

Adtalem Global Education Inc.
Form 10-Q
February 07, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended: December 31, 2018

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

Adtalem Global Education Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

36-3150143

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

**500 WEST MONROE STREET
CHICAGO, ILLINOIS**

60661
(Zip Code)

(Address of principal executive offices)

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

January 31, 2019 — 57,780,000 shares of Common Stock, \$0.01 par value

ADTALEM GLOBAL EDUCATION INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2018

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ADTALEM GLOBAL EDUCATION INC.**CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	December 31, 2018	June 30, 2018	December 31, 2017
	(in thousands, except share and par value amounts)		
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 294,801	\$ 430,690	\$ 212,239
Marketable Securities and Investments	7,269	4,255	4,268
Restricted Cash	818	310	33
Accounts Receivable, Net	138,708	146,726	134,274
Prepaid Expenses and Other Current Assets	64,953	58,887	75,499
Current Assets Held for Sale	-	47,132	43,496
Total Current Assets	506,549	688,000	469,809
Land, Building and Equipment:			
Land	43,829	48,177	46,908
Building	364,417	389,129	391,574
Equipment	271,979	302,516	293,665
Construction in Progress	23,136	25,360	26,225
	703,361	765,182	758,372
Accumulated Depreciation	(345,062)	(376,528)	(360,854)
Land, Building and Equipment Held for Sale, Net	-	-	20,821
Land, Building and Equipment, Net	358,299	388,654	418,339
Noncurrent Assets:			
Deferred Income Taxes	19,141	38,780	31,968
Intangible Assets, Net	358,415	362,931	386,800
Goodwill	813,176	813,887	832,943
Other Assets, Net	66,643	39,259	34,671
Other Assets Held for Sale	-	13,450	37,070
Total Noncurrent Assets	1,257,375	1,268,307	1,323,452
TOTAL ASSETS	\$ 2,122,223	\$ 2,344,961	\$ 2,211,600
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 48,525	\$ 47,477	\$ 32,730
Accrued Salaries, Wages and Benefits	57,856	71,289	59,794
Accrued Liabilities	83,756	80,803	77,134
Deferred Revenue	51,173	106,773	69,953
Current Portion of Long-Term Debt	3,000	3,000	-
Current Liabilities Held for Sale	-	56,439	57,208
Total Current Liabilities	244,310	365,781	296,819

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Noncurrent Liabilities:			
Long-Term Debt	289,084	290,073	165,000
Deferred Income Taxes	32,398	29,115	31,745
Other Liabilities	118,133	131,380	101,232
Income Taxes Payable	-	-	88,562
Noncurrent Liabilities Held for Sale	-	216	878
Total Noncurrent Liabilities	439,615	450,784	387,417
TOTAL LIABILITIES	683,925	816,565	684,236
COMMITMENTS AND CONTINGENCIES (NOTE 13)			
NONCONTROLLING INTEREST	8,651	9,110	7,405
SHAREHOLDERS' EQUITY:			
Common Stock, \$0.01 Par Value, 200,000,000 Shares Authorized; 58,212,000, 59,893,000 and 60,295,000 Shares Outstanding at December 31, 2018, June 30, 2018 and December 31, 2017, respectively	801	793	787
Additional Paid-in Capital	479,946	454,653	433,855
Retained Earnings	1,926,134	1,917,373	1,812,746
Accumulated Other Comprehensive Loss	(143,518)	(142,168)	(60,745)
Treasury Stock, at Cost, 21,883,000, 19,390,000 and 18,451,000 Shares at December 31, 2018, June 30, 2018 and December 31, 2017, respectively	(833,716)	(711,365)	(666,684)
TOTAL SHAREHOLDERS' EQUITY	1,429,647	1,519,286	1,519,959
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY	\$ 2,122,223	\$ 2,344,961	\$ 2,211,600

