DEVRY EDUCATION GROUP INC.
Form 10-Q
May 05, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)** **OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended: March 31, 2016**

OR

¨	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)** **OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from _____ to _____** **Commission file number: 1-13988**

DeVry Education Group Inc.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number; including area code:

(630) 515-7700

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ		Accelerated filer ¨
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

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

April 29, 2016 — 62,751,000 shares of Common Stock, $0.01 par value

DEVRY EDUCATION GROUP INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2016	June 30, 2015	March 31, 2015
	(in thousands, except share and par value amounts)		
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	$ 330,214	$ 353,022	$ 402,115
Marketable Securities and Investments	3,528	3,579	3,577
Restricted Cash	10,995	10,743	9,658
Accounts Receivable, Net	170,035	139,163	149,586
Deferred Income Taxes, Net	43,080	41,458	45,163
Prepaid Expenses and Other	36,754	53,092	57,822
Total Current Assets	594,606	601,057	667,921
Land, Building and Equipment:			
Land	50,001	59,691	63,282
Building	478,253	485,288	470,706
Equipment	512,825	521,361	500,902
Construction in Progress	20,241	26,664	32,292
	1,061,320	1,093,004	1,067,182
Accumulated Depreciation	(548,980)	(547,130)	(522,559)
Land, Building and Equipment, Net	512,340	545,874	544,623
Other Assets:			
Intangible Assets, Net	371,046	323,731	325,000
Goodwill	565,012	552,329	561,406
Perkins Program Fund, Net	13,450	13,450	13,450
Other Assets	59,443	37,752	36,277
Total Other Assets	1,008,951	927,262	936,133
TOTAL ASSETS	$ 2,115,897	$ 2,074,193	$ 2,148,677
LIABILITIES:			
Current Liabilities:			
Accounts Payable	$ 54,222	$ 63,083	$ 58,531
Accrued Salaries, Wages and Benefits	88,472	83,491	90,503
Accrued Expenses	88,754	85,103	74,073
Deferred Revenue	170,106	90,232	176,451
Total Current Liabilities	401,554	321,909	399,558
Other Liabilities:			
Deferred Income Taxes, Net	46,530	56,092	71,153
Deferred Rent and Other	108,349	101,762	103,920

Total Other Liabilities	154,879	157,854	175,073
TOTAL LIABILITIES	556,433	479,763	574,631
COMMITMENTS AND CONTINGENCIES (NOTE 12)			
NONCONTROLLING INTEREST	3,529	9,620	9,100
SHAREHOLDERS' EQUITY:			
Common Stock, $0.01 Par Value, 200,000,000 Shares Authorized; 62,909,000, 63,623,000 and 63,701,000 Shares Outstanding at March 31, 2016, June 30, 2015 and March 31, 2015, respectively	764	760	769
Additional Paid-in Capital	364,006	350,256	343,339
Retained Earnings	1,794,012	1,796,361	1,778,239
Accumulated Other Comprehensive Loss	(91,348)	(77,114)	(78,876)
Treasury Stock, at Cost, 13,521,000, 12,414,000 and 12,208,000 Shares at March 31, 2016, June 30, 2015 and March 31, 2015, respectively	(511,499)	(485,453)	(478,525)
TOTAL SHAREHOLDERS' EQUITY	1,555,935	1,584,810	1,564,946
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY	$ 2,115,897	$ 2,074,193	$ 2,148,677

