DEVRY INC
Form 10-Q
May 09, 2006
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly and nine month period ended March 31, 2006

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, Oakbrook Terrace, Illinois	60181
(Address of principal executive offices)	(Zip Code)

(630) 571-7700
(Registrant's telephone number, including area code)

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 X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. (as defined in Rule 12b-2 of the Exchange Act).

X LARGE ACCELERATED FILER

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

NO X

Number of shares of Common Stock, $0.01 par value, outstanding on April 28, 2006: 70,740,311

Total number of pages: 47

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DeVry Inc.

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For the Quarter and Nine Months Ended March 31, 2006

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PART I - Financial Information

Item 1 - Financial Statements

DEVRY INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

	March 31, 2006	June 30, 2005 Restated	March 31, 2005 Restated
ASSETS			
Current Assets			
Cash and Cash Equivalents	$162,355	$161,823	$138,187
Restricted Cash	52,523	13,935	33,175
Accounts Receivable, Net	90,089	39,226	119,012
Inventories	104	164	160
Deferred Income Taxes	19,811	17,142	9,395
Prepaid Expenses and Other	13,154	10,048	9,974
Total Current Assets	338,036	242,338	309,903
Land, Buildings and Equipment			
Land	67,653	68,013	64,583
Buildings	219,899	212,428	205,042
Equipment	241,736	234,201	233,133
Construction In Progress	7,207	15,813	21,475
	536,495	530,455	524,233
Accumulated Depreciation	(262,871)	(243,688)	(237,651)
Land, Buildings and Equipment, Net	273,624	286,767	286,582
Other Assets			
Intangible Assets, Net	65,956	73,699	76,350
Goodwill	291,113	289,308	289,863
Perkins Program Fund, Net	13,290	13,290	12,847
Other Assets	4,180	4,633	4,871
Total Other Assets	374,539	380,930	383,931

TOTAL ASSETS	$986,199	$910,035	$980,416
	=======	=======	=======

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

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DEVRY INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

	March 31, 2006	June 30, 2005	March 31, 2005
		Restated	Restated
LIABILITIES			
Current Liabilities			
Current Maturities of Debt	$ 50,000	$ 50,000	$ -
Accounts Payable	30,016	30,681	22,433
Accrued Salaries, Wages & Benefits	31,679	34,071	32,551
Accrued Expenses	35,521	34,462	30,002
Advance Tuition Payments	8,533	14,685	10,238
Deferred Tuition Revenue	151,413	22,823	149,729
Total Current Liabilities	307,162	186,722	244,953
Other Liabilities			
Revolving Loan	-	50,000	70,000
Senior Notes	95,000	125,000	125,000
Deferred Income Taxes	14,628	15,949	18,384
Accrued Post-employment Agreements	6,382	6,352	5,618
Deferred Rent and Other	12,742	12,629	12,614
Total Other Liabilities	128,752	209,930	231,616
TOTAL LIABILITIES	435,914	396,652	476,569
SHAREHOLDERS' EQUITY			
Common Stock, $0.01 par value, 200,000,000 Shares Authorized, 70,661,000, 70,475,000 and 70,378,000, Shares Issued and Outstanding at March 31, 2006, June 30, 2005 and March 31, 2005, Respectively	708	706	705
Additional Paid-in Capital	119,566	113,571	104,318

Retained Earnings	430,082	398,840	398,614
Accumulated Other Comprehensive Income (Loss)	(71)	266	210
TOTAL SHAREHOLDERS' EQUITY	550,285	513,383	503,847
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$986,199	$910,035	$980,416

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

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

	For The Quarter Ended March 31,		For The Nine Months Ended March 31,	
	2006	2005	2006	2005
		Restated		Restated
REVENUES:				
Tuition	$203,299	$190,713	$582,384	$552,824
Other Educational	15,771	11,068	42,477	31,731
Interest	1,136	149	1,994	293
Total Revenues	220,206	201,930	626,855	584,848
COSTS AND EXPENSES:				
Cost of Educational Services	115,483	111,014	338,209	329,968
Student Services and Administrative Expense	80,999	74,341	238,776	227,235
Interest Expense	2,490	2,309	7,751	6,391
Total Costs and Expenses	198,972	187,664	584,736	563,594
Income Before Income Taxes and Cumulative Effect of Change in Accounting	21,234	14,266	42,119	21,254
Income Tax Provision	5,552	3,385	10,877	5,381
Income Before Cumulative Effect of Change in Accounting	15,682	10,881	31,242	15,873
Cumulative Effect of Change in Accounting, Net of Tax	-	-	-	1,810
NET INCOME	$ 15,682	$ 10,881	$ 31,242	$ 17,683