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

ADTALEM GLOBAL EDUCATION INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
REVENUE	\$316,594	\$308,211	\$600,784	\$601,354
OPERATING COST AND EXPENSE:				
Cost of Educational Services	158,232	157,443	306,885	330,619
Student Services and Administrative Expense	99,989	89,423	198,486	178,367
Restructuring Expense	3,645	1,426	43,193	2,563
Insurance Settlement Gain	(15,571)	-	(15,571)	-
Total Operating Cost and Expense	246,295	248,292	532,993	511,549
Operating Income from Continuing Operations	70,299	59,919	67,791	89,805
OTHER INCOME (EXPENSE):				
Interest and Dividend Income	2,173	1,365	4,118	3,483
Interest Expense	(5,556)	(2,481)	(11,758)	(4,397)
Investment Loss	(1,122)	-	(1,122)	-
Net Other Expense	(4,505)	(1,116)	(8,762)	(914)
Income from Continuing Operations Before Income Taxes	65,794	58,803	59,029	88,891
Income Tax Provision	(13,165)	(110,276)	(11,278)	(114,751)
Equity Method Investment Income (Loss)	-	6	-	(38)
Income (Loss) from Continuing Operations	52,629	(51,467)	47,751	(25,898)
DISCONTINUED OPERATIONS (NOTE 2):				
Loss from Discontinued Operations Before Income Taxes	(8,313)	(48,409)	(14,448)	(63,858)
Loss on Disposal of Discontinued Operations Before Income Taxes	(32,714)	-	(32,714)	-
Income Tax Benefit	5,904	19,094	7,332	21,890
Loss from Discontinued Operations	(35,123)	(29,315)	(39,830)	(41,968)
NET INCOME (LOSS)	17,506	(80,782)	7,921	(67,866)
Net Income Attributable to Noncontrolling Interest	(211)	(374)	(156)	(505)
NET INCOME (LOSS) ATTRIBUTABLE TO ADTALEM GLOBAL EDUCATION	\$17,295	\$(81,156)	\$7,765	\$(68,371)
AMOUNTS ATTRIBUTABLE TO ADTALEM GLOBAL EDUCATION:				
Income (Loss) from Continuing Operations	\$52,418	\$(51,841)	\$47,595	\$(26,403)
Loss from Discontinued Operations	(35,123)	(29,315)	(39,830)	(41,968)
NET INCOME (LOSS) ATTRIBUTABLE TO ADTALEM GLOBAL EDUCATION	\$17,295	\$(81,156)	\$7,765	\$(68,371)

EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO ADTALEM GLOBAL EDUCATION SHAREHOLDERS:

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Basic:

Continuing Operations	\$0.89	\$ (0.85)	\$0.80	\$ (0.43)
Discontinued Operations	\$ (0.59)	\$ (0.48)	\$ (0.67)
Total	\$0.29	\$ (1.33	)	\$0.13	\$ (1.10)

Diluted:

Continuing Operations	\$0.87	\$ (0.85	)	\$0.79	\$ (0.43)
Discontinued Operations	\$ (0.59	)	\$ (0.48	)	\$ (0.66)
Total	\$0.29	\$ (1.33	)	\$0.13	\$ (1.10)

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

ADTALEM GLOBAL EDUCATION INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
	(in thousands)			
NET INCOME (LOSS)	\$17,506	\$(80,782)	\$7,921	\$(67,866)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Currency Translation Gain (Loss)	19,660	(25,028)	(955)	(1,699)
Change in Fair Value of Available-For-Sale Securities	(10)	3	(14)	73
COMPREHENSIVE INCOME (LOSS)	37,156	(105,807)	6,952	(69,492)
COMPREHENSIVE (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(753)	147	(86)	(467)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ADTALEM GLOBAL EDUCATION	\$36,403	\$(105,660)	\$6,866	\$(69,959)

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

ADTALEM GLOBAL EDUCATION INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	December 31,	
	2018	2017
	(in thousands)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	7,921	\$(67,866)
Loss from Discontinued Operations	39,830	41,968
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Stock-Based Compensation Expense	7,360	8,780
Depreciation	20,597	21,693
Amortization of Intangible Assets	4,238	4,960
Amortization of Deferred Debt Issuance Costs	784	351
Provision for Bad Debts	6,432	8,117
Deferred Income Taxes	22,924	380
Loss on Disposals, Accelerated Depreciation and Adjustments to Land, Building and Equipment	41,875	29,987
Realized Loss on Investments	108	-
Unrealized Loss on Investments	1,014	-
Insurance Settlement Gain	(15,571)	-
Changes in Assets and Liabilities:		
Accounts Receivable	1,423	6,674
Prepaid Expenses and Other	(41,459)	(32,592)
Accounts Payable	1,691	(4,769)
Accrued Salaries, Wages, Benefits and Liabilities	(12,458)	(27,265)
Deferred Revenue	(55,583)	(33,613)
Income Taxes Payable, Long-Term	-	88,562
Net Cash Provided by Operating Activities-Continuing Operations	31,126	45,367
Net Cash (Used in) Provided by Operating Activities-Discontinued Operations	(8,105)	4,412
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,021	49,779
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(35,355)	(31,473)
Insurance Proceeds Received for Damage to Buildings and Equipment	35,706	-
Sales of Marketable Securities	1,136	-
Purchases of Marketable Securities	(5,290)	(136)
Payment for Purchase of Businesses, Net of Cash Acquired	-	(972)
Loan to DeVry University (see "Note 2: Discontinued Operations")	(10,000)	-
Net Cash Used in Investing Activities-Continuing Operations	(13,803)	(32,581)
Net Cash (Used in) Provided by Investing Activities-Discontinued Operations	(1,833)	7,454
Cash and Restricted Cash Transferred in Divestitures of Discontinued Operations	(48,876)	-
NET CASH USED IN INVESTING ACTIVITIES	(64,512)	(25,127)
CASH FLOWS FROM FINANCING ACTIVITIES:		

