group evaluates the carrying amount of its significant long-lived assets whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. Events that may trigger an impairment analysis could include a decision by management to exit a market or a line of business or to consolidate operating locations. In fiscal years 2015 and 2014, management consolidated operations at several DeVry University, Chamberlain and Carrington locations. These decisions resulted in the pre-tax write-off of approximately $3.0 million of leasehold improvements and equipment during the three and six months ended December 31, 2014, and $0.8 million and $1.5 million during the three and six months ended December 31, 2013, respectively. These write-offs are included in Restructuring Expenses in the Consolidated Statements of Income (see “Note 10-Restructuring Charges”). For a discussion of the impairment of goodwill and intangible assets see “Note 9-Intangible Assets”.

Perkins Program Fund

DeVry University is required under U.S. 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 U.S. federal government. No new U.S. federal contributions were received in the first six months of fiscal year 2015 or in fiscal year 2014. DeVry Group carries its investment in such contributions at original value, net of allowances for expected losses on loan collections, of $2.6 million at December 31, 2014 and 2013. 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 U.S. federal contributions to this revolving loan program do not belong to DeVry Group and are not recorded in its financial statements. Under current law, upon termination of the program by the U.S. federal government or withdrawal from future program participation by DeVry University, subsequent student loan repayments would be divided between the U.S. federal government and

DeVry University to satisfy their respective cumulative contributions to the fund.

Foreign Currency Translation

The financial position and results of operations of the RUSM and RUSVM and the AUC Caribbean operations are measured using the U.S. dollar as the functional currency. As such, there is no translation gain or loss associated with these operations. DeVry Brasil’s operations, DeVry Group’s Canadian operations and Becker’s international operations are measured using the local currency as the functional currency. Assets and liabilities of these entities are translated to U.S. dollars using exchange rates in effect at the balance sheet dates. Income and expense items are translated at monthly average rates of exchange. The resultant translation adjustments are included in the component of Shareholders’ Equity designated as Accumulated Other Comprehensive Loss. Transaction gains or losses during the three and six months ended December 31, 2014 and 2013 were not material.

Noncontrolling Interest

DeVry Group maintains a 96.3% ownership interest in DeVry Brasil with the remaining 3.7% owned by members of the current DeVry Brasil senior management group. Prior to the June 2013 purchase of additional DeVry Brasil stock, DeVry Group’s ownership percentage was 83.5%. Beginning July 1, 2015, DeVry Group 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 Group. Since the put option is out of the control of DeVry Group, authoritative guidance requires the noncontrolling 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 U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). The adjustment to increase or decrease the DeVry Brasil noncontrolling interest each reporting period for its proportionate share of DeVry Brasil’s profit/loss will continue to flow through the consolidated statements of income based on DeVry Group's noncontrolling interest accounting policy.

The following is a reconciliation of the noncontrolling interest balance (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Balance at Beginning of period	$ 6,617	$ 5,890	$ 6,393	$ 854
Net Income Attributable to Noncontrolling Interest	389	253	386	208
Accretion of Noncontrolling Interest Put Option	1,133	(168)	1,360	4,913
Balance at End of period	$ 8,139	$ 5,975	$ 8,139	$ 5,975

Earnings per Common Share

Basic earnings per share is computed by dividing net income attributable to DeVry Group 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 Group 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 624,000 and 810,000 shares of common stock for the three and six months ended December 31, 2014, respectively, and 2,298,000 and 2,158,000 shares of common stock for the three and six months ended December 31, 2013, 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 (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Weighted Average Shares Outstanding	63,876	63,282	63,812	63,170
Unvested Participating Restricted Shares	765	914	813	896
Basic Shares	64,641	64,196	64,625	64,066
Effect of Dilutive Stock Options	829	523	863	550
Diluted Shares	65,470	64,719	65,488	64,616

Treasury Stock

DeVry Group’s Board of Directors (the “Board”) has authorized stock repurchase programs on eight occasions (see “Note 7- Share Repurchase Programs”). The eighth repurchase program was approved on August 29, 2012 and commenced in November 2012. Share repurchases under this plan were suspended as of May 2013. In August 2014, the Board approved the extension of the eighth share repurchase program through December 31, 2015, and authorized the recommencement of repurchases under the program which began in September 2014. Shares that are repurchased by DeVry Group 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 Group under a swap arrangement resulting from employees’ exercise of incentive stock options pursuant to the terms of the DeVry Group 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 Group Employee Stock Purchase Plan in exchange for employee payroll deductions. When treasury shares are reissued, DeVry Group 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 U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported during the period. Actual results could differ from those estimates.

Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is composed of the change in cumulative translation adjustment, primarily at DeVry Brasil, 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 December 31, 2014, consists of $44.3 million of cumulative translation losses ($42.7 million attributable to DeVry Group and $1.6 million attributable to noncontrolling interests) and $0.2 million of unrealized gains on available-for-sale marketable securities, net of tax of $0.1 million and all attributable to DeVry Group. At December 31, 2013, this balance consisted of $25.6 million of cumulative translation losses ($24.7 million attributable to DeVry Group and $0.9 million attributable to noncontrolling interests) and $0.1 million of unrealized losses on available-for-sale marketable securities, net of tax of $0.1 million and all attributable to DeVry Group.