EARNINGS PER COMMON SHARE

Basic				
Income Before Cumulative Effect of Change in Accounting	$0.22	$0.15	$0.44	$0.23
Cumulative Effect of Change in Accounting	-	-	-	0.02
Net Income	$0.22	$0.15	$0.44	$0.25
Diluted				
Income Before Cumulative Effect of Change in Accounting	$0.22	$0.15	$0.44	$0.23
Cumulative Effect of Change in Accounting	-	-	-	0.02
Net Income	$0.22	$0.15	$0.44	$0.25

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

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DEVRY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	For The Nine Months Ended March 31, 2006	2005 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 31,242	$ 17,683
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Share-Based Compensation Charge	3,286	5,134
Depreciation	28,043	30,369
Amortization	8,104	11,735
Provision for Refunds and Uncollectible Accounts	39,570	31,538
Deferred Income Taxes	(4,025)	1,780
(Gain) Loss on Disposals of Land, Buildings and Equipment	(390)	638
Changes in Assets and Liabilities, net of Effects from Acquisition of Business:		
Restricted Cash	(38,649)	(19,652)
Accounts Receivable	(90,802)	(121,618)
Inventories	66	3,137
Prepaid Expenses and Other	(2,881)	765
Accounts Payable	(460)	(5,403)
Accrued Salaries, Wages, Expenses and Benefits	(313)	5,979
Advance Tuition Payments	(6,126)	(6,761)

Deferred Tuition Revenue	128,713	126,946
NET CASH PROVIDED BY OPERATING ACTIVITIES	95,378	82,270
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(16,283)	(30,561)
Net Proceeds from Sale of Land and Building	1,798	-
Payments for Purchases of Businesses, net of Cash Acquired	(2,530)	(4,861)
NET CASH USED IN INVESTING ACTIVITIES:	(17,015)	(35,422)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Exercise of Stock Options	2,433	261
Excess Tax Benefit from Share-Based Payments	-	190
Proceeds From Revolving Credit Facility	-	10,000
Repayments Under Revolving Credit Facility	(80,000)	(65,000)
NET CASH USED IN FINANCING ACTIVITIES	(77,567)	(54,549)
Effects of Exchange Rate Differences	(264)	(339)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	532	(8,040)
Cash and Cash Equivalents at Beginning of Period	161,823	146,227
Cash and Cash Equivalents at End of Period	$162,355	$138,187
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid During the Period	$ 6,951	$4,920
Income Tax Payments During the Period, Net	14,861	4,760

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

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DEVRY INC.
Notes to Consolidated Financial Statements
For the Quarter and Nine Months Ended March 31, 2006

NOTE 1: INTERIM FINANCIAL STATEMENTS

The interim consolidated financial statements include the accounts of DeVry Inc. (the Company) 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 present fairly the financial condition and results of operations of the Company. The June 30, 2005 data, which 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 the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2005 and in conjunction with the

Company's quarterly reports on Form 10-Q for the quarters ended September 30, 2005 and December 31, 2005, each as filed with the Securities and Exchange Commission.

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

The consolidated financial statements that are presented for the fiscal year ended June 30, 2005 and the three and nine months ended March 31, 2005, have been restated to reflect the adjustments necessary under the provisions of the modified retrospective application method of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payments" ("SFAS 123(R)"). SFAS123(R) was adopted in the first quarter of fiscal 2006 (See Note 3).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments to manage its exposure to movements in interest rates. The use of these financial instruments modifies the exposure of these risks with the intent to reduce the risk to the Company. The Company does not use financial instruments for trading purposes, nor does it use leveraged financial instruments. Credit risk related to the derivative financial instruments is considered minimal and is managed by requiring high credit standards for its counterparties and periodic settlements.

All derivative contracts are reported at fair value, with changes in fair value reported in earnings or deferred, depending on the nature and effectiveness of the offset or hedging relationship. Any ineffectiveness in a hedging relationship is recognized immediately into earnings.

During the first quarter of fiscal 2004, the Company entered into several interest rate cap agreements to protect approximately $100,000,000 of its outstanding borrowings from sharp increases in short-term interest rates upon which its borrowings are based. These agreements expired in the first quarter of fiscal 2006. The Company intends to periodically evaluate the need for

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Derivative Instruments and Hedging Activities, continued

interest rate protection in light of projected changes in interest rates and borrowing levels. These interest rate cap agreements were designated as cash flow hedging instruments and were intended to protect the portion of the Company's debt that is covered by these agreements from short-term interest rates above 3.5%.