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

DEVRY EDUCATION GROUP INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
REVENUE:				
Tuition	$425,966	$444,715	$ 1,243,624	$ 1,320,197
Other Educational	48,255	45,115	128,212	116,557
Total Revenue	474,221	489,830	1,371,836	1,436,754
OPERATING COST AND EXPENSE:				
Cost of Educational Services	252,867	253,186	738,965	750,326
Student Services and Administrative Expense	161,483	180,212	484,662	532,878
Restructuring Expense	2,873	6,982	39,870	30,487
Asset Impairment Charge	-	-	99,473	-
Gain on Sale of Assets	(3,849)	-	(3,849)	-
Total Operating Cost and Expense	413,374	440,380	1,359,121	1,313,691
Operating Income	60,847	49,450	12,715	123,063
INTEREST:				
Interest Income	27	1,318	394	2,015
Interest Expense	(1,408)	(2,813)	(5,581)	(3,558)
Net Interest Expense	(1,381)	(1,495)	(5,187)	(1,543)
Income from Continuing Operations Before Income Taxes	59,466	47,955	7,528	121,520
Income Tax Provision	(7,536)	(6,327)	(683)	(16,653)
Income from Continuing Operations	51,930	41,628	6,845	104,867
DISCONTINUED OPERATIONS:				
Income from Operations of Divested Component	-	1,011	-	1,011
Income Tax Benefit	-	4,565	-	4,565
Income from Discontinued Operations	-	5,576	-	5,576
NET INCOME	51,930	47,204	6,845	110,443
Net Income Attributable to Noncontrolling Interest	(5)	(84)	(42)	(470)
NET INCOME ATTRIBUTABLE TO DEVRY EDUCATION GROUP	$51,925	$47,120	$ 6,803	$ 109,973
AMOUNTS ATTRIBUTABLE TO DEVRY EDUCATION GROUP:				
Income from Continuing Operations, Net of Income Taxes	$51,925	$41,544	$ 6,803	$ 104,397
Income from Discontinued Operations, Net of Income Taxes	-	5,576	-	5,576
NET INCOME ATTRIBUTABLE TO DEVRY EDUCATION GROUP	$51,925	$47,120	$ 6,803	$ 109,973

EARNINGS PER COMMON SHARE ATTRIBUTABLE TO DEVRY EDUCATION GROUP SHAREHOLDERS:				
Basic:				
Continuing Operations	$0.81	$0.65	$0.11	$1.62
Discontinued Operations	-	0.08	-	0.08
	$0.81	$0.73	$0.11	$1.70
Diluted:				
Continuing Operations	$0.81	$0.64	$0.11	$1.60
Discontinued Operations	-	0.08	-	0.08
	$0.81	$0.72	$0.11	$1.68
Cash Dividends Declared per Common Share	$-	$-	$0.18	$0.18

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

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DEVRY EDUCATION GROUP INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands)			
NET INCOME	$51,930	$47,204	$ 6,845	$ 110,443
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Currency Translation Gain (Loss)	41,842	(34,779)	(14,144)	(63,470)
Change in Fair Value of Available-For-Sale Securities	17	31	(90)	(11)
COMPREHENSIVE INCOME (LOSS)	93,789	12,456	(7,389)	46,962
COMPREHENSIVE (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(901)	1,304	262	1,946
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO DEVRY EDUCATION GROUP	$92,888	$13,760	$ (7,127)	$ 48,908

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

DEVRY EDUCATION GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended March 31,	
	2016	2015
	(in thousands)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	$ 6,845	$ 110,443
Income from Discontinued Operations	-	(5,576)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Stock-Based Compensation Expense	13,989	13,435
Depreciation	59,349	62,126
Amortization	4,490	3,818
Impairment of Goodwill and Intangible Assets	99,473	-
Provision for Refunds and Uncollectible Accounts	61,710	68,479
Deferred Income Taxes	(13,793)	3,476
Loss on Disposals, Accelerated Depreciation and Adjustments to Land, Building and Equipment	12,810	6,312
Realized Gain on Sale of Assets	(3,849)	-
Changes in Assets and Liabilities, Net of Effects from Acquisition and Divestiture of Components:		
Restricted Cash	(252)	(1,311)
Accounts Receivable	(83,744)	(85,994)
Prepaid Expenses and Other	(1,590)	(20,725)
Accounts Payable	(12,131)	6,278
Accrued Salaries, Wages, Benefits and Expenses	(2,461)	(28,178)
Deferred Revenue	78,843	76,944
Net Cash Provided by Operating Activities-Continuing Operations	219,689	209,527
Net Cash Used in Operating Activities-Discontinued Operations	-	(160)
NET CASH PROVIDED BY OPERATING ACTIVITIES	219,689	209,367
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(51,004)	(64,301)
Payment for Purchase of Businesses, Net of Cash Acquired	(170,577)	(73,117)
Marketable Securities Purchased	(94)	(147)
Cash Received on Sale of Assets	24,788	6,100
Purchase of Noncontrolling Interest of Subsidiary	(3,114)	-
NET CASH USED IN INVESTING ACTIVITIES	(200,001)	(131,465)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Exercise of Stock Options	271	6,014
Proceeds from Stock Issued Under Colleague Stock Purchase Plan	875	866
Repurchase of Common Stock for Treasury	(24,378)	(18,672)

