DEVRY INC
Form 10-Q
February 08, 2007

**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, 2006**

**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** | **36-3150143** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **ONE TOWER LANE, SUITE 1000, OAKBROOK TERRACE, ILLINOIS** | **60181** |
| *(Address of principal executive offices)* | *(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, 2007 — 70,966,746 shares of Common Stock, $0.01 par value

**DEVRY INC.**

**FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2006**

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**PART I - Financial Information**

**DEVRY INC.**

**CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**

| | December 31, 2006 | June 30, 2006 | December 31, 2005 |
|---|---|---|---|
| | | (Dollars in thousands) | |
| **Current Assets:** | | | |
| Cash and Cash Equivalents | $ 171,346 | $ 130,583 | $ 143,765 |
| Restricted Cash | 24,091 | 20,632 | 38,997 |
| Accounts Receivable, Net | 60,350 | 46,567 | 85,467 |
| Inventories | 118 | 133 | 85 |
| Deferred Income Taxes, Net | 15,344 | 13,700 | 17,142 |
| Prepaid Expenses and Other | 21,255 | 16,458 | 15,843 |
| Total Current Assets | 292,504 | 228,073 | 301,299 |
| **Land, Buildings and Equipment:** | | | |
| Land | 61,789 | 67,756 | 67,633 |
| Buildings | 212,171 | 222,059 | 219,143 |
| Equipment | 252,269 | 245,360 | 239,442 |
| Construction In Progress | 12,880 | 9,057 | 5,508 |
| | 539,109 | 544,232 | 531,726 |
| Accumulated Depreciation and Amortization | (282,458) | (271,306) | (254,033) |
| Land, Buildings and Equipment, Net | 256,651 | 272,926 | 277,693 |
| **Other Assets:** | | | |
| The accompanying notes are an integral part of these consolidated financial statements.Intangible Assets, Net | 60,150 | 63,762 | 68,538 |
| Goodwill | 291,113 | 291,113 | 291,306 |
| Perkins Program Fund, Net | 13,450 | 13,450 | 13,290 |
| Other Assets | 5,933 | 3,158 | 4,328 |
| Total Other Assets | 370,646 | 371,483 | 377,462 |
| **TOTAL ASSETS** | $ 919,801 | $ 872,482 | $ 956,454 |
| | | | |
| **LIABILITIES:** | | | |
| **Current Liabilities:** | | | |
| Current Portion of Debt | $ 50,000 | $ 60,000 | $ 35,000 |
| Accounts Payable | 32,975 | 39,677 | 29,983 |
| Accrued Salaries, Wages and Benefits | 43,642 | 35,600 | 33,794 |
| Accrued Expenses | 29,059 | 27,639 | 26,414 |
| Advance Tuition Payments | 7,367 | 16,584 | 28,875 |
| Deferred Tuition Revenue | 119,950 | 31,769 | 110,413 |
| Total Current Liabilities | 282,993 | 211,269 | 264,479 |
| **Other Liabilities:** | | | |
| Senior Notes | — | 65,000 | 125,000 |
| Deferred Income Taxes, Net | 12,407 | 12,564 | 16,078 |
| Accrued Postemployment Agreements | 5,341 | 5,594 | 6,392 |
| Deferred Rent and Other | 14,698 | 13,448 | 12,695 |
| Total Other Liabilities | 32,446 | 96,606 | 160,165 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **TOTAL LIABILITIES** | | 315,439 | | 307,875 | | 424,644 |
| | | | | | | |
| **SHAREHOLDERS' EQUITY:** | | | | | | |
| Common Stock, $0.01 Par Value, 200,000,000 Shares Authorized; 70,907,000; 70,757,000 and 70,564,000 Shares Issued and Outstanding at December 31, 2006, June 30, 2006 and December 31, 2005, Respectively | | 710 | | 708 | | 706 |
| Additional Paid-in Capital | | 129,928 | | 124,550 | | 119,154 |
| Retained Earnings | | 475,665 | | 441,893 | | 414,400 |
| Accumulated Other Comprehensive Loss | | (50) | | (424) | | (73) |
| Treasury Stock, at Cost ( 86,490; 97,770 and 109,767 Shares, Respectively) | | (1,891) | | (2,120) | | (2,377) |
| **TOTAL SHAREHOLDERS' EQUITY** | | 604,362 | | 564,607 | | 531,810 |
| **TOTAL LIABILITIES AND SHAREHOLDERS'EQUITY** | $ | 919,801 | $ | 872,482 | $ | 956,454 |

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, 2006 | For the Quarter Ended December 31, 2005 | For the Six Months Ended December 31, 2006 | For the Six Months Ended December 31, 2005 |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Tuition | $ 217,076 | $ 196,032 | $ 419,709 | $ 379,085 |
| Other Educational | 18,528 | 13,398 | 35,110 | 26,706 |
| Interest | 1,932 | 439 | 3,370 | 858 |
| Total Revenues | 237,536 | 209,869 | 458,189 | 406,649 |
| **COSTS AND EXPENSES:** | | | | |
| Cost of Educational Services | 120,580 | 111,468 | 240,884 | 223,177 |
| Gain on Sale of Assets | - | (451) | (19,855) | (451) |
| Student Services and Administrative Expense | 93,238 | 81,887 | 179,036 | 157,777 |
| Interest Expense | 1,720 | 2,606 | 3,889 | 5,261 |
| Total Costs and Expenses | 215,538 | 195,510 | 403,954 | 385,764 |
| **Income Before Income Taxes** | 21,998 | 14,359 | 54,235 | 20,885 |
| **Income Tax Provision** | 5,601 | 3,531 | 16,918 | 5,325 |
| **NET INCOME** | $ 16,397 | $ 10,828 | $ 37,317 | $ 15,560 |
| | | | | |
| **EARNINGS PER COMMON SHARE:** | | | | |
| **Basic** | $ 0.23 | $ 0.15 | $ 0.53 | $ 0.22 |
| **Diluted** | $ 0.23 | $ 0.15 | $ 0.52 | $ 0.22 |
| | | | | |
| **CASH DIVIDEND DECLARED PER COMMON SHARE** | $ 0.05 | $ - | $ 0.05 | $ - |