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 $65.6 million and $131.8 million for the three and six months ended December 31, 2014, respectively, and $67.8 million and $140.8 million for the three and six months ended December 31, 2013, respectively.

Restructuring and Other Charges

DeVry Group financial statements include charges related to reduced enrollments at some of its institutions. Management is reducing DeVry Group's cost structure to align with these reduced enrollments. Such charges include severance and related benefits for reductions in staff and voluntary separation plans and real estate consolidation charges. These charges include early lease termination or cease-of-use costs and losses on disposals of property and equipment (see "Note 10-Restructuring Charges").

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09: "Revenue from Contracts with Customers (Topic 606)". This guidance was issued to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2016. Management is evaluating the impact the guidance will have on DeVry Group's consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08: "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". This guidance requires that only disposals representing a strategic shift in operations be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. The new standard is effective for the fiscal years and interim periods within those years beginning after December 15, 2014 with early adoption permitted. Management does not believe this guidance will have a significant impact on DeVry Group's consolidated financial statements.

In July 2013, the FASB 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 was effective for the first quarter of fiscal year 2015 and its adoption did not have a significant impact on DeVry Group's consolidated financial statements.

Reclassifications

The previously reported amounts in the December 31, 2013 Consolidated Balance Sheet for Prepaid Expenses and Other of $42.6 million and Refundable Income Taxes of $7.0 million have been combined as Prepaid Expenses and Other to conform to the current presentation format. These reclassifications had no effect on reported net income.

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NOTE 3: DISCONTINUED OPERATIONS

In December 2013, the assets of DeVry Group's Advanced Academics Inc. ("AAI") subsidiary, which had previously been disclosed as "held for sale" were divested. These assets were sold for $2.0 million, which approximated the recorded net book value of the assets on the date of sale.

The operating results of AAI are separately disclosed in the Consolidated Statements of Income as "Discontinued Operations – Loss from Operations of Divested Component". The following is a summary of operating results of the discontinued operations for the three and six months ended December 31, 2013 and 2014 (in thousands).

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
Loss from Operations of Divested Component	$ -	$ (1,084)	$ -	$ (3,931)
Asset Impairment Charge and Gain on Sale	-	372	-	(13,105)
Restructuring Expense	-	(675)	-	(675)
Income Tax Benefit	-	467	-	1,463
Loss from Discontinued Operations, Net of Income Taxes	$ -	$ (920)	$ -	$ (16,248)

NOTE 4: STOCK-BASED COMPENSATION

DeVry Group maintains four stock-based incentive plans: the 1999 Stock Incentive Plan, the 2003 Stock Incentive Plan, the Amended and Restated Incentive Plan of 2005 and the Second Amended and Restated Incentive Plan of 2013. Under these plans, directors, key executives and managerial employees are eligible to receive incentive stock or nonqualified options to purchase shares of DeVry Group's common stock. The Second Amended and Restated Incentive Plan of 2013 and the Amended and Restated Incentive Plan of 2005 also permit the granting of stock appreciation rights, restricted stock, performance stock and other stock and cash based compensation. Though options remain outstanding under the 1999, 2003 and 2005 incentive plans, no further stock based grants will be issued from these plans. The Second Amended and Restated Incentive Plan of 2013 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 Group accounts for stock-based compensation granted to retirement eligible employees that fully vests upon an employee's retirement under the non-substantive vesting period approach. Under this approach, the entire compensation cost is recognized at the grant date for stock-based grants issued to retirement eligible employees.

At December 31, 2014, 9,798,238 authorized but unissued shares of common stock were reserved for issuance under DeVry Group’s stock incentive plans.

For non-retirement eligible employees, stock-based compensation cost is measured at grant date based on the fair value of the grant, 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 six months ended December 31, 2014:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value ($000)
Outstanding at July 1, 2014	3,362,287	$ 33.09		
Options Granted	238,100	43.53		
Options Exercised	(226,079)	28.41		
Options Forfeited	(32,564)	25.06		
Options Expired	(9,930)	42.47		
Outstanding at December 31, 2014	3,331,814	34.21	5.90	$ 46,887
Exercisable at December 31, 2014	2,243,360	$ 36.46	4.71	$ 27,386

The following is a summary of stock appreciation rights activity for the six months ended December 31, 2014:

	Stock Appreciation Rights Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value ($000)
Outstanding at July 1, 2014	118,065	$ 42.87		
Rights Granted	-	-		
Rights Exercised	-	-		
Rights Canceled	-	-		
Outstanding at December 31, 2014	118,065	42.87	4.70	$ 728
Exercisable at December 31, 2014	103,874	$ 45.25	3.70	$ 541

The total intrinsic value of options exercised for the six months ended December 31, 2014 and 2013 was $3.7 million and $1.8 million, respectively.