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Proceeds from Exercise of Stock Options	16,784	9,582
Employee Taxes Paid on Withholding Shares	(6,401)	(3,806)
Proceeds from Stock Issued Under Colleague Stock Purchase Plan	312	391
Repurchase of Common Stock for Treasury	(115,933)	(93,178)
Payments of Seller Financed Obligations	(846)	(7,941)
Borrowings Under Credit Facility	-	201,000
Repayments Under Credit Facility	(1,500)	(161,000)
NET CASH USED IN FINANCING ACTIVITIES	(107,584)	(54,952)
Effects of Exchange Rate Differences	289	(1,043)
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(148,786)	(31,343)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	444,405	251,096
Cash, Cash Equivalents and Restricted Cash at End of Period	295,619	219,753
Less: Cash, Cash Equivalents and Restricted Cash of Discontinued Operations at End of Period	-	7,481
Cash, Cash Equivalents and Restricted Cash at End of Period	\$295,619	\$212,272
Non-cash Investing and Financing Activity:		
(Decrease) Increase in Redemption Value of Noncontrolling Interest Put Options	\$(615)	\$615

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

ADTALEM GLOBAL EDUCATION INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	(in thousands)					
Three Months Ended						
Balance at September 30, 2018	\$798	\$469,545	\$1,908,465	\$ (163,168)	\$(775,605)	\$1,440,035
Net income			17,295			17,295
Foreign currency translation				19,660		19,660
Unrealized investment losses, net of tax				(10)		(10)
Change in noncontrolling interest put option			374			374
Stock-based compensation		3,819				3,819
Net activity from stock-based compensation awards	3	6,548			(1,472)	5,079
Proceeds from stock issued under Colleague Stock Purchase Plan		34			119	153
Repurchase of common shares for treasury					(56,758)	(56,758)
Balance at December 31, 2018	\$801	\$479,946	\$1,926,134	\$ (143,518)	\$(833,716)	\$1,429,647
Three Months Ended						
Balance at September 30, 2017	\$785	\$422,358	\$1,894,372	\$ (35,720)	\$(623,756)	\$1,658,039
Net loss			(81,156)			(81,156)
Foreign currency translation				(25,028)		(25,028)
Unrealized investment gains, net of tax				3		3
Change in noncontrolling interest put option			(465)			(465)
Stock-based compensation		3,796				3,796
Net activity from stock-based compensation awards	2	7,696			(321)	7,377
Proceeds from stock issued under Colleague Stock Purchase Plan		5	(5)		196	196
Repurchase of common shares for treasury					(42,803)	(42,803)
Balance at December 31, 2017	\$787	\$433,855	\$1,812,746	\$ (60,745)	\$(666,684)	\$1,519,959

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

ADTALEM GLOBAL EDUCATION INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	(in thousands)					
Six Months Ended						
Balance at June 30, 2018	\$793	\$454,653	\$1,917,373	\$ (142,168)	\$(711,365)	\$1,519,286
Cumulative effect adjustment upon the adoption of ASU 2016-01			381	(381)		-
Net income			7,765			7,765
Foreign currency translation				(955)		(955)
Unrealized investment losses, net of tax				(14)		(14)
Change in noncontrolling interest put option			615			615
Stock-based compensation		8,188				8,188
Net activity from stock-based compensation awards	8	17,035			(6,660)	10,383
Proceeds from stock issued under Colleague Stock Purchase Plan		70			242	312
Repurchase of common shares for treasury					(115,933)	(115,933)
Balance at December 31, 2018	\$801	\$479,946	\$1,926,134	\$ (143,518)	\$(833,716)	\$1,429,647
Six Months Ended						
Balance at June 30, 2017	\$781	\$415,912	\$1,881,397	\$ (59,119)	\$(569,932)	\$1,669,039
Cumulative effect adjustment upon the adoption of ASU 2016-09		(596)	360			(236)
Net loss			(68,371)			(68,371)
Foreign currency translation				(1,699)		(1,699)
Unrealized investment gains, net of tax				73		73
Change in noncontrolling interest put option			(615)			(615)
Stock-based compensation		8,780				8,780
Net activity from stock-based compensation awards	6	9,754			(3,985)	5,775
Proceeds from stock issued under Colleague Stock Purchase Plan		5	(25)		411	391
Repurchase of common shares for treasury					(93,178)	(93,178)
Balance at December 31, 2017	\$787	\$433,855	\$1,812,746	\$ (60,745)	\$(666,684)	\$1,519,959

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

ADTALEM GLOBAL EDUCATION INC.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1: INTERIM FINANCIAL STATEMENTS

For purposes of this report, “Adtalem,” “we,” “our,” “us,” or similar references refers to Adtalem Global Education Inc. and its consolidated subsidiaries, unless the context requires otherwise. The interim Consolidated Financial Statements include accounts of Adtalem and its wholly-owned and majority-owned subsidiaries. Adtalem’s wholly-owned subsidiaries include:

- Chamberlain University (“Chamberlain”)
- American University of the Caribbean School of Medicine (“AUC”)
- Ross University School of Medicine (“RUSM”)
- Ross University School of Veterinary Medicine (“RUSVM”)
- Association of Certified Anti-Money Laundering Specialists (“ACAMS”)
- Becker Professional Education (“Becker”)

In addition, Adtalem maintains a 97.9% ownership interest in Adtalem Education of Brazil (“Adtalem Brazil”) and a 69% ownership interest in EduPristine.