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

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**DEVRY INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | For the Six Months Ended December 31, 2006 | 2005 |
|---|---|---|
| | (Dollars in Thousands) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Income | $ 37,317 | $ 15,560 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Stock-Based Compensation Charge | 3,113 | 2,239 |
| Depreciation | 17,365 | 18,628 |
| Amortization | 4,585 | 5,402 |
| Provision for Refunds and Uncollectible Accounts | 26,440 | 23,578 |
| Deferred Income Taxes | (1,848) | 56 |
| Gain on Disposals of Land, Buildings and Equipment | (19,677) | (479) |
| Changes in Assets and Liabilities, Net of Effects from Acquisitions of Businesses: | | |
| Restricted Cash | (3,462) | (25,059) |
| Accounts Receivable | (40,241) | (69,800) |
| Inventories | 9 | 87 |
| Prepaid Expenses and Other | (7,531) | (5,629) |
| Accounts Payable | (6,699) | (727) |
| Accrued Salaries, Wages, Benefits and Expenses | 5,950 | (8,382) |
| Advance Tuition Payments | (9,186) | 14,152 |
| Deferred Tuition Revenue | 88,181 | 87,590 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 94,316 | 57,216 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital Expenditures | (16,202) | (10,848) |
| Net Proceeds from Sale of Land and Building | 34,778 | 1,798 |
| Payments for Purchases of Businesses, Net of Cash Acquired | — | (1,998) |
| **NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES** | 18,576 | (11,048) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from Exercise of Stock Options | 2,098 | 1,040 |
| Proceeds from Stock Issued Under Employee Stock Purchase Plan | 398 | — |
| Excess Tax Benefit from Stock-Based Payments | 47 | — |
| Proceeds from Revolving Credit Facility | 40,000 | — |
| Repayments Under Senior Notes | (115,000) | — |
| Repayments Under Revolving Credit Facility | — | (65,000) |
| **NET CASH USED IN FINANCING ACTIVITIES** | (72,457) | (63,960) |
| Effects of Exchange Rate Differences | 328 | (266) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 40,763 | (18,058) |
| **Cash and Cash Equivalents at Beginning of Period** | 130,583 | 161,823 |
| **Cash and Cash Equivalents at End of Period** | $ 171,346 | $ 143,765 |

| | | | | |
|---|---|---|---|---|
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | | | |
| **Cash Paid During the Period For:** | | | | |
| Interest | $ | 4,014 | $ | 4,512 |
| Income Taxes, Net | | 17,219 | | 14,447 |
| **Non-cash Financing Activity:** | | | | |
| Declaration of Cash Dividends to be Paid | | 3,545 | | — |

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, 2006 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, 2006, and in conjunction with DeVry's quarterly report on Form 10-Q for the quarter ended September 30, 2006, each as filed with the Securities and Exchange Commission.

The results of operations for the three and six months ended December 31, 2006, are not necessarily indicative of results to be expected for the entire fiscal year.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***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 require accrual over the expected future service period beginning with the second quarter of fiscal year 2003. 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. For the three and six months ended December 31, 2005, DeVry recognized $40,000 of expenses related to these agreements. The amounts provided are based on recording, over the period of active service that ended June 30, 2005, the amount that represents the present value of the obligation, discounted using a 5.82% rate as of December 31, 2006, 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. Shares used in this computation were 70,859,000 and 70,542,000 for the second quarters ended December 31, 2006, and 2005, respectively, and 70,827,000 and 70,524,000 for the six months ended December 31, 2006, and 2005, respectively. 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. Shares used in this computation were 71,282,000 and 70,847,000 for the second quarters ended December 31, 2006, and 2005, respectively, and 71,162,000 and 70,702,000 for the six months ended December 31, 2006, and 2005, respectively. Excluded from the computations of diluted earnings per share were options to purchase 932,000 and 1,487,000 shares of common stock for the second quarter and six months ended December 31, 2006, respectively, and 1,773,000 and 2,915,000 shares of common stock, for the second quarter and six months ended December 31, 2005, respectively. These outstanding options were excluded because the option exercise prices were greater than the average market price of the common shares during the period; thus, their effect would be anti-dilutive.

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***Treasury Stock***

From time to time, DeVry has reacquired shares of its common stock upon an employee's exercise of incentive stock options under a tax-free swap arrangement 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. 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.