Cash Dividends Paid	(11,563)	(11,639)
Payments of Seller Financed Obligations	(5,890)	(5,978)
Payment of Debt Financing Fees	-	(3,472)
NET CASH USED IN FINANCING ACTIVITIES	(40,685)	(32,881)
Effects of Exchange Rate Differences	(1,811)	(1,094)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(22,808)	43,927
Cash and Cash Equivalents at Beginning of Period	353,022	358,188
Cash and Cash Equivalents at End of Period	$ 330,214	$ 402,115
Non-cash Investing and Financing Activity:		
(Decrease) Increase in Redemption Value of Noncontrolling Interest Put Option	$ (3,019)	$ 2,237

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

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DEVRY EDUCATION GROUP INC.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1: INTERIM FINANCIAL STATEMENTS

The interim Consolidated Financial Statements include accounts of DeVry Education Group Inc. ("DeVry Group") and its wholly-owned and majority-owned subsidiaries. These financial statements are unaudited but, in the opinion of management, contain all adjustments consisting only of normal recurring adjustments necessary to present fairly the financial condition and results of operations of DeVry Group. The June 30, 2015 data presented is derived from audited financial statements.

The interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in DeVry Group's Annual Report on Form 10-K for the fiscal year ended June 30, 2015 and DeVry Group's Quarterly Report on Form 10-Q for the quarters ended September 30, 2015 and December 31, 2015, each as filed with the Securities and Exchange Commission ("SEC").

The results of operations for the three and nine months ended March 31, 2016, are not necessarily indicative of results to be expected for the entire fiscal year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Cash and Cash Equivalents

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

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

Financial Aid and Restricted Cash

A significant portion of revenue is received from students who participate in government financial aid and assistance programs which are subject to political and governmental budgetary considerations. There is no assurance that such funding will be maintained at current levels. Extensive and complex regulations in the U.S., Canada and Brazil govern all of the government financial assistance programs in which students participate. Administration of these programs is periodically reviewed by various regulatory agencies. Any regulatory violation could be the basis for disciplinary action, which could include the suspension, limitation or termination from such financial aid programs.

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

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

Revenue Recognition

Chamberlain College of Nursing (“Chamberlain”), Carrington College (“Carrington”), DeVry Brasil higher education and DeVry University tuition revenue is recognized on a straight-line basis over their respective applicable academic terms. In addition, American University of the Caribbean School of Medicine (“AUC”), Ross University School of Medicine (“RUSM”) and Ross University School of Veterinary Medicine (“RUSVM”) basic science curriculum revenue is recognized on a straight-line basis over the academic term. The clinical portion of the AUC, RUSM and RUSVM education programs are conducted under the supervision of primarily U.S. teaching hospitals and veterinary schools. AUC, RUSM and RUSVM are responsible for the billing and collection of tuition from their students during the period of clinical education. Revenue is recognized on a weekly basis based on actual program attendance during the period of the clinical program. Fees paid to the hospitals and veterinary schools for supervision of AUC, RUSM and RUSVM students are charged to expense on the same basis. Becker Professional Education (“Becker”) and DeVry Brasil’s test preparation live classroom and online tuition revenue is recognized on a straight-line basis over the applicable delivery period.

Sales of textbooks, electronic course materials and other educational products, including training services and the Becker self-study products, are included in Other Educational Revenue in the Consolidated Statements of Income. Textbook, electronic course materials and other educational product revenue is recognized when the sale occurs. Revenue from training services, which are generally short-term in duration, is recognized when the training service is provided. In addition, fees from international licensees of the Becker programs are included in Other Educational Revenue and recognized when confirmation of course delivery is received.