On December 4, 2018, Adtalem completed the sale of its previously wholly-owned subsidiary Carrington College (“Carrington”). On December 11, 2018, Adtalem completed the sale of its previously wholly-owned subsidiary DeVry University. Carrington and DeVry University are presented as discontinued operations. See “Note 2: Discontinued Operations” for additional details.

These financial statements are unaudited but, in the opinion of management, contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial condition and results of operations of Adtalem. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. Generally Accepted Accounting Principles (“GAAP”).

The interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in Adtalem's Annual Report on Form 10-K for the fiscal year ended June 30, 2018 and Adtalem's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, each as filed with the Securities and Exchange Commission ("SEC").

The results of operations for the three and six months ended December 31, 2018 are not necessarily indicative of results to be expected for the entire fiscal year.

NOTE 2: DISCONTINUED OPERATIONS

On December 4, 2018, Adtalem completed the sale of Carrington to San Joaquin Valley College, Inc. ("SJVC") for de minimis consideration. Adtalem has retained certain leases associated with the Carrington operations. Adtalem remains the primary lessee on these leases and subleases to Carrington. Adtalem records the proceeds from these subleases as an offset to operating costs. Adtalem also assigned certain leases to Carrington but remains contingently liable under these leases. Adtalem recorded a pre-tax loss of \$11.1 million on the sale of Carrington and transferred \$9.9 million of cash and restricted cash balances in the second quarter of fiscal year 2019, subject to post-closing adjustments to be completed in the third quarter of fiscal year 2019.

On December 11, 2018, Adtalem completed the sale of DeVry University to Cogswell Education, LLC ("Cogswell") for de minimis consideration. The purchase agreement includes an earn-out entitling Adtalem to payments of up to \$20 million over a ten-year period payable based on DeVry University's free cash flow. In connection with the closing of the sale, Adtalem loaned to DeVry University \$10 million under the terms of the promissory note, dated as of December 11, 2018 (the "Note"). The Note bears interest at a rate of 4% per annum, payable annually in arrears and has a maturity date of January 1, 2022. DeVry University may make prepayments on the loan. This loan is presented as Other Assets, Net on the Consolidated Balance Sheet. Adtalem has retained certain leases associated with DeVry University operations. Adtalem remains the primary lessee on these leases and subleases to DeVry University. In addition, Adtalem owns the buildings for certain DeVry University operating and administrative office locations and leases space to DeVry University under one-year operating leases, renewable annually at DeVry University's option. Adtalem records the proceeds from these leases and subleases as an offset to operating costs. Adtalem also assigned certain leases to DeVry University but remains contingently liable under these leases. Adtalem recorded a pre-tax loss of \$21.7 million on the sale of DeVry University and transferred \$39.0 million of cash and restricted cash balances in the second quarter of fiscal year 2019, subject to post-closing adjustments to be completed in the third quarter of fiscal year 2019.

The following is a summary of balance sheet information of assets and liabilities reported as held for sale (in thousands):

	December 31, 2018	June 30, 2018	December 31, 2017
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 1	\$ 902
Restricted Cash	-	13,404	6,579
Accounts Receivable, Net	-	25,294	25,404
Prepaid Expenses and Other Current Assets	-	8,433	10,611
Total Current Assets Held for Sale	-	47,132	43,496
Land, Building and Equipment Held for Sale, Net Noncurrent Assets:			
Intangible Assets	-	-	20,200
Perkins Program Fund, Net	-	13,450	13,450
Other Assets, Net	-	-	3,420
Total Noncurrent Assets Held for Sale	-	13,450	37,070
Total Assets Held for Sale	\$ -	\$ 60,582	\$ 101,387
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ -	\$ 24,312	\$ 19,801
Accrued Salaries, Wages and Benefits	-	13,979	13,846
Accrued Liabilities	-	1,514	8,044
Deferred Revenue	-	16,634	15,517
Total Current Liabilities Held for Sale	-	56,439	57,208
Noncurrent Liabilities:			
Deferred Income Taxes	-	216	878
Total Noncurrent Liabilities Held for Sale	-	216	878
Total Liabilities Held for Sale	\$ -	\$ 56,655	\$ 58,086