These cap agreements were purchased at fair market values totaling $568,000. This cost was capitalized and amortized to earnings and recorded as interest expense over the 24-month term of the agreements. Differences between the changes in fair value of the interest rate caps and the amount being amortized to earnings were reported as a component of Other Comprehensive Income. These amounts were reclassified and recognized into earnings over the 24-month term of the agreements. As of March 31, 2006, these cap agreements had expired so there is no effect on Accumulated Other Comprehensive Income in the Consolidated Balance Sheets. As of March 31, 2005, $8,000 was recorded as Other Comprehensive Income in the Consolidated Balance Sheet. This represents the cumulative difference between the decline in the fair market value of the interest rate caps of $312,000 and the $320,000 expensed as interest. For the nine months ended March 31, 2006, a gain of $12,000 was recorded as Other Comprehensive Income. For the nine months ended March 31, 2005, a loss of $10,000 was recorded as Other Comprehensive Income. Interest expense of $73,000 and $230,000 was charged to earnings for these interest rate caps for the nine months ended March 31, 2006 and 2005, respectively. For the nine months ended March 31, 2006 and 2005, there was no ineffectiveness related to these agreements.

Internal Software Development Costs

The Company capitalizes certain internal software development costs that are amortized using the straight line method over the estimated useful lives of the software, not to exceed five years. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll and payroll related costs for employees who are directly associated with the internal software development project. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. Capitalized software development costs for projects not yet complete, which are included as Equipment in the Land, Buildings and Equipment section of the Consolidated Balance Sheets, were $557,000 as of March 31, 2005. As of March 31, 2006 and June 30, 2005 there were no capitalized costs for projects not yet completed. The gross capitalized software development costs for completed projects, which are also included as Equipment in the Land, Building and Equipment section of the Consolidated Balance Sheets, were $20,605,000 at March 31, 2006, June 30, 2005, and March 31, 2005.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Post-employment Benefits

The Company's employment agreements with its Chairman of the Board of Directors and Chief Executive Officer provide certain post-employment benefits that require accrual over the expected future service period beginning with the second quarter of fiscal 2003. For the nine months ended March 31, 2006 and 2005, the Company recognized expense of approximately $31,000 and $1,939,000, respectively, 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 6.00% rate as of March 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 70,604,000 and 70,374,000 for the third quarters ended March 31, 2006 and 2005, respectively and 70,550,000 and 70,364,000 for the nine months ended March 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 70,913,000 and 70,547,000 for the third quarters ended March 31, 2006 and 2005, respectively and 70,739,000 and 70,567,000 for the nine months ended March 31, 2006 and 2005, respectively. Excluded from the computations of diluted earnings per share were options to purchase 1,719,000 and 2,711,000 shares of common stock for the third quarter and nine months ended March 31, 2006, respectively, and 2,203,000 and 2,201,000 shares of common stock, for the third quarter and nine months ended March 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 these periods and therefore, their effect would be anti-dilutive.

Comprehensive Income

The differences between changes in the fair values of the cash flow hedging instruments described above in "Derivative Instruments and Hedging Activities", and the amount of these instruments being amortized to earnings are reported as a component of Comprehensive Income. The amounts recorded in Other Comprehensive Income are a gain of $12,000 for the nine months ended March 31, 2006 and a loss of $10,000 for the nine months ended March 31, 2005. The Company'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 $2,000 and a loss of $17,000, for the quarters ended March 31, 2006 and 2005, respectively, and losses of $349,000 and $500,000 for nine months ended March 31, 2006 and 2005, respectively.

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Comprehensive Income, continued

The Accumulated Other Comprehensive Income balance at March 31, 2006 is composed entirely of a cumulative translation loss of $71,000. This balance at March 31, 2005, is composed of a $8,000 gain related to the cash flow hedge and a cumulative translation gain of $202,000.

NOTE 3: STOCK-BASED COMPENSATION

The Company 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 the Company's common stock. The 2005 Incentive Plan also permits the award of stock appreciation rights, restricted stock, performance stock and other stock and cash based compensation. The Amended and Restated Stock Incentive Plan, the 1994, 1999, and 2003 Stock Incentive Plans and the 2005 Incentive Plan are administered by a Plan Committee of the board of directors. Plan Committee members are granted automatic, nondiscretionary annual options. The 1991 Stock Incentive Plan is administered by the board of directors. Options under all six plans 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.

The Company accounts for options granted to retirement eligible employees that vest upon an employees' 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 March 31, 2006, 7,551,615 authorized but unissued shares of common stock were reserved for issuance under the Company's stock incentive plans.

Effective July 1,2005, the Company adopted the provisions of SFAS 123(R). SFAS 123(R) 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 Company previously applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25")and related Interpretations and provided the required pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The Company elected to adopt the modified retrospective application method as provided by SFAS 123(R) and accordingly, financial statement amounts for the prior periods presented in this Form 10-Q have been restated to reflect the fair value method of expensing options as prescribed by SFAS 123(R).

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NOTE 3: STOCK-BASED COMPENSATION, continued

The following is a summary of options activity for the nine months ended March 31, 2005:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ($000)
Outstanding at July 1, 2005	3,814,339	$22.37		
Options Granted	86,500	$21.73		
Options Exercised	(182,661)	$12.87		
Options Canceled	(170,744)	$25.04		
Outstanding at March 31, 2006	3,547,434	$22.72	6.42	$4,172
Exercisable at March 31, 2006	2,504,306	$22.75	6.63	$3,282

The total intrinsic value of options exercised for the nine months ended March 31, 2006 and 2005 was $1,690,000 and $690,000, respectively.