Estimates of DeVry Group’s expected refunds are determined at the outset of each academic term, based upon actual experience in previous terms. Inputs to this analysis include refunds issued, withdrawal rates and historical amounts owed by students for that portion of a term that was completed. Management reassesses collectability throughout the period revenue is recognized by the DeVry Group institutions, on a student-by-student basis. This reassessment is based upon new information and changes in facts and circumstances relevant to a student's ability to pay. Management reassesses collectability when a student withdraws from the institution and has unpaid tuition charges. Such unpaid charges do not meet the threshold of reasonably collectible and are recognized as revenue on a cash basis. This cash basis accounting which was adopted beginning in the third quarter of fiscal year 2015 did not have a material effect on the Consolidated Financial Statements.

The provision for refunds, which is reported as a reduction to Tuition Revenue in the Consolidated Statements of Income, is recognized in the same ratable fashion as revenue to most appropriately match these costs with the tuition revenue in that academic term. Provisions for refunds were $11.5 million and $34.7 million for the three and nine months ended March 31, 2016, respectively, and $10.4 million and $28.5 million for the three and nine months ended March 31, 2015, respectively.

Provisions for refunds are monitored and adjusted as necessary within the academic term and adjusted for actual refunds issued and withdrawn student accounts receivable balances at the completion of an academic term. If a student leaves school prior to completing an academic term, federal, state and/or Canadian provincial regulations and accreditation criteria permit DeVry Group to retain only a set percentage of the total tuition received from such student, which varies with, but generally equals or exceeds, the percentage of the academic term completed by such student. Payment amounts received by DeVry Group in excess of such set percentages of tuition are refunded to the student or the appropriate funding source. All refunds are netted against revenue during the applicable academic term. Reserves related to refunds and uncollectible accounts totaled $65.9 million and $62.9 million at March 31, 2016 and 2015, respectively.

The allowance for uncollectible accounts is determined by analyzing the current aging of accounts receivable and historical loss rates on collections of accounts receivable. In addition, management considers projections of future receivable levels and collection loss rates. We monitor the inputs to this analysis periodically throughout the year. Provisions required to maintain the allowance at appropriate levels are charged to expense in each period as required. Provisions for uncollectible accounts, which are included in the Cost of Educational Services in the Consolidated Statements of Income, were $9.6 million and $27.0 million for the three and nine months ended March 31, 2016, respectively, and $12.5 million and $40.0 million for the three and nine months ended March 31, 2015, respectively.

Internal-Use Software Development Costs

DeVry Group capitalizes certain internal-use software development costs that are amortized using the straight-line method over the estimated lives of the software, not to exceed seven years. Capitalized costs include external direct costs of equipment, materials and services consumed in developing or obtaining internal-use software and payroll-related costs for employees directly associated with the internal-use software development project. Capitalization of such costs ceases at the point at which the project is substantially complete and ready for its intended purpose. Capitalized internal-use software development costs for projects not yet complete are included as Construction in Progress in the Land, Building and Equipment section of the Consolidated Balance Sheets. As of March 31, 2016 and 2015, the net balance of capitalized in-service software development costs was $21.7 million and $32.7 million, respectively.

Impairment of Long-Lived Assets

DeVry Group evaluates the carrying amount of its significant long-lived assets whenever changes in circumstances or events indicate that the value of such assets may not be fully recoverable. Events that may trigger an impairment analysis could include a decision by management to exit a market or a line of business or to consolidate operating locations. In the first nine months of fiscal year 2016 and in fiscal year 2015, management consolidated operations at several DeVry University, Carrington and Chamberlain locations. These decisions resulted in pre-tax accelerated depreciation and write-offs on leasehold improvements and equipment of $12.2 million during the nine months ended March 31, 2016, and $1.1 million and $4.2 million during the three and nine months ended March 31, 2015, respectively. The amount for the three months ended March 31, 2016 was not significant. The accelerated depreciation and write-off charges are included in Restructuring Expense in the Consolidated Statements of Income (see “Note 9: Restructuring Charges”). For a discussion of the impairment of goodwill and intangible assets see “Note 8: Intangible Assets”.