The fair value of DeVry Group's stock option grants was estimated using a binomial model. This model uses historical cancellation and exercise experience of DeVry Group 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 Group's stock-based incentive plans during the first six months of fiscal years 2015 and 2014 were $17.94 and $11.68, per share, respectively. The fair value of DeVry Group's stock option grants were estimated assuming the following weighted average assumptions:

	Fiscal Year	
	2015	2014
Expected Life (in Years)	6.73	6.58
Expected Volatility	42.04 %	43.76 %
Risk-free Interest Rate	2.03 %	2.16 %
Dividend Yield	1.03 %	0.90 %
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 Group'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 Group's long-term historical volatility. The pre-vesting forfeiture rate is based on DeVry Group's historical stock option forfeiture experience.

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

During the first six months of fiscal year 2015, DeVry Group granted 324,070 shares of restricted stock to selected employees and directors. Of these, 98,940 are performance based shares which are earned by the recipients over a three year period based on achievement of certain academic goals when a minimum level of DeVry Group return on invested capital is attained. The remaining 225,130 shares and all other previously granted shares of restricted stock are subject to restrictions which lapse ratably over one, 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 Group, 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 six months ended December 31, 2014:

	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Nonvested at July 1, 2014	1,119,766	$ 26.49
Shares Granted	325,090	$ 43.77
Shares Vested	(357,376)	$ 30.26
Shares Forfeited	(40,440)	$ 30.10
Nonvested at December 31, 2014	1,047,040	$ 31.01

The weighted average estimated grant date fair values for restricted stock granted at market price under DeVry Group's stock-based incentive plans during the first six months of fiscal years 2015 and 2014 were $43.77 and $28.32, per share, respectively.

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
Cost of Educational Services	$ 1,283	$ 1,294	$ 3,050	$ 3,155
Student Services and Administrative Expense	2,726	2,750	6,480	6,705
	4,009	4,044	9,530	9,860
Income Tax Benefit	(1,409)	(1,392)	(3,451)	(3,338)
Net Stock-Based Compensation Expense	$ 2,600	$ 2,652	$ 6,079	$ 6,522

As of December 31, 2014, $28.6 million of total pre-tax unrecognized compensation costs related to non-vested grants is expected to be recognized over a weighted average period of 2.4 years. The total fair value of options and shares vested during the three months ended December 31, 2014 and 2013 was approximately $17.5 million and $14.5 million, respectively.

There were no capitalized stock-based compensation costs at December 31, 2014 and 2013.

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

NOTE 5: FAIR VALUE MEASUREMENTS

DeVry Group 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 include 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 Group’s financial assets as of December 31, 2014.

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.

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 Group 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 Group 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 in May of fiscal year 2014. See "Note 9 - Intangible Assets" for further discussion on the impairment review including valuation techniques and assumptions.

Assets measured at fair value in circumstances where the long-term value of a business has been impaired include the assets of AAI. During the first quarter of fiscal year 2014, it was determined that net assets of the AAI reporting unit had been impaired. This determination was made after review of third party offers to purchase the assets of the business. 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 of the AAI assets less the costs to sell was determined to be approximately $2.0 million which was approximately $13.5 million less than the carrying value. As a result, management recorded a pre-tax $13.5 million asset impairment charge in the first quarter of fiscal year 2014. The assets of this business were sold in December 2013 for $2.0 million. See “Note 3 - Discontinued Operations” for further discussions on AAI.

The following tables present DeVry Group’s assets and liabilities at December 31, 2014, that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands).

	Level 1	Level 2	Level 3
Cash and Cash Equivalents	$379,965	$ -	$ -
Available for Sale Investments:			
Marketable Securities, short-term	3,520	-	-
Total Financial Assets at Fair Value	$383,485	$ -	$ -

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 fair value of the institutional loans receivable included in Accounts Receivable, Net and Other Assets on the Consolidated Balance Sheet as of December 31, 2014 is estimated by discounting the future cash flows using current rates for similar arrangements. As of December 31, 2014, the carrying value and the estimated fair value of these financial instruments was approximately $45.4 million. See “Note 6 - Financing Receivables” for further discussion on these institutional loans receivable.

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As of and for the six months ended December 31, 2014, there were no assets or liabilities measured at fair value using Level 3 inputs. Below is a roll-forward of accrued contingent liabilities measured at fair value using Level 3 inputs for the three and six months ended December 31, 2013 (dollars in thousands). The amount recorded as foreign currency translation gain for the three and six months ended December 31, 2013 is classified as student services and administrative expense in the Consolidated Statements of Income (Loss).

	Three Months Ended December 31, 2013	Six Months Ended December 31, 2013
Balance at Beginning of Period	$ 2,519	$ 2,509
Total Realized Gains (Losses) Included in Income:		
Foreign Currency Translation Changes	(148)	(138)
Balance at End of Period	$ 2,371	$ 2,371

NOTE 6: FINANCING RECEIVABLES

DeVry Group’s institutional loan programs are available to students at its DeVry University, Chamberlain and Carrington institutions as well as selected students at AUC, RUSM and RUSVM. These loan programs are designed to assist the small percentage of 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, AUC, RUSM and RUSVM 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, and Carrington require that studen