Prior to fiscal 2005, the fair value of the Company's stock-based awards was estimated as of the date of grant using the Black-Scholes option pricing model ("Black-Scholes model"). The Black-Scholes model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. This model also requires highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated grant date fair value.

Beginning with all options granted in the first quarter of fiscal 2005, the fair value of the Company's stock-based awards is estimated using a binomial model. This model uses historical cancellation and exercise experience of the Company to determine the option value. It also takes into account the illiquid nature of employee options during the vesting period, something that the Black-Scholes model does not consider. For these reasons, Company management believes that the binomial model provides a fair value that is more representative of actual experience and future expected experience than the value calculated in previous years, using the Black-Scholes model.

The weighted average estimated grant date fair values, as defined by SFAS 123(R), for options granted at market price under the Company's stock option plans during the first nine months of fiscal 2006 and 2005 were $10.13 and $9.92, per share, respectively. The fair values of the Company's stock option awards for the first nine months of fiscal 2006 and 2005, were estimated assuming no expected dividends and the following weighted average assumptions:

	Fiscal Year, 2006	2005
Expected Life (in Years)	4.38	6.69
Expected Volatility	41.30%	41.41%

Risk-free Interest Rate	3.80%	3.83%
Pre-vesting Forfeiture Rate	4.00%	4.00%

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NOTE 3: STOCK-BASED COMPENSATION, continued

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. For fiscal 2006, to date, the expected life of newly granted options is based on projections more heavily weighted to current exercise patterns.

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

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

	(Dollars in thousands)			
	For the Quarter Ended March 31,		For the Nine Months Ended March 31,	
	2006	2005	2006	2005
Cost of Educational Services	$ 335	$ 409	$1,051	$1,642
Student Services and Administrative Expense	712	869	2,235	3,492
Income Tax Benefit	274	212	848	714
Net Stock-based Compensation Expense	$ 773	$1,066	$2,438	$4,420

As of March 31, 2006, $8.46 million of total pre-tax unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of 2.7 years. The total fair value of options vested during the nine months ended March 31, 2006 and 2005 was $3,529,000 and $4,551,000, respectively.

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

The Company has a policy of issuing new shares of common stock to satisfy share option exercises.

As previously discussed, the Company elected to adopt SFAS 123(R) under the modified retrospective application method. The Company believes that the modified retrospective application of this standard achieves the highest level of clarity and comparability among the presented periods. Accordingly, financial statement amounts for the prior periods presented in this Form 10-Q have been restated to reflect the fair value method of expensing prescribed by SFAS 123(R).

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NOTE 3: STOCK-BASED COMPENSATION, continued

The following table details the retroactive application impact of SFAS 123(R) on previously reported results, (dollars in thousands except per share amounts):

	For the Quarter ended March 31, 2005		For the Nine Months ended March 31, 2005	
	Restated	As Previously Reported	Restated	As Previously Reported
CONSOLIDATED STATEMENTS OF INCOME:				
Total Costs and Expenses	$187,664	$186,386	$563,594	$558,460
Income before Income Taxes and Cumulative Effect of Change In Accounting	14,266	15,544	21,254	26,388
Income Tax Provision	3,385	3,597	5,381	6,095
Income before Cumulative Effect Of Change in Accounting	10,881	11,947	15,873	20,293
Net Income	10,881	11,947	17,683	22,103
EARNINGS PER COMMON SHARE:				
Basic				
Income before Cumulative Effect Of Change in Accounting	$0.15	$0.17	$0.23	$0.29
Net Income	$0.15	$0.17	$0.25	$0.31
Diluted				
Income before Cumulative Effect Of Change in Accounting	$0.15	$0.17	$0.23	$0.29
Net Income	$0.15	$0.17	$0.25	$0.31

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NOTE 3: STOCK-BASED COMPENSATION, continued

	For the Nine Months Ended March 31, 2005	
	Restated	As Previously Reported
CASH FLOW RELATED TO NINE MONTHS ENDED MARCH 31, 2005		
Net Income	$ 17,683	$ 22,103
Share Based Compensation Charge	5,134	-
Deferred Income Taxes	1,108	2,684
Net Cash Provided by Operating Activities	82,270	82,460
Excess Tax Benefits from Share Based Payments	190	-
Net Cash Used in Financing Activities	(54,549)	(54,739)

	June 30, 2005	
	Restated	As Previously Reported
CONSOLIDATED BALANCE SHEETS		
Deferred Income Taxes	$ 15,949	$ 21,408
Total Non-current Liabilities	209,930	215,389
Total Liabilities	396,652	402,111
Additional Paid-in Capital	113,571	73,372
Retained Earnings	398,840	433,580
Total Shareholders' Equity	513,383	507,924