The following is a summary of income statement information of operations reported as discontinued operations (in thousands). The results include Carrington's and DeVry University's operations through the date of each respective sale.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
REVENUE	\$ 83,414	\$ 119,674	\$ 195,716	\$ 247,557
OPERATING COST AND EXPENSE:				
Cost of Educational Services	48,075	69,747	109,416	144,688
Student Services and Administrative Expense	43,920	47,537	99,292	109,073

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Restructuring Expense (Gain)	21	3,337	(497)	10,192
Asset Impairment Charge - Intangible and Goodwill	-	23,841	-	23,841
Asset Impairment Charge - Building and Equipment	(289)	23,391	1,953	23,391
Loss on Sale of Assets	-	230	-	230
Total Operating Cost and Expense	91,727	168,083	210,164	311,415
Loss from Discontinued Operations Before Income Taxes	(8,313)	(48,409)	(14,448)	(63,858)
Loss on Disposal of Discontinued Operations Before Income Taxes	(32,714)	-	(32,714)	-
Income Tax Benefit	5,904	19,094	7,332	21,890
Loss from Discontinued Operations	\$(35,123)	\$(29,315)	\$(39,830)	\$(41,968)

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Adtalem and its wholly-owned and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Where our ownership interest is less than 100%, but greater than 50%, the noncontrolling ownership interest is reported on our Consolidated Balance Sheets. The noncontrolling ownership interest earnings portion is classified as “Net Income Attributable to Noncontrolling Interest” in our Consolidated Statements of Income (Loss). Unless indicated, or the context requires otherwise, references to years refer to Adtalem’s fiscal years.

Equity/Cost Method Investment

The equity method of accounting is used for an investment where we have the ability to influence the operating and financial decisions of the investee but do not possess more than a 50% ownership interest. Generally, this occurs when the ownership interest is greater than 20%. The investment is initially recorded at cost and classified as Other Assets, Net on the Consolidated Balance Sheets. The carrying amount of the investment is adjusted in subsequent periods for Adtalem’s share of the earnings or losses of the investee, which is recorded in the Consolidated Statements of Income (Loss) as Equity Method Investment Income (Loss).

The cost method of accounting is used for an investment where we do not have the ability to influence the operating and financial decisions of the investee. Generally, this occurs when the ownership interest is less than 20%. The investment is recorded at cost and classified as Other Assets, Net on the Consolidated Balance Sheets.

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. Adtalem 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. Adtalem 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 cash 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. 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 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 Adtalem'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.

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to our customers (students), in an amount that reflects the consideration we expect to be entitled in exchange for those goods or services.

The following tables disaggregate revenue by source (in thousands):

	Three Months Ended December 31, 2018				
	Medical and Healthcare	Professional Education	Technology and Business	Home Office and Other	Consolidated
Higher Education	\$211,487	\$ -	\$ 59,394	\$ -	\$ 270,881
Test Preparation	-	23,950	3,239	(808)	26,381
Certifications	-	7,284	-	-	7,284
Conferences/Seminars	-	9,378	-	-	9,378
Memberships/Subscriptions	-	1,263	-	-	1,263
Other	1,140	267	-	-	1,407
	\$212,627	\$ 42,142	\$ 62,633	\$ (808)	\$ 316,594

	Six Months Ended December 31, 2018				
	Medical and Healthcare	Professional Education	Technology and Business	Home Office and Other	Consolidated
Higher Education	\$412,660	\$ -	\$ 103,235	\$ -	\$ 515,895
Test Preparation	-	44,452	6,649	(1,615)	49,486
Certifications	-	15,498	-	-	15,498
Conferences/Seminars	-	12,246	-	-	12,246
Memberships/Subscriptions	-	5,199	-	-	5,199
Other	2,067	393	-	-	2,460
	\$414,727	\$ 77,788	\$ 109,884	\$ (1,615)	\$ 600,784

	Three Months Ended December 31, 2017				
	Medical and Healthcare	Professional Education	Technology and Business	Home Office and Other	Consolidated
Higher Education	\$203,297	\$ -	\$ 70,045	\$ -	\$ 273,342
Test Preparation	-	16,451	5,088	(578)	20,961
Certifications	-	6,968	-	-	6,968
Conferences/Seminars	-	3,595	-	-	3,595
Memberships/Subscriptions	-	3,257	-	-	3,257
Other	-	88	-	-	88
	\$203,297	\$ 30,359	\$ 75,133	\$ (578)	\$ 308,211

	Six Months Ended December 31, 2017				
	Medical and Healthcare	Professional Education	Technology and Business	Home Office and Other	Consolidated

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Higher Education	\$394,582	\$ -	\$ 127,275	\$ -	\$ 521,857
Test Preparation	-	36,988	10,297	(1,201)	46,084
Certifications	-	15,828	-	-	15,828
Conferences/Seminars	-	10,963	-	-	10,963
Memberships/Subscriptions	-	6,272	-	-	6,272
Other	-	350	-	-	350
	\$394,582	\$ 70,401	\$ 137,572	\$ (1,201)	\$ 601,354

In addition, see “Note 14: Segment Information” for a disaggregation of revenue by geographical region.