***Comprehensive Income***

The differences between changes in the fair values of cash flow hedging instruments and the amount of these instruments that was amortized to earnings is reported as a component of Comprehensive Income. For the six months ended December 31, 2005, the amount recorded in Other Comprehensive Income was a gain of $12,000. DeVry's only other item that meets the definition for adjustment to arrive at Comprehensive Income is the change in cumulative translation adjustment. The amounts recorded in Other Comprehensive Income for the changes in translation rates were a gain of $373,000 and a loss of $4,000, for the quarters ended December 31, 2006 and 2005, respectively, and a gain of $374,000 and a loss of $351,000 for six months ended December 31, 2006 and 2005, respectively.

The Accumulated Other Comprehensive Income balance at December 31, 2006 and 2005, is composed entirely of cumulative translation losses of $50,000 and $73,000, respectively.

***Reclassifications***

The previously reported amounts in the Consolidated Balance Sheets for Additional Paid-in Capital have been reclassified to disclose the balance in Treasury Stock in order to conform to the current presentation format.

***Recent Accounting Pronouncements***

SFAS 154 — Accounting Changes and Error Corrections

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," ("SFAS 154"). This statement replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. For DeVry, SFAS 154 was effective at the beginning of fiscal year 2007. The adoption of SFAS 154 did not have a material impact on DeVry's consolidated financial statements.

SFAS 157 — Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements,” (“SFAS 157”). SFAS 157 defines and establishes a framework for measuring fair value. In addition, SFAS 157 expands disclosures about fair value measurements. For DeVry, SFAS 157 is effective beginning in fiscal year 2009. DeVry does not expect that the adoption of SFAS 157 will have a material impact on its consolidated financial statements.

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FIN 48 — Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for DeVry beginning in fiscal year 2008. DeVry is currently evaluating the impact of FIN 48.

**NOTE 3: STOCK-BASED COMPENSATION**

DeVry maintains six stock-based award plans: the Amended and Restated Stock Incentive Plan, established in 1988, the 1991 Stock Incentive Plan, 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 its 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. Plan Committee members are granted automatic, nondiscretionary annual options. 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 vest upon an employee's retirement under the non-substantive vesting period approach to these options. Under this approach, compensation cost is recognized at the grant date for options issued to retirement eligible employees where the options vest upon retirement.

At December 31, 2006, 7,316,312 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 requisite service period.

The following is a summary of options activity for the six months ended December 31, 2006:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value ($000) |
|---|---|---|---|---|
| Outstanding at July 1, 2006 | 3,428,211 | $ 22.91 | | |
| Options Granted | 608,150 | $ 21.58 | | |
| Options Exercised | (138,794) | $ 16.57 | | |
| Options Canceled | (77,546) | $ 26.01 | | |
| Outstanding at December 31, 2006 | 3,820,021 | $ 22.86 | 6.48 | $ 8,820 |
| Exercisable at December 31, 2006 | 2,573,542 | $ 23.37 | 5.50 | $ 6,192 |

The total intrinsic value of options exercised for the six months ended December 31, 2006 and 2005 was $1,081,000 and $803,000, respectively.

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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 2007 and 2006 were $10.05 and $10.15, per share, respectively. The fair values of DeVry's stock option awards were estimated assuming the following weighted average assumptions:

| | Fiscal Year | |
|---|---|---|
| | **2007** | **2006** |
| Expected Life (in Years) | 6.67 | 4.38 |
| Expected Volatility | 41.51% | 41.30% |
| Risk-free Interest Rate | 4.57% | 3.80% |
| Dividend Yield | 0.46% | - |
| Pre-vesting Forfeiture Rate | 4.00% | 4.00% |

The expected life of the options granted is based on the weighted average exercise life with age and salary adjustment factors from historical exercise behavior.

DeVry's expected volatility is computed by combining and weighting the implied market volatility, its most recent volatility over the expected life of the option grant, and DeVry's long-term historical volatility.

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.

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, | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | (Dollars in thousands) | | | |
| Cost of Educational Services | $ 683 | $ 350 | $ 996 | $ 716 |
| Student Services and Administrative Expense | 1,452 | 744 | 2,117 | 1,523 |
| Income Tax Benefit | (538) | (269) | (707) | (571) |
| Net Stock-Based Compensation Expense | $ 1,597 | $ 825 | $ 2,406 | $ 1,668 |

As of December 31, 2006, $9.8 million of total pre-tax unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of 3.3 years. The total fair value of options vested during the six months ended December 31, 2006 and 2005 was approximately $4,800,000 and $5,000,000, respectively.

There were no capitalized stock-based compensation costs at December 31, 2006 and 2005.

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: DIVIDENDS AND STOCK REPURCHASE PROGRAM**

On November 15, 2006, DeVry's Board of Directors declared a dividend of $0.05 per share, payable on January 15, 2007, to common stockholders of record as of December 20, 2006. As of December 31, 2006, $3,545,000 is accrued as a dividend payable. The Board stated its intent to declare dividends on a semi-annual basis, resulting in an annual dividend rate of $0.10 per share. Future dividends will be at the discretion of the Board of Directors.

On November 15, 2006, DeVry also announced that the Board of Directors had established a stock repurchase plan. The stock repurchase plan allows DeVry to buy back up to $35 million of its common stock within the next two years. No shares had been repurchased as of December 31, 2006. The timing and amount of any repurchase will be determined by company 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 under its revolving credit agreement and may be suspended or discontinued at any time.

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Shares of stock repurchased under the program will be held as treasury shares. These repurchased shares will reduce the weighted average number of shares of common stock outstanding for basic and diluted earnings per share calculations.