NOTE 4: CHANGE IN ACCOUNTING - CHANGED FISCAL YEAR OF SUBSIDIARY

Prior to July 1, 2004, the accounts of Becker Professional Review were consolidated based on an April 30 fiscal year end, which management believed was its natural year-end based on its then business cycle. As a result of a change in the CPA exam schedule, the Company has aligned the Becker fiscal year end to that of DeVry Inc. The results of operations for the two-month period from May 1, 2004 through June 30, 2004, are included as a cumulative effect of change in accounting in the Consolidated Statements of Income for the first quarter of fiscal 2005. The cumulative effect of this change in accounting added $1,810,000, or $0.02 per share to net income for the first quarter ended September 30, 2004 and the nine months ended March 31, 2005. This amount is net of income tax expense of $1,189,000.

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NOTE 4: CHANGE IN ACCOUNTING - CHANGED FISCAL YEAR OF SUBSIDIARY, continued

Net Income and basic and diluted earnings per share for the three and nine months ended March 31, 2005 is set forth below as if the consolidation of the Becker operations had been accounted for in the same manner for all periods presented. These amounts have been restated to reflect the fair value method of expensing stock-based compensation as prescribed by SFAS 123(R).

	Proforma	
	Three Months Ended March 31, 2005	Nine Months Ended March 31, 2005
Net Income	$10,881,000	$15,873,000
Earnings per Share		
Basic	$0.15	$0.23
Diluted	$0.15	$0.23

NOTE 5: BUSINESS COMBINATIONS

Gearty CPE

In July 2005, the Company 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.

Deaconess College of Nursing

On March 24, 2005, Ross University School of Nursing and Health Sciences, a newly formed, wholly owned subsidiary of the Company, acquired the operations of Deaconess College of Nursing (Deaconess) for $5,391,000 in cash. Funding was provided from the Company's existing operating cash balances. The results of Deaconess' operations have been included in the consolidated financial statements of the Company since the date of acquisition.

Located in St. Louis, Missouri, Deaconess had approximately 450 students enrolled at the date of purchase and offers associate and bachelor's degree programs in nursing. In addition, Deaconess offers a bachelor's degree completion program designed for registered nurses who have previously completed an associate degree program. Classes are offered days, evenings and weekends with non-clinical coursework offered both on campus and online. The addition of Deaconess has further diversified the Company's curricula.

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NOTE 5: BUSINESS COMBINATION, continued

Deaconess College of Nursing, continued

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. These amounts were finalized along with the purchase price during the third quarter of fiscal 2006. This resulted in no change to the purchase price; however, Current Assets decreased by $460,000, Current Liabilities Assumed decreased by $655,000, and goodwill was reduced by $195,000.

At March 24, 2005
(In Thousands)

Current Assets	$ 199
Property and Equipment	37
Intangible Assets	1,470
Goodwill	4,716
Total Assets Acquired	6,422
Current Liabilities Assumed	1,031
Net Assets Acquired	$5,391

Of the $1,470,000 of acquired intangible assets, $470,000 was assigned to the value of the Deaconess Title IV financial aid eligibility and $730,000 was assigned to accreditations, both of which have been determined to not be subject to amortization, and $270,000 was assigned to student relationships that have an average useful life of approximately 3 years. The Company determined this allocation based upon a number of factors, including a valuation analysis prepared by an independent professional valuation specialist. The $4,716,000 of goodwill was all assigned to the Medical & Healthcare operating segment.

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:

	As of March 31, 2006	
	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets:		
Student Relationships	$47,770,000	$(35,623,000)
License and Non Compete Agreements	2,650,000	(2,591,000)
Class Materials	2,900,000	(1,050,000)

Trade Names	110,000	(69,000)
Other	620,000	(618,000)
Total	$54,050,000	$(39,951,000)
Unamortized Intangible Assets:		
Trade Names	$20,972,000	
Trademark	1,645,000	
Ross Title IV Eligibility And Accreditations	14,100,000	
Intellectual Property	13,940,000	
Deaconess Title IV Eligibility and Accreditations	1,200,000	
Total	$51,857,000	

	As of March 31, 2005	
	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets:		
Student Relationships	$47,760,000	$(25,068,000)
License and Non Compete Agreements	2,650,000	(2,454,000)
Class Materials	2,900,000	(850,000)
Trade Names	110,000	(41,000)
Other	620,000	(589,000)
Total	$54,040,000	$(29,002,000)
Unamortized Intangible Assets:		
Trade Names	$20,972,000	
Trademark	1,645,000	
Ross Title IV Eligibility And Accreditations	14,100,000	
Deaconess Title IV Eligibility and Accreditations	655,000	
Intellectual Property	13,940,000	
Total	$51,312,000	