Performance Obligations and Revenue Recognition

Higher Education: Higher education revenue consists of tuition, fees, books and other educational products. The majority of revenue is derived from tuition and fees, which is recognized on a straight-line basis over the term as instruction is delivered. Books and other educational product revenue is recognized when products are shipped or students receive access to electronic materials. Under certain circumstances we report revenue from these transactions on a net basis because our performance obligation is to facilitate a transaction between the student and a vendor.

Test Preparation: Test preparation revenue consists of test preparation course instruction and self-study materials sales. Becker test preparation revenue is recognized when access to the course materials is delivered to the customer. Adtalem Brazil and EduPristine test preparation course instruction revenue is recognized on a straight-line basis over the applicable instruction delivery periods.

Certifications: Certification revenue consists of exam preparation guides, seminars, exam sitting fees and recertification fees. We recognize revenue for each of these items at a point in time when the applicable performance obligation is satisfied.

Conferences/Seminars: Conference revenue consists of revenue from attendees, sponsors and exhibitors. We recognize revenue for all items related to conferences at the time of the conference. Seminar revenue consists of seminars delivered in live, live-online, or on-demand online formats. We recognize revenue for live and live-online seminars on the day of the seminar. On-demand online seminars, in which customers have access to a webcast of a seminar, are recognized on the day the customer places the order.

Memberships/Subscriptions: Membership revenue is recognized on a straight-line basis over the membership period. Subscription revenue is recognized on a straight-line basis over the subscription period.

Other: Other revenue consists of housing and other miscellaneous services. Other revenue is recognized over the period in which the applicable performance obligation is satisfied.

Customer contracts generally have separately stated prices for each performance obligation contained in the contract. Therefore, each performance obligation generally has its own standalone selling price. For higher education students, arrangements for payment are agreed to prior to registration of the student's first academic term. The majority of U.S. students obtain Title IV or other financial aid resulting in institutions receiving a significant amount of the transaction

price at the beginning of the academic term. Students utilizing private funding or funding through Adtalem's institutional loan program (see "Note 6: Financing Receivables" for further discussion) generally pay during or after the academic term is complete. For non-higher education customers, payment is typically due and collected at the time a customer places an order.

Transaction Price

Revenue, or transaction price, is measured as the amount of consideration expected to be received in exchange for transferring goods or services.

For higher education, students may receive discounts, scholarships or refunds, which gives rise to variable consideration. The amounts of discounts or scholarships are applied to individual student accounts when such amounts are awarded. Therefore, the transaction price is reduced directly by these discounts or scholarships from the amount of the standard tuition rate charged. Upon withdrawal, a student may be eligible to receive a refund, or partial refund, the amount of which is dependent on the timing of the withdrawal during the academic term. If a student withdraws prior to completing an academic term, federal and state regulations and accreditation criteria permit Adtalem 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 Adtalem in excess of such set percentages of tuition are refunded to the student or the appropriate funding source. For contracts with similar characteristics and historical data on refunds, the expected value method is applied in determining the variable consideration related to refunds. Estimates of Adtalem's expected refunds are determined at the outset of each academic term, based upon actual refunds in previous academic terms. Reserves related to refunds are presented as refund liabilities within Accrued Liabilities on the Consolidated Balance Sheets. All refunds are netted against revenue during the applicable academic term.

Management reassesses collectability throughout the period revenue is recognized by the Adtalem 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 also 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.

For test preparation and other Professional Education products, the transaction price is equal to the amount charged to the customer, which is the standard rate, less any discounts and an estimate for returns or refunds.

We believe it is not probable that a significant reversal in the amount of cumulative revenue recognized will occur when the uncertainty associated with the variable consideration is subsequently resolved. Therefore, the estimate of variable consideration is not constrained.

Contract Balances

For higher education institutions, students are billed at the beginning of each academic term and payment is due at that time. Adtalem's performance obligation is to provide educational services in the form of instruction during the academic term. As instruction is provided, deferred revenue is reduced. A significant portion of student payments are from Title IV financial aid and other programs and are generally received during the first month of the respective academic term. For students utilizing Adtalem's institutional loan program (see "Note 6: Financing Receivables"), payments are generally received after the academic term, and the corresponding performance obligation, is complete. When payments are received, accounts receivable is reduced.

For our Professional Education businesses, customers are billed and payment is due at the time of order placement. In most cases, performance obligations are delivered subsequent to payments received. Delivering our performance obligations reduces deferred revenue, and accounts receivable is reduced upon payments received. Becker offers an 18-month term loan program as a financing option for the Becker CPA Exam Review Course (see "Note 6: Financing Receivables"). In this case, payment is received after satisfying the performance obligation.

Revenue of \$95.1 million was recognized during the first six months of fiscal year 2019 that was included in the deferred revenue balance at the beginning of fiscal year 2019. Revenue recognized from performance obligations that were satisfied, or partially satisfied, in prior periods was not material.