**NOTE 5: BUSINESS COMBINATIONS**

In July 2005, DeVry signed a definitive agreement to acquire Gearty CPE for $2.0 million in cash. Gearty CPE, which operates in the New York/New Jersey metro area, is a provider of continuing professional education (CPE) programs and seminars in accounting and finance predominantly serving chief financial officers and controllers of Fortune 500 companies.

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

**NOTE 6: INTANGIBLE ASSETS**

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

| | As of December 31, 2006 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | | Accumulated Amortization | |
| Amortized Intangible Assets: | | | | |
| Student Relationships | $ | 47,770 | $ | (41,237) |
| License and Non-compete Agreements | | 2,650 | | (2,611) |
| Class Materials | | 2,900 | | (1,200) |
| Trade Names | | 110 | | (89) |
| Other | | 620 | | (620) |
| Total | $ | 54,050 | $ | (45,757) |
| Unamortized Intangible Assets: | | | | |
| Trade Names | $ | 20,972 | | |
| Trademark | | 1,645 | | |
| Ross Title IV Eligibility and Accreditations | | 14,100 | | |
| Intellectual Property | | 13,940 | | |
| Chamberlain Title IV Eligibility and Accreditations | | 1,200 | | |
| Total | $ | 51,857 | | |

| | As of December 31, 2005 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | | Accumulated Amortization | |
| Amortized Intangible Assets: | | | | |
| Student Relationships | $ | 47,770 | $ | (33,108) |
| License and Non-compete Agreements | | 2,650 | | (2,582) |
| Class Materials | | 2,900 | | (1,000) |
| Trade Names | | 110 | | (62) |
| Other | | 620 | | (617) |
| Total | $ | 54,050 | $ | (37,369) |
| Unamortized Intangible Assets: | | | | |
| Trade Names | $ | 20,972 | | |
| Trademark | | 1,645 | | |

| | | |
|---|---|---|
| Ross Title IV Eligibility and Accreditations | | 14,100 |
| Intellectual Property | | 13,940 |
| Chamberlain Title IV Eligibility and Accreditations | | 1,200 |
| Total | $ | 51,857 |

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Amortization expense for amortized intangible assets was $1,805,000 and $3,612,000 for the quarter and six months ended December 31, 2006, respectively, and $2,580,000 and $5,161,000 for the quarter and six months ended December 31, 2005, respectively. Estimated amortization expense for amortized intangible assets for the next five fiscal years ending June 30 is as follows (dollars in thousands):

| **Fiscal Year** | | |
|---|---|---|
| 2007 | $ | 6,843 |
| 2008 | | 3,660 |
| 2009 | | 203 |
| 2010 | | 200 |
| 2011 | | 200 |

The weighted-average amortization period for amortized intangible assets is three and five years for Chamberlain and Ross University Student Relationships, respectively; six years for License and Non-compete Agreements; 14 years for Class Materials; four years for Trade Names and six years for Other. These intangible assets, except for the Ross University Student Relationships, are being amortized on a straight-line basis. The amount being amortized for the Ross University Student Relationships is based on the estimated progression of the students through the respective medical and veterinary programs, giving consideration to the revenue and cash flow associated with both existing students and new applicants. This results in the basis being amortized at an annual rate for each of the five years of estimated economic life as follows:

| | |
|---|---|
| Year 1 | 27.4% |
| Year 2 | 29.0% |
| Year 3 | 21.0% |
| Year 4 | 14.5% |
| Year 5 | 8.1% |

Indefinite-lived intangible assets related to Trademarks, Trade Names, Title IV Eligibility, Accreditations and Intellectual Property are not amortized, as there are no legal, regulatory, contractual, economic or other factors that limit the useful life of these intangible assets to the reporting entity. As of the end of fiscal years 2006 and 2005, there was no impairment loss associated with these indefinite-lived intangible assets, as fair value exceeds the carrying amount.

DeVry determined that as of the end of fiscal years 2006 and 2005, there was no impairment in the value of DeVry's goodwill for any reporting units. This determination was made after considering a number of factors including a valuation analysis prepared by an independent professional valuation specialist. The carrying amount of goodwill related to the DeVry University reportable segment at December 31, 2006 and June 30, 2006, was unchanged at $22,195,000. The carrying amount of goodwill related to the Professional and Training reportable segment was unchanged at $24,716,000 at December 31, 2006 and June 30, 2006. The carrying amount of goodwill related to the Medical & Healthcare segment was unchanged at $244,202,000 at December 31, 2006 and June 30, 2006.

**NOTE 7: SALE OF FACILITIES**

On September 7, 2006, DeVry sold its facility located in West Hills, California for $36.0 million. In connection with the sale, DeVry recorded a pre-tax gain of $19.9 million during the first quarter of fiscal year 2007. This gain is separately classified in the Consolidated Statements of Income as a component of Total Costs and Expenses and related to the DeVry University reportable segment. DeVry is leasing back the entire building for the next several months to serve its existing student population until a leased replacement facility in the nearby area is operational.

In November 2005, a DeVry owned building in the Denver, Colorado area was sold for $1,798,000. As a result of this sale, DeVry realized a pre-tax gain of $451,000. This gain is separately classified in the Consolidated Statements of Income as a component of Total Costs and Expenses and related to the DeVry University reportable segment. This building was acquired in 1999 with the acquisition of Denver Technical College. This facility was no longer essential to its operations, having been largely replaced by a new and larger DeVry University campus serving the Denver market.