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NOTE 6: INTANGIBLE ASSETS, continued

Amortization expense for amortized intangible assets was $2,582,000 and $7,743,000 for the quarter and nine months ended March 31, 2006, respectively, and $3,637,000 and $10,911,000 for the quarter and nine months ended March 31, 2005, respectively. Estimated amortization expense for amortized intangible assets for the next five fiscal years ending June 30, is as follows:

Fiscal Year	
2006	$10,036,000
2007	6,807,000
2008	3,598,000
2009	203,000
2010	200,000

The weighted-average amortization period for amortized intangible assets is three and five years for Deaconess and Ross 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 Student Relationships, are being amortized on a straight-line basis. The amount being amortized for the Ross 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, beginning with May 2003, 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, Accreditation 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 year 2005, there was no impairment loss associated with these indefinite-lived intangible assets as fair value exceeds the carrying amount.

The Company determined that as of the end of fiscal 2005, there was no impairment in the value of the Company'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 March 31, 2006 and June 30, 2005 was unchanged at $22,195,000. The carrying amount of goodwill related to Professional and Training reportable segment was $24,716,000 at March 31, 2006 and $22,716,000 at June 30, 2005. The increase of $2,000,000 is the result of the allocation of the purchase price for

NOTE 6: INTANGIBLE ASSETS, continued

Gearty CPE as described in Note 5 above. The carrying amount of goodwill related to the Medical & Healthcare segment was $244,202,000 at March 31, 2006 and $244,397,000 June 30, 2005. The decrease of $195,000 was the result of purchase price allocation adjustments recorded in the second and third quarters of fiscal 2006.

NOTE 7: SALE OF FACILITY

In November 2005, a Company owned building in the Denver, Colorado area was sold for $1,798,000. As a result of this sale, the Company realized a gain of approximately $450,000. This building was acquired in 1999 with the acquisition of Denver Technical College. Although still used partly as classrooms and offices, this facility was no longer essential to the Company operations in the Denver-area, having been largely replaced by a new and larger DeVry University campus serving the Denver market. This gain is classified as Cost of Educational Services in the Consolidated Statements of Income and related to the DeVry University reportable segment.

In December 2005, the Company announced that it plans to offer for sale its campus located in West Hills, California. DeVry University plans to remain in the San Fernando Valley area and is considering other new facilities in the vicinity to meet current and future student demand. There is no anticipated impairment loss with this building as its market value exceeds its net book value.

NOTE 8: REDUCTION IN WORKFORCE CHARGES

During the second quarter of fiscal 2005, the Company offered a voluntary separation plan to its employees with more than 20 years of service. In the third quarter of fiscal 2005, the Company implemented an involuntary reduction in force that reduced its workforce at its educational facilities and corporate office. In the fourth quarter of fiscal 2005, the Company offered another voluntary separation plan for its DeVry University faculty employees with more than 15 years of service and implemented an involuntary reduction in force of its faculty employees. These voluntary and involuntary separation plans resulted in workforce reductions of approximately 230 employees. In addition to these separation and reduction in force plans, the Company experienced other involuntary separations during fiscal 2005. In relation to all of these voluntary and involuntary reductions in force, the Company recorded pre-tax charges of approximately $8.4 million in fiscal 2005. These charges consist of severance pay and in some cases, extended medical and dental benefits coverage. These charges were classified as Cost of Educational Services and Student Services and Administrative Expense in the Consolidated Statements of Income and are related to the DeVry University and Medical & Healthcare reportable segments.

Cash payments for the voluntary separation plans and all involuntary reductions in force were approximately $250,000 the third quarter of fiscal 2006 and $2,550,000 for the nine months ended March 31, 2006. Of the total amount accrued for these events, approximately $800,000 remained to be paid as of March 31, 2006. Payments will continue into the fourth quarter of fiscal 2006.

NOTE 9: INCOME TAXES

The principal operating subsidiaries of DMI 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 operating companies have agreements with the respective governments that exempt them from local income taxation through the years 2043 and 2023, respectively. Accordingly no current provision for foreign income taxes was recorded in the quarter or nine months ended March 31, 2006 for the Medical or Veterinary Schools.

The Company has not recorded a tax provision for the undistributed earnings of the Medical and Veterinary Schools for the period after the acquisition. It is the Company's intention to indefinitely reinvest post-acquisition undistributed earnings and profits to service debt, improve the facilities and operations of the Schools and pursue future opportunities outside of the United States. As of March 31, 2006 and 2005, cumulative undistributed earnings were approximately $52.0 million and $27.9 million, respectively.

It is the Company's intention for the foreseeable future to use accumulated cash balances at the Medical and Veterinary Schools plus subsequent earnings and cash flow to service outstanding debt, and reinvest remaining balances to improve and expand facilities and operations of the schools and pursue future business opportunities outside the United States. In accordance with this plan, cash held by Ross University will not be available for general Company purposes such as at DeVry University and will not be subject to U.S. taxation.