The difference between the opening and closing balances of deferred revenue includes decreases from revenue recognized during the period and increases from charges and payments received related to the start of academic terms beginning during the period.

Allowance for bad debts as of December 31, 2018, June 30, 2018 and December 31, 2017 was \$19.5 million, \$27.6 million and \$26.8 million, respectively.

Practical Expedients

As our performance obligations have an original expected duration of one year or less, we have applied the practical expedient (as provided in ASC 606-10-50-14) to not disclose the information in ASC 606-10-50-13, which requires disclosure of the amount of the transaction price allocated to our performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period and when the entity expects to recognize this amount as revenue. All consideration from contracts with customers is included in the transaction price.

Internal-Use Software Development Costs

Adtalem 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 December 31, 2018, June 30, 2018 and December 31, 2017, the net balance of capitalized internal-use software development costs was \$11.9 million, \$13.5 million and \$8.6 million, respectively.

Impairment of Long-Lived Assets

Adtalem 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. During the six months ended December 31, 2018, we recorded impairment charges of \$2.0 million to write-down building, building improvements, furniture and equipment to zero based on the fair market value of the DeVry University and Carrington operations, which are classified within discontinued operations. During the first quarter of fiscal year 2018, the campuses of AUC and RUSM were damaged from Hurricanes Irma and Maria, respectively. Hurricane-related impairment charges of \$19.0 million and \$29.9 million were recorded in the three and six months ended December 31, 2017, respectively, for building, building improvements, furniture and equipment, along with receivables for insurance reimbursements of these amounts, less deductibles, of \$20.8 million as of December 31, 2017. The impairment charges are included in Cost of Educational Services in the Consolidated Statements of Income (Loss). In the first quarter of fiscal year 2019, Adtalem announced its decision to relocate RUSM's campus operations to Barbados and not return to RUSM's Dominica campus. Adtalem recorded impairment charges of \$2.3 million and \$40.1 million in the three and six months ended December 31, 2018, respectively, to fully impair the land, buildings and equipment in Dominica as management has determined the market value less the costs to sell the facilities or move the equipment is zero (see "Note 10: Restructuring Charges"). The impairment charges are included in Restructuring Expense in the Consolidated Statements of Income (Loss). For a discussion of the impairment review of goodwill and intangible assets see "Note 9: Intangible Assets."

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. Adtalem Brazil's and EduPristine's operations and Becker's and ACAMS'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 exchange rates. The resulting 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-month and six-month periods ended December 31, 2018 and 2017 were not material.

Noncontrolling Interest

Adtalem currently maintains a 97.9% ownership interest in Adtalem Brazil with the remaining 2.1% owned by members of the current Adtalem Brazil senior management group. In addition, Adtalem currently maintains a 69% ownership interest in EduPristine with the remaining 31% owned by Kaizen Management Advisors ("Kaizen"), an

India-based private equity firm. The adjustment to increase or decrease the Adtalem Brazil and EduPristine noncontrolling interests each reporting period for their respective proportionate shares of Adtalem Brazil's and EduPristine's profit (loss) flows through the Consolidated Statements of Income (Loss) based on Adtalem's noncontrolling interest accounting policy.

Since July 1, 2015, Adtalem has had the right to exercise a call option and purchase any remaining Adtalem Brazil stock from Adtalem Brazil management. Likewise, Adtalem Brazil management has had the right to exercise a put option and sell its remaining ownership interest in Adtalem Brazil to Adtalem.

Beginning on March 26, 2020, Adtalem will have the right to exercise a call option and purchase any remaining EduPristine stock from Kaizen. Likewise, Kaizen will have the right to exercise a put option and sell up to 33% of its remaining ownership interest in EduPristine to Adtalem. Beginning on March 26, 2022, Kaizen will have the right to exercise a put option and sell its remaining ownership interest in EduPristine to Adtalem.

Since the put options are out of the control of Adtalem, authoritative guidance requires the noncontrolling interests, which includes the value of the put options, to be displayed outside of the equity section of the Consolidated Balance Sheets.

The Adtalem Brazil management and Kaizen put options are being accreted to their respective redemption values in accordance with the terms of the related stock purchase agreements. The adjustments to increase or decrease the put options to their expected redemption values each reporting period are recorded in retained earnings in accordance with GAAP.