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**NOTE 8: REDUCTION IN WORKFORCE CHARGES**

During fiscal year 2005, DeVry offered voluntary separation plans and implemented an involuntary reduction in force which resulted in workforce reductions of approximately 230 employees. In relation to all of these voluntary and involuntary reductions in force, DeVry recorded pre-tax charges of approximately $8.4 million in fiscal year 2005. These charges consisted of severance pay and in some cases, extended medical and dental benefits coverage.

Cash payments for the fiscal year 2005 voluntary separation plans and the involuntary reductions in force were approximately $77,000 and $212,000 for the quarter and six months ended December 31, 2006, respectively and $300,000 and $2.3 million for the quarter and six months ended December 31, 2005, respectively. Of the total amount accrued for these events, approximately $360,000 remained to be paid as of December 31, 2006. Payments will continue throughout fiscal year 2007.

The workforce reductions related to actions across several of DeVry's businesses resulting from process improvements and its continuing efforts to realign costs with revenues. The majority of the workforce reductions were in the U.S. and included managerial, professional, clerical and instructor roles.

**NOTE 9: INCOME TAXES**

DeVry's effective income tax rate reflects benefits derived from significant operations outside the United States. Earnings of Ross University's international operations are not subject to U.S. federal or state income taxes. The principal operating subsidiaries of Ross University are Ross University School of Medicine (the Medical School) incorporated under the laws of the Commonwealth of Dominica and Ross University School of Veterinary Medicine (the Veterinary School), incorporated under the laws of the Federation of St. Christopher Nevis, St. Kitts in the West Indies. Both Schools have agreements with the respective governments that exempt them from local income taxation through the years 2043 and 2023, respectively.

DeVry has not recorded a tax provision for the undistributed international earnings of the Medical and Veterinary Schools. It is DeVry's intention to indefinitely reinvest accumulated cash balances, future cash flows and post-acquisition undistributed earnings and profits to improve the facilities and operations of the Schools and pursue future opportunities outside of the United States. In accordance with this plan, cash held by Ross University will not be available for general company purposes and under current laws will not be subject to U.S. taxation. As of December 31, 2006 and 2005, cumulative undistributed earnings were approximately $76.5 million and $41.8 million, respectively.

The effective tax rate was 25.5% for the second quarter and 31.2% for the first six months of fiscal year 2007, compared to 24.6% for the second quarter and 25.5% for the first six months in the prior year. The higher effective income tax rate for the second quarter of fiscal year 2007 was primarily due to changes to prior and current year income tax estimates for Ross University's U.S. operations. The increase in the effective income tax rate for the first six months of fiscal year 2007 is attributable to the gain on the sale of the West Hills facility, which carried a tax rate of 40.4% and the same factors as discussed above for the second quarter. The effective income tax rate for the fiscal year ended June 30, 2006 was 25.1%.

During the third quarter of fiscal year 2006, the Internal Revenue Service began an audit of DeVry's consolidated federal income tax returns for the fiscal years of 2003 and 2004 and certain refund claims for prior years. During the first quarter of fiscal year 2007, the Internal Revenue Service completed this audit and no adjustments were required to be made for those income tax returns and refund claims.

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**NOTE 10: LONG-TERM DEBT**

All of DeVry's borrowings and letters of credit under its long-term debt agreements are through DeVry Inc. and Global Education International, Inc. ("GEI"), an international subsidiary formed in connection with the acquisition of Ross University. This long-term debt consists of the following at December 31, 2006 and 2005 (dollars in thousands):

| | Outstanding Debt at December 31, 2006 | 2005 | Effective Interest Rate at Dec. 31, 2006 |
|---|---|---|---|
| Revolving Credit Agreement: | | | |
| DeVry Inc. as borrower | $ 50,000 | $ 30,000 | 6.23% |
| GEI as borrower | — | 5,000 | — |
| Total | $ 50,000 | $ 35,000 | 6.23% |
| Senior Notes: | | | |
| DeVry Inc. as borrower | $ — | $ 75,000 | — |
| GEI as borrower | — | 50,000 | — |
| Total | $ — | $ 125,000 | — |
| Total Outstanding Debt | $ 50,000 | $ 160,000 | 6.23% |
| Current Maturities of Debt | $ 50,000 | $ 35,000 | 6.23% |
| Total Long-term Debt | $ — | $ 125,000 | — |

In July and October 2006, DeVry prepaid the remaining $115.0 million of Senior Notes without penalty. In connection with the prepayments, DeVry charged to expense approximately $0.8 million of unamortized deferred financing costs. This prepayment was funded through a combination of available cash and $40.0 million of increased borrowings under DeVry's revolving credit agreement, which bears a lower interest rate than the Senior Notes.

On January 11, 2007, DeVry entered into a third amendment to the revolving credit agreement. This agreement amends or modifies certain aspects of the revolving credit agreement so as to, among other things: (i) extend the maturity date to January 11, 2012, (ii) decrease the spread on applicable interest and fee rates, (iii) revise certain financial covenants, and (iv) increase permitted acquisition and restricted payment flexibility.