NOTE 10: LONG-TERM DEBT

All of the Company's borrowings and letters of credit under its long-term debt agreements are through DeVry Inc. and Global Education International, Inc. (GEI). This long-term debt consists of the following at March 31, 2006:

	Outstanding Debt	Effective Interest Rate at March 31, 2006
Revolving Credit Agreement:		
DeVry Inc. as borrower	$ 20,000,000	6.07%
GEI as borrower	-	
Total	$ 20,000,000	6.07%
Senior Notes:		
DeVry Inc. as borrower	$ 75,000,000	5.92%
GEI as borrower	50,000,000	5.92%
Total	$125,000,000	5.92%
Total outstanding debt	$145,000,000	5.94%
Current Maturities of Debt	$ 50,000,000	5.98%

Total Long-term debt	$ 95,000,000	5.92%

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NOTE 11: COMMITMENTS AND CONTINGENCIES

The Company 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 information updates the status of claims and litigation previously disclosed.

In January 2002, 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 the Company's fiscal year 2004, a new complaint was filed in the same court by another plaintiff with the same general allegations and by the same plaintiffs' attorneys. This subsequent action was stayed pending the outcome of the initial matter. The parties have now reached an agreement in principle and a settlement is in the process of being finalized and subject to judicial approval. The Company has accrued $0.75 million representing the estimated amount agreed upon to resolve this claim.

In November 2000, three graduates of one of DeVry University's Chicago-area campuses filed a class-action complaint in the Circuit Court for Cook County, Illinois that alleges DeVry graduates do not have appropriate skills for employment in the computer information systems field. The complaint was subsequently dismissed by the court, but was amended and re-filed to include as a plaintiff, a then-current student in another curriculum from a second Chicago-area campus. In September 2005, the court denied the plaintiff's motion for class action certification in its entirety. However, pending claims remain by each of the named defendants in this action which the court may attempt to resolve by mediation.

A former student of Ross University Veterinary School of Medicine was dismissed from the school and denied re-enrollment. In June 2005, the student claims that the dismissal was based upon her handicap and 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. The Company filed a motion to dismiss the suit. The Plaintiff has agreed to stay discovery until the motion to dismiss is denied. Plaintiff has also filed a motion to add an additional party to the suit.

In April 2006, the general contractor that built the student dormitory building on the DeVry University Fremont, California, campus has placed a lien on the site and filed a counterclaim to the Company's claim for contract breach, alleging that the Company has failed to pay for extra work done in building the dormitory. In addition, some of the sub-contractors have also filed liens on the site, seeking additional payments owed to them by the general contractor.

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NOTE 11: COMMITMENTS AND CONTINGENCIES, continued

The amount claimed by the general contractor for the alleged extra work is approximately $2.8 million. Additional costs of construction, if any, would generally be capitalized as a part of the cost of the building and would not result in any immediate additional expense. No accrual has been made for the resolution of this claim.

The total accrual for the resolution of all pending legal claims at the end of the third quarter was $1.4 million. While the ultimate outcome of these and other contingencies is difficult to estimate at this time, the Company does intend to vigorously defend itself with respect to the pending claims.

At this time, the Company does not believe that the outcome of current claims, regulatory reviews and lawsuits will have a material effect on its cash flows, results of operations or financial position.

NOTE 12: SEGMENT INFORMATION

The Company's principal business is providing post-secondary education. The services of our operations are described in more detail under "Nature of Operations" in Note 1 to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2005. The Company presents three reportable segments: the DeVry University undergraduate and graduate operations (DeVry University), the professional examination review and training operations including Becker Professional Review and Center for Corporate Education (Professional and Training) and the Ross University medical and veterinary school and Deaconess School of Nursing operations (Medical & Healthcare).

These segments are based on the method by which management evaluates performance and allocates resources. Such decisions are based, in part, upon 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 1 - 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, 2005.

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.

Following is a tabulation of business segment information for the quarters and nine months ended March 31, 2006 and 2005. Where applicable, the March 31, 2005, information has been restated to reflect the adoption of SFAS 123(R) under the modified retrospective application method. These amounts have been restated to reflect the fair value method of expensing stock-based compensation as

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NOTE 12: SEGMENT INFORMATION, continued

prescribed by SFAS 123(R). Corporate information is included where it is needed to reconcile segment data to the consolidated financial statements.