Perkins Program Fund

Carrington and DeVry University are required under U.S. federal aid program regulations to make contributions to the Federal Perkins Student Loan Fund, most recently at a rate equal to 33% of new contributions by the U.S. federal government. No new U.S. federal contributions were received in the first nine months of fiscal year 2016 or in fiscal year 2015. DeVry Group carries its investment in such contributions at original value, net of allowances for expected losses on loan collections, of $2.6 million at each of March 31, 2016 and 2015. The allowance for future loan losses is based upon an analysis of actual loan losses experienced since the inception of the program. As previous borrowers repay their Perkins loans, their payments are used to fund new loans, thus creating a revolving loan fund. The U.S. federal contributions to this revolving loan program do not belong to DeVry Group and are not recorded in its financial statements. Under current law, upon termination of the program by the U.S. federal government or withdrawal from future program participation by Carrington or DeVry University, subsequent student loan repayments would be divided between the U.S. federal government and Carrington or DeVry University to satisfy their respective cumulative contributions to the fund. Authorization of the Federal Perkins Student Loan Program expired on September 30, 2015. On December 17, 2015, Congress extended the authorization of the Perkins Loan Program to September 30, 2017.

Foreign Currency Translation

The financial position and results of operations of the AUC, RUSM and RUSVM Caribbean operations are measured using the U.S. dollar as the functional currency. As such, there is no translation gain or loss associated with these operations. DeVry Brasil's operations, DeVry University's Canadian operations and Becker's international operations are measured using the local currency as the functional currency. Assets and liabilities of these entities are translated to U.S. dollars using exchange rates in effect at the balance sheet dates. Income and expense items are translated at monthly average rates of exchange. The resultant translation adjustments are included in the component of Shareholders' Equity designated as Accumulated Other Comprehensive Loss. Transaction gains or losses during each of the three and nine month periods ended March 31, 2016 and 2015 were not material.

Noncontrolling Interest

DeVry Group currently maintains a 97.9% ownership interest in DeVry Brasil with the remaining 2.1% owned by members of the current DeVry Brasil senior management group. Prior to DeVry Group's July 2015 purchase of additional DeVry Brasil stock, DeVry Group's ownership percentage was 96.3%. Since July 1, 2015, DeVry Group has the right to exercise a call option and purchase any remaining DeVry Brasil stock from DeVry Brasil management. Likewise, DeVry Brasil management has the right to exercise a put option and sell its remaining ownership interest in DeVry Brasil to DeVry Group. Since the put option is out of the control of DeVry Group, authoritative guidance requires the noncontrolling interest, which includes the value of the put option, to be displayed outside of the equity section of the Consolidated Balance Sheets.

The DeVry Brasil management put option is being accreted to its redemption value in accordance with the stock purchase agreement. The adjustment to increase or decrease the put option to its expected redemption value each reporting period is recorded in retained earnings in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The adjustment to increase or decrease the DeVry Brasil noncontrolling interest each reporting period for its proportionate share of DeVry Brasil's profit/loss will continue to flow through the Consolidated Statements of Income based on DeVry Group's noncontrolling interest accounting policy.

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

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2016	2015	2016	2015
Balance at Beginning of Period	$ 2,813	$ 8,139	$ 9,620	$ 6,393
Net Income Attributable to Noncontrolling Interest	5	84	42	470
Payment for Purchase of Noncontrolling Interest of Subsidiary	-	-	(3,114)	-
Increase (Decrease) in Redemption Value of Noncontrolling Interest Put Option	711	877	(3,019)	2,237
Balance at End of Period	$ 3,529	$ 9,100	$ 3,529	$ 9,100