As of December 31, 2006, the interest rate on borrowings under the revolving credit agreement was based on the LIBOR rate plus 0.875%. Effective with the amendment to the revolving credit agreement, this spread decreased to 0.50%. The spreads on the interest rate, letter of credit fees and commitment fees are adjusted quarterly, based upon DeVry's achievement of certain financial ratios.

**NOTE 11: COMMITMENTS AND CONTINGENCIES**

DeVry is subject to occasional lawsuits, administrative proceedings, regulatory reviews associated with financial assistance programs and other claims arising in the normal conduct of its business. The following is a description of pending litigation that may be considered other than ordinary and routine litigation that is incidental to the business.

In January 2002, Royal Gardner, a graduate of one of DeVry University's Los Angeles-area campuses, filed a class-action complaint against DeVry Inc. and DeVry University, Inc. in the Superior Court of the State of California, County of Los Angeles, on behalf of all students enrolled in the post-baccalaureate degree program in Information Technology. The suit alleges that the program offered by DeVry did not conform to the program as it was presented in the advertising and other marketing materials. In March 2003, the complaint was dismissed by the court with limited right to amend and re-file. The complaint was subsequently amended and re-filed. During the first quarter of DeVry's fiscal year 2004, a new complaint was filed in the same court by Gavino Teanio with the same general allegations and by the same plaintiffs' attorneys. This subsequent action was stayed pending the outcome of the Gardner matter. The parties reached a settlement, which was approved by the court in October 2006. The total amount of the settlement, which was paid out in December 2006, was within the amount previously reserved for this matter.

Brigette Dean Hines, a former student of Ross University Veterinary School of Medicine was dismissed from the school and denied re-enrollment. This former student filed a claim in June 2005 in the Superior Court of New Jersey for Middlesex County. In this suit, she claims that the dismissal was based upon her disability and she is seeking compensatory damages for economic and non-economic harm, punitive damages, cost of the suit, attorney's fees and other relief deemed appropriate by the Court. Ross University filed a motion to dismiss the suit which was denied and discovery is proceeding.

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On August 25, 2005, DeVry filed a complaint in the Superior Court of California, County of Alameda, against Sierra Bay Contractors, Inc., the general contractor responsible for the construction of the student dormitory on the DeVry University, Fremont, California campus. DeVry's complaint sought monetary damages arising out of Sierra Bay's failure to keep the project free from liens filed by Sierra Bay's subcontractors, and sought indemnity from the same. Sierra Bay also placed a lien on the real property on which the building is situated, and further filed a counterclaim to DeVry’s claim in December 2005, alleging that DeVry failed to pay the outstanding contract balance or amounts for extra work done. The total amount claimed for the outstanding contract balance, the extra work, and other damages resulting from construction delays, is approximately $3.0 million. All of the claims, including those of the subcontractors, have been consolidated under the principal case between DeVry and Sierra Bay. There are no governmental entities involved.

Saro Daghlian, a former student at a California DeVry University campus, brought a putative class action suit in December 2005 in the California State District Court for the County of Los Angeles alleging that DeVry’s materials distributed to students did not comply with California state statutes including a California Education Code requirement to provide a specified statement to prospective students concerning the transferability of credits. The case was removed to the United States District Court for the Central District of California, and a motion to dismiss was filed. The motion to dismiss was denied, and discovery is proceeding. The plaintiff has filed a motion for class certification, which the court is presently considering.

The total accrual for the resolution of all legal claims was approximately $0.6 million at December 31, 2006.

While the ultimate outcome of pending contingencies is difficult to estimate at this time, DeVry intends to vigorously defend itself with respect to the pending claims. At this time, DeVry does not believe that the outcome of current claims, administrative proceedings, regulatory reviews and lawsuits will have a material effect on its cash flows, results of operations or financial position.

**NOTE 12: SEGMENT INFORMATION**

DeVry’s principal business is providing post-secondary education. The services of our operations are described in more detail in “Note 1- Nature of Operations” to the consolidated financial statements contained in DeVry’s Annual Report on Form 10-K for the fiscal year ended June 30, 2006. DeVry presents three reportable segments: the DeVry University undergraduate and graduate operations (DeVry University); the professional exam review and training operations including Becker Professional Review and the Center for Corporate Education (Professional and Training); and the Ross University medical and veterinary school and Chamberlain College of Nursing operations (Medical & Healthcare).

These segments are consistent with the method by which management evaluates performance and allocates resources. Such decisions are based, in part, on each segment’s operating income, which is defined as income before interest expense, amortization and income taxes. Intersegment sales are accounted for at amounts comparable to sales to nonaffiliated customers and are eliminated in consolidation. The accounting policies of the segments are the same as those described in “Note 2 — Summary of Significant Accounting Policies” to the consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

The consistent measure of segment profit excludes interest expense, amortization and certain corporate-related depreciation. As such, these items are reconciling items in arriving at income before income taxes. The consistent measure of segment assets excludes deferred income tax assets and certain depreciable corporate assets. Additions to long-lived assets have been measured in this same manner. Reconciling items are included as corporate assets.