	For the Quarter Ended March 31,		For the Nine Months Ended March 31,	
	2006	2005	2006	2005
Revenues:				
DeVry University	$174,504	$167,977	$506,899	$486,668
Professional and Training	15,063	10,785	37,296	31,738
Medical & Healthcare	30,639	23,168	82,660	66,442
Total Consolidated Revenues	$220,206	$201,930	$626,855	$584,848
Operating Income:				
DeVry University	$ 8,492	$8,195	$15,155	$ 6,772
Professional and Training	5,707	3,002	12,612	8,228
Medical & Healthcare	12,360	9,262	30,612	24,333
Reconciling Items:				
Amortization Expense	(2,582)	(3,637)	(7,743)	(10,911)
Interest Expense	(2,490)	(2,309)	(7,751)	(6,391)
Depreciation and Other	(253)	(247)	(766)	(777)
Total Consolidated Income before Income Taxes and Cumulative Effect of Change in Accounting	$21,234	$14,266	$42,119	$21,254
Segment Assets:				
DeVry University	$485,131	$509,541	$485,131	$509,541
Professional and Training	82,025	70,883	82,025	70,883
Medical & Healthcare	390,318	380,695	390,318	380,695

Corporate	28,725	19,297	28,725	19,297
Total Consolidated Assets	$986,199	$980,416	$986,199	$980,416
Additions to Long-lived Assets:				
DeVry University	$3,311	$ 6,644	$10,703	$25,398
Professional and Training	31	89	179	291
Medical & Healthcare	2,095	7,263	7,401	9,733
Total Consolidated Additions to Long-lived Assets	$5,437	$13,996	$18,283	$35,422
Depreciation Expense:				
DeVry University	$8,067	$ 9,094	$24,045	$26,700
Professional and Training	120	133	348	399
Medical & Healthcare	981	958	2,909	2,529
Corporate	247	247	741	741
Total Consolidated Depreciation	$9,415	$10,432	$28,043	$30,369
Intangible Asset Amortization Expense:				
DeVry University	$ -	$ -	$ -	$ -
Professional and Training	67	193	200	580
Medical & Healthcare	2,515	3,444	7,543	10,331
Total Consolidated Amortization	$2,582	$3,637	$7,743	$10,911

NOTE 12: SEGMENT INFORMATION, continued

The Company 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 March 31, 2006 and 2005. Revenues and long-lived assets by geographic area are as follows:

Revenues from Unaffiliated Customers:				
Domestic Operations	$184,450	$175,878	$537,368	$508,885
International Operations:				
Dominica and St. Kitts/Nevis	32,748	23,168	81,176	66,442
Other	3,008	2,884	8,311	9,521
Total International	35,756	26,052	89,487	75,963
Consolidated	$220,206	$201,930	$626,855	$584,848
Long-lived Assets:				
Domestic Operations	$341,495	$352,259	$341,495	$352,259

International Operations:				
Dominica and St. Kitts/Nevis	306,371	317,621	306,371	317,621
Other	297	628	297	628
Total International	306,668	318,249	306,668	318,249
Consolidated	$648,163	$670,508	$648,163	$670,508

Sales are attributable to geographic areas based on location of customer. No one customer accounted for more than 10% of the Company's consolidated revenues.

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Item 2 - Management's Discussion and Analysis of Results of Operations and Financial Condition

Forward-Looking Statements

Certain information contained in this quarterly report on Form 10-Q may constitute forward-looking statements relating to DeVry's future financial results and strategies, business plans or objectives and beliefs about future events. They are often identified by the use of qualifiers in their description such as "expects", "believes", "is likely", "intends", "estimates", "forecast", "assumption" or other similar expressions. Such statements are inherently uncertain and may involve risks and uncertainties that could cause future results to differ materially from the forward-looking statements.

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

Copies of the Company's annual and quarterly reports on Form 10-K, Form 10-Q and other reports filed with the Securities and Exchange Commission may be obtained without charge at the Company's website, www.devryinc.com.

The following discussion of the Company's results of operations and financial condition should be read in conjunction with the consolidated financial statements of the Company and the notes thereto as included in the Company's annual report on Form 10-K for the fiscal year ended June 30, 2005, and in the Company's quarterly report on Form 10-Q for the quarters ended September 30, 2005 and December 31, 2005. The Company's annual report on Form 10-K includes a detailed description of critical accounting policies and estimates and assumptions used in the preparation of the Company's financial statements. These include, but are not limited to, revenue and expense recognition, useful lives of equipment and facilities, valuation of goodwill and indefinite-lived intangible assets, valuation and useful lives of acquired finite-lived intangible assets, pattern of amortization of finite-lived intangible assets over their economic lives, losses on the collection of student receivable balances, costs associated with pending legal matters, health care costs for incurred but not yet paid medical services and stock based compensation expense.

The somewhat seasonal pattern of the Company's enrollments and its educational program starting dates affect the results of operations and the timing of cash flows. Therefore, the Company's 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.

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Results of Operations

The following table presents information with respect to the relative size to revenue of each item in the statement of income for the third quarter and first nine months of both the current and prior year. Percents may not add due to rounding.

Quarter Ended		Nine Months Ended	
March 31			
2006	2005		