<u>Earnings per Common Share</u>

Basic earnings per share is computed by dividing net income attributable to DeVry Group by the weighted average number of common shares outstanding during the period plus unvested participating restricted stock units ("RSUs"). Diluted earnings per share is computed by dividing net income attributable to DeVry Group by the weighted average number of shares assuming dilution. Diluted shares are computed using the Treasury Stock Method and reflect the additional shares that would be outstanding if dilutive stock-based grants were exercised during the period. Excluded from the computations of diluted shares were stock-based grants to purchase 2,828,000 and 2,765,000 shares of common stock for the three and nine months ended March 31, 2016, respectively, and 617,000 and 825,000 shares of common stock for the three and nine months ended March 31, 2015, respectively. These outstanding stock-based grants were excluded because the exercise prices were greater than the average market price of the common shares or the assumed proceeds upon exercise under the Treasury Stock Method resulted in the repurchase of more shares than would be issued; thus, their effect would be anti-dilutive.

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

	Three Months Ended		Nine Months Ended	
	March 31,		**March 31,**	
	2016	2015	2016	2015
Weighted Average Shares Outstanding	63,107	63,773	63,378	63,801
Unvested Participating RSUs	815	738	781	791
Basic Shares	63,922	64,511	64,159	64,592
Effect of Dilutive Stock Options	431	754	318	810
Diluted Shares	64,353	65,265	64,477	65,402

Treasury Stock

DeVry Group's Board of Directors (the "Board") has authorized stock repurchase programs on nine occasions (see "Note 6: Dividends and Share Repurchase Programs"). The ninth repurchase program was approved on December 15, 2015 and commenced in January 2016. Shares that are repurchased by DeVry Group are recorded as Treasury Stock at cost and result in a reduction of Shareholders' Equity.

From time to time, shares of its common stock are delivered back to DeVry Group under a swap arrangement resulting from employees' exercise of incentive stock options pursuant to the terms of the DeVry Group Stock Incentive Plans (see "Note 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 Group Colleague Stock Purchase Plan in exchange for employee payroll deductions. When treasury shares are reissued, DeVry Group uses an average cost method to reduce the Treasury Stock balance. Gains on the difference between the average cost and the reissuance price are credited to Additional Paid-in Capital. Losses on the difference are charged to Additional Paid-in Capital to the extent that previous net gains from reissuance are included therein, otherwise such losses are charged to Retained Earnings.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenue and expense reported during the period. Actual results could differ from those estimates.

Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is composed of the change in cumulative translation adjustment, primarily at DeVry Brasil, and unrealized gains on available-for-sale marketable securities, net of the effects of income taxes.

The Accumulated Other Comprehensive Loss balance at March 31, 2016, consists of $91.5 million of cumulative translation losses ($89.6 million attributable to DeVry Group and $1.9 million attributable to noncontrolling interests) and $0.2 million of unrealized gains on available-for-sale marketable securities, net of tax of $0.2 million and all attributable to DeVry Group. At March 31, 2015, this balance consisted of $79.1 million of cumulative translation losses ($76.1 million attributable to DeVry Group and $3.0 million attributable to noncontrolling interests) and $0.3 million of unrealized gains on available-for-sale marketable securities, net of tax of $0.1 million and all attributable to DeVry Group.

Advertising Expense

Advertising costs are recognized as expense in the period in which materials are purchased or services are performed. Advertising expense, which is included in Student Services and Administrative Expense in the Consolidated Statements of Income, was $57.3 million and $173.0 million for the three and nine months ended March 31, 2016, respectively, and $67.9 million and $199.7 million for the three and nine months ended March 31, 2015, respectively.

Restructuring Charges

DeVry Group's financial statements include charges related to severance and related benefits for reductions in staff and voluntary separation plans. These charges also include early lease termination or cease-of-use costs and gains and losses on disposals of property and equipment related to campus consolidations (see "Note 9: Restructuring Charges").