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Following is a tabulation of business segment information based on the current segmentation for the quarter and six months ended December 31, 2006 and 2005. Corporate information is included where it is needed to reconcile segment data to the consolidated financial statements.

| | For the Quarter Ended December 31, 2006 | For the Quarter Ended December 31, 2005 | For the Six Months Ended December 31, 2006 | For the Six Months Ended December 31, 2005 |
|---|---|---|---|---|
| | (Dollars in Thousands) | | | |
| Revenues: | | | | |
| DeVry University | $ 186,697 | $ 171,676 | $ 360,007 | $ 332,395 |
| Professional and Training | 14,882 | 9,953 | 31,163 | 22,233 |
| Medical & Healthcare | 35,957 | 28,240 | 67,019 | 52,021 |
| Total Consolidated Revenues | $ 237,536 | $ 209,869 | $ 458,189 | $ 406,649 |
| | | | | |
| Operating Income: | | | | |
| DeVry University | $ 7,832 | $ 6,737 | $ 26,868 | $ 6,663 |
| Professional and Training | 3,450 | 2,335 | 10,413 | 6,905 |
| Medical & Healthcare | 14,627 | 10,720 | 25,761 | 18,252 |
| Reconciling Items: | | | | |
| Amortization Expense | (1,805) | (2,580) | (3,612) | (5,161) |
| Interest Expense | (1,720) | (2,606) | (3,889) | (5,261) |
| Depreciation and Other | (386) | (247) | (1,306) | (513) |
| Total Consolidated Income before Income Taxes | $ 21,998 | $ 14,359 | $ 54,235 | $ 20,885 |
| | | | | |
| Segment Assets: | | | | |
| DeVry University | $ 414,182 | $ 436,330 | $ 414,182 | $ 436,330 |
| Professional and Training | 91,567 | 76,461 | 91,567 | 76,461 |
| Medical & Healthcare | 390,535 | 417,360 | 390,535 | 417,360 |
| Corporate | 23,517 | 26,303 | 23,517 | 26,303 |
| Total Consolidated Assets | $ 919,801 | $ 956,454 | $ 919,801 | $ 956,454 |
| Additions to Long-lived Assets: | | | | |
| DeVry University | $ 5,750 | $ 4,336 | $ 9,598 | $ 7,392 |
| Professional and Training | 12 | 123 | 45 | 148 |
| Medical & Healthcare | 2,679 | 3,823 | 6,559 | 5,306 |
| Total Consolidated Additions to Long-lived Assets | $ 8,441 | $ 8,282 | $ 16,202 | $ 12,846 |
| | | | | |
| Depreciation Expense: | | | | |
| DeVry University | $ 7,436 | $ 8,201 | $ 14,357 | $ 15,978 |
| Professional and Training | 117 | 114 | 260 | 228 |
| Medical & Healthcare | 1,173 | 973 | 2,254 | 1,928 |
| Corporate | 247 | 247 | 494 | 494 |
| Total Consolidated Depreciation | $ 8,973 | $ 9,535 | $ 17,365 | $ 18,628 |
| Intangible Asset Amortization Expense: | | | | |
| DeVry University | $ — | $ — | $ — | $ — |
| Professional and Training | 63 | 67 | 127 | 133 |
| Medical & Healthcare | 1,742 | 2,513 | 3,485 | 5,028 |
| Total Consolidated Amortization | $ 1,805 | $ 2,580 | $ 3,612 | $ 5,161 |

In September 2006, DeVry sold its facility located in West Hills, California. In connection with the sale, DeVry recorded a pre-tax gain of $19.9 million during the first quarter of fiscal year 2007. This gain is included in operating income of the DeVry University reportable segment for the six months ended December 31, 2006.

DeVry conducts its educational operations in the United States, Canada, the Caribbean countries of Dominica and St. Kitts/Nevis, Europe, the Middle East and the Pacific Rim. Other international revenues, which are derived principally from Canada, were less than 5% of total revenues for the quarters and six months ended December 31, 2006 and 2005. Revenues and long-lived assets by geographic area are as follows:

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| | For the Quarter Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | (Dollars in Thousands) | | | |
| Revenues from Unaffiliated Customers: | | | | |
| Domestic Operations | $ 201,617 | $ 180,864 | $ 391,341 | $ 352,918 |
| International Operations: | | | | |
| Dominica and St. Kitts/Nevis | 32,427 | 26,048 | 60,512 | 48,428 |
| Other | 3,492 | 2,957 | 6,336 | 5,303 |
| Total International | 35,919 | 29,005 | 66,848 | 53,731 |
| Consolidated | $ 237,536 | $ 209,869 | $ 458,189 | $ 406,649 |
| Long-lived Assets: | | | | |
| Domestic Operations | $ 316,875 | $ 346,973 | $ 316,875 | $ 346,973 |
| International Operations: | | | | |
| Dominica and St. Kitts/Nevis | 310,196 | 307,754 | 310,196 | 307,754 |
| Other | 226 | 428 | 226 | 428 |
| Total International | 310,422 | 308,182 | 310,422 | 308,182 |
| Consolidated | $ 627,297 | $ 655,155 | $ 627,297 | $ 655,155 |

No one customer accounted for more than 10% of DeVry’s consolidated revenues.

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**ITEM 2 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Through its Web site, DeVry offers (free of charge) its annual report on Form 10-K, quarterly reports on Form 10-Q and other reports filed with the United States Securities and Exchange Commission. DeVry's Web site address is http://www.devryinc.com.

The following discussion of DeVry's results of operations and financial condition should be read in conjunction with DeVry's Consolidated Financial Statements and the related Notes thereto in Item 1, "FINANCIAL STATEMENTS" in this Quarterly Report on Form 10-Q and DeVry's Consolidated Financial Statements and related Notes thereto in Item 8 "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" in DeVry's Annual Report on Form 10-K for the year ended June 30, 2006. DeVry's annual report on Form 10-K includes a description of critical accounting policies and estimates and assumptions used in the preparation of DeVry's financial statements. These include, but are not limited to, revenue and expense recognition; allowance for uncollectible accounts; internally developed software; land, buildings and equipment; stock-based compensation; impairment of goodwill and other intangible assets; impairment of long-lived assets and income tax liabilities.

The somewhat seasonal pattern of DeVry's enrollments and its educational program starting dates affect the results of operations and the timing of cash flows. Therefore, management believes that comparisons of its results of operations should be made to the corresponding period in the preceding year. Comparisons of financial position should be made to both the end of the previous fiscal year and to the end of the corresponding quarterly period in the preceding year.

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this quarterly report on Form 10-Q, including those that affect DeVry's expectations or plans, may constitute "forward-looking statements" subject to the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified by phrases such as DeVry Inc. or its management "anticipates," "believes," "estimates," "expects," "forecasts," "foresees" or other words or phras similar import. Such statements are inherently uncertain and may involve risks and uncertainties that could cause future results to differ materially from those projected or implied by these forward-looking statements. Potential risks and uncertainties that could affect DeVry's results are described in Item 1A, "Risk Factors" and in the subsections of "Item 1 — Business" entitled "Competition," "Student Recruiting and Admission," "Accreditation," "Approval and Licens "Tuition and Fees," "Financial Aid and Financing Student Education," "Student Loan Defaults," "Career Services," "Seasonality," and "Employees" in DeVry's Annual Report on Form 10-K for the fiscal year ended June 30, 2006 and filed with the Securities and Exchange Commission on September 13, 2006.

All forward-looking statements included in this report are based upon information presently available, and DeVry assumes no obligation to update any forward-looking statements.

**OVERVIEW**

For the second quarter of fiscal year 2007, DeVry's net income increased 51% to $16.4 million on record total revenues of $237.5 million and on improved operating performance. Operational and financial highlights for the second quarter of fiscal year 2007 include:

- The Fall 2006 term marked DeVry University's sixth consecutive period of positive undergraduate new student growth and the third consecutive period of positive total student enrollment growth.

·

Total revenues and operating profits increased at all three of DeVry's business segments primarily due to continued enrollment growth, robust sales of review course materials and improved operational execution, while at the same time making investments to support future growth.

- DeVry's financial position improved as it ended the quarter with $171 million of available cash and reduced debt to $50 million by prepaying the remaining $75 million of Senior Notes during October 2006 with a combination of available cash and $40 million of revolver borrowings which have a more favorable interest rate.

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- In November 2006, the Board of Directors declared DeVry’s first-ever dividend and approved a stock repurchase program. The first dividend of $0.05 per share was paid in January 2007. DeVry's Board of Directors stated its intent to declare dividends on a semi-annual basis, resulting in an annual dividend rate of $0.10 per share. The stock repurchase program allows DeVry to buy back up to $35 million of its common stock within the next two years.

The following table illustrates the effects of the gain on the sale of the West Hills facility on the company’s earnings. The non-GAAP disclosure of earnings is not preferable to GAAP net income but is shown as a supplement to such disclosure for comparability to the year-ago first six month’s earnings (in thousands, except per share data):

| | For the Six Months Ended December 31, | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| Net Income | $ | 37,317 | $ | 15,560 |
| Earnings per Share (diluted) | $ | 0.52 | $ | 0.22 |
| Gain on Sale of Assets (net of tax) | $ | 11,840 | $ | 273 |
| Earnings per Share (diluted) | $ | 0.16 | | -- |
| Net Income Excluding the Gain on Sale of Assets | $ | 25,477 | $ | 15,287 |
| Earnings per Share (diluted) | $ | 0.36 | $ | 0.22 |

**RESULTS OF OPERATIONS**

The following table presents information with respect to the relative size to revenue of each item in the Consolidated Statements of Income for the second quarter and first six months for both the current and prior fiscal year. Percents may not add due to rounding.

| | For the Three Months Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of Educational Services | 50.8% | 53.1% | 52.6% | 54.9% |
| Gain on Sale of Assets | — | (0.2%) | (4.3%) | (0.1%) |
| Student Services & Admin. Exp | 39.2% | 39.0% | 39.1% | 38.8% |
| Interest Expense | 0.7% | 1.2% | 0.8% | 1.3% |
| Total Costs and Expenses | 90.7% | 93.2% | 88.2% | 94.9% |
| Income Before Income Taxes | 9.3% | 6.8% | 11.8% | 5.1% |
| Income Tax Provision | 2.4% | 1.7% | 3.7% | 1.3% |
| Net Income | 6.9% | 5.2% | 8.1% | 3.8% |

**REVENUES**

Total revenue for the second quarter of fiscal year 2007 increased 13.2% to $237.5 million from the prior year quarter. For the first six months of fiscal year 2007, total revenue increased 12.7% to $458.2 million from the same period a year ago. For both the second quarter and first six months of fiscal year 2007, revenue increased at all three of DeVry’s business segments primarily due to continued growth in new student enrollments and tuition price increases as compared to the year ago periods. In addition, revenue increased due to higher sales of Becker Professional Review materials, the expanding sale of electronic text books (“eBooks”) and higher interest income earned on investments.