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-09: "Compensation – Stock Compensation (Topic 718)". This guidance was issued to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Management is evaluating the impact the guidance will have on DeVry Group's Consolidated Financial Statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02: "Leases (Topic 842)". This guidance was issued to increase transparency and comparability among organizations by recognizing right-to-use assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Management is evaluating the impact the guidance will have on DeVry Group's Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17: "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". This guidance was issued to simplify the accounting for classification of deferred taxes on the balance sheet. The guidance eliminates the current requirement for organizations to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, organizations will now be required to classify all deferred tax assets and liabilities as noncurrent. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Management anticipates early adoption of this standard in the fourth quarter of fiscal year 2016.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16: "Business Combinations (Topic 805): Simplifying Accounting for Measurement-Period Adjustments". This guidance was issued to simplify the accounting for provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and where the provisional amounts have been adjusted during the measurement period. The amendments in this guidance require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2015. This guidance will require DeVry Group to record and disclose measurement-period adjustments for future business combinations as a period adjustment as opposed to a retroactive adjustment to the opening balance sheet of the acquired entity.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03: "Interest–Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs". This guidance was issued to simplify the presentation of debt issuance costs. The amendments in this guidance require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments. The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2015. DeVry Group's debt includes a revolving credit facility (see "Note 11: Debt"). This update did not provide guidance specifically addressing debt issuance costs involving revolving credit facilities. As a result, it was announced that the SEC staff would not object to an entity deferring and presenting such costs as an asset and subsequently amortizing them ratably over the term of the revolving debt arrangement. This is DeVry Group's current accounting policy for debt issuance costs. As a result, this update will have no effect on DeVry Group's Consolidated Financial Statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09: "Revenue from Contracts with Customers (Topic 606)". This guidance was issued to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2017. Management is evaluating the impact the guidance will have on DeVry Group's Consolidated Financial Statements as well as the transition methodology.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08: "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity". This guidance requires that only disposals representing a strategic shift in operations be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. The guidance was effective as of July 1, 2015, and had no effect on DeVry Group's Consolidated Financial Statements as no discontinued operations are presented in the current period.

NOTE 3: STOCK-BASED COMPENSATION

DeVry Group maintains four stock-based incentive plans: the 1999 Stock Incentive Plan, the 2003 Stock Incentive Plan, the Amended and Restated Incentive Plan of 2005 and the Second Amended and Restated Incentive Plan of 2013. Under these plans, directors, key executives and managerial employees are eligible to receive incentive stock or nonqualified options to purchase shares of DeVry Group's common stock. The Second Amended and Restated Incentive Plan of 2013 and the Amended and Restated Incentive Plan of 2005 also permit the granting of stock appreciation rights, RSUs, performance stock and other stock and cash-based compensation. Although options remain outstanding under the 1999, 2003 and 2005 incentive plans, no further stock-based grants will be issued from these plans. The Second Amended and Restated Incentive Plan of 2013 and the Amended and Restated Incentive Plan of 2005 are administered by the Compensation Committee of the Board. Options are granted for terms of up to ten years and can vest immediately or over periods of up to five years. The requisite service period is equal to the vesting period. The option price under the plans is the fair market value of the shares on the date of the grant.

DeVry Group accounts for stock-based compensation granted to retirement eligible employees that fully vests upon an employee's retirement under the non-substantive vesting period approach. Under this approach, the entire compensation cost is recognized at the grant date for stock-based grants issued to retirement eligible employees.

For non-retirement eligible employees, 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, reduced by an estimated forfeiture rate.

At March 31, 2016, 7,866,772 authorized but unissued shares of common stock were reserved for issuance under DeVry Group's stock-based incentive plans.

The following is a summary of options activity for the nine months ended March 31, 2016:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at July 1, 2015	3,148,087	$ 34.86		
Options Granted	416,000	26.23		
Options Exercised	(19,761)	20.29		
Options Forfeited	(16,185)	24.46		
Options Expired	(50,369)	35.91		
Outstanding at March 31, 2016	3,477,772	33.91	5.41	$ -
Exercisable at March 31, 2016	2,461,089	$ 36.15	4.25	$ -

The following is a summary of stock appreciation rights activity for the nine months ended March 31, 2016:

	Stock Appreciation Rights Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at July 1, 2015	118,065	$ 42.74		
Rights Granted	-	-		
Rights Exercised	-	-		
Rights Canceled	-	-		
Outstanding at March 31, 2016 Exercisable	118,065	42.74	3.95	$ -