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Balance at Beginning of Period	\$ 8,814	\$ 6,566	\$ 9,110	\$ 6,285
Net Income Attributable to Noncontrolling Interest	211	374	156	505
Increase in Redemption Value of Noncontrolling Interest Put Options	(374)	465	(615)	615
Balance at End of Period	\$ 8,651	\$ 7,405	\$ 8,651	\$ 7,405

Earnings per Common Share

Basic earnings per share is computed by dividing net income or loss attributable to Adtalem 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 or loss attributable to Adtalem by the weighted average number of shares assuming dilution. As required by GAAP, because the three and six months ended December 31, 2017 resulted in a loss from continuing operations, diluted earnings per share was computed by dividing the net loss attributable to Adtalem by the weighted average number of basic shares. 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 earnings per share were outstanding stock-based grants representing 227,000 and 282,000 shares of common stock for the three and six months ended December 31, 2018, respectively, and 1,377,000 and 1,866,000 shares of common stock for the three and six months ended December 31, 2017, 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		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Weighted Average Shares Outstanding	58,640	60,529	59,181	61,271
Unvested Participating RSUs	545	705	575	738
Basic Shares	59,185	61,234	59,756	62,009
Effect of Dilutive Stock Options	815	789	842	696

Diluted Shares	60,000	62,023	60,598	62,705
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Treasury Stock

Adtalem’s Board of Directors (the “Board”) has authorized share repurchase programs on eleven occasions (see “Note 7: Share Repurchase Programs”). The tenth share repurchase program was approved on February 16, 2017 and commenced in February 2017. The eleventh share repurchase program was approved on November 7, 2018 and will commence when the repurchases from the tenth share repurchase program are complete. Shares that are repurchased by Adtalem are recorded as Treasury Stock at cost and result in a reduction of Shareholders’ Equity.

From time to time, shares of our common stock are delivered back to Adtalem under a swap arrangement resulting from employees’ exercise of incentive stock options pursuant to the terms of the Adtalem Stock Incentive Plans (see “Note 4: Stock-Based Compensation”). In addition, shares of our common stock are delivered back to Adtalem for payment of withholding taxes from employees for vesting RSUs. 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 Adtalem Colleague Stock Purchase Plan in exchange for employee payroll deductions. When treasury shares are reissued, Adtalem 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 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 Adtalem Brazil, and unrealized gains on available-for-sale marketable securities, net of the effects of income taxes.

The Accumulated Other Comprehensive Loss balance as of December 31, 2018, consists of \$143.5 million of cumulative translation losses (\$140.3 million attributable to Adtalem and \$3.2 million attributable to noncontrolling interest) and unrealized gains on available-for-sale debt securities were immaterial. As of June 30, 2018, this balance consisted of \$142.6 million of cumulative translation losses (\$139.6 million attributable to Adtalem and \$3.0 million attributable to noncontrolling interest) and \$0.4 million of unrealized gains on available-for-sale marketable securities, net of tax of \$0.1 million and all attributable to Adtalem. As of December 31, 2017, this balance consisted of \$61.1 million of cumulative translation losses (\$59.8 million attributable to Adtalem and \$1.3 million attributable to noncontrolling interest) and \$0.4 million of unrealized gains on available-for-sale marketable securities, net of tax of \$0.2 million and all attributable to Adtalem.

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 (Loss), was \$21.3 million and \$40.2 million for the three and six months ended December 31, 2018, respectively, and \$17.2 million and \$37.4 million for the three and six months ended December 31, 2017, respectively.

Hurricane Expense

In September 2017, Hurricanes Irma and Maria caused damage and disrupted operations at AUC and RUSM. Adtalem recorded expenses of \$5.6 million and \$12.5 million in the three and six months ended December 31, 2018, respectively, associated with incremental costs of teaching at alternative sites, and \$30.3 million and \$44.0 million in the three and six months ended December 31, 2017, respectively, associated with the evacuation process, temporary housing and transportation of students, faculty and staff, and incremental additional costs of teaching in alternate locations. Insurance proceeds of \$5.6 million and \$12.5 million were recorded in the three and six months ended December 31, 2018, respectively, and insurance receivables of \$30.5 million and \$39.8 million were recorded in the three and six months ended December 31, 2017, respectively, to offset these expenses. Based upon damage assessments of the AUC and RUSM facilities, impairment write-downs of buildings, building improvements, furniture and equipment of \$19.0 million and \$29.9 million were recorded in the three and six months ended December 31, 2017, respectively. Insurance receivables of \$19.0 million and \$20.8 million were recorded to offset these expenses in the three and six months ended December 31, 2017, respectively. No further asset impairments were recorded in fiscal year 2019. In total, no net expense related to the hurricanes was recorded in the three and six months ended December 31, 2018. In total, no net expense was recorded in the three months ended December 31, 2017 and \$13.4 million of net expense was recorded in Cost of Educational Services in the Consolidated Statement of Income (Loss) for the six months ended December 31, 2017. The expense primarily represented the deductibles under insurance policies. During the second quarter of fiscal year 2019, Adtalem received the final insurance proceeds related to Hurricanes Irma and Maria and recorded a pre-tax gain of \$15.6 million in the three and six months ended December 31, 2018.

Restructuring Charges

Adtalem's financial statements include charges related to severance and related benefits for workforce reductions in staff. These charges also include early lease termination or cease-of-use costs, accelerated depreciation and losses on disposals of property and equipment related to campus and administrative office consolidations (see "Note 10: Restructuring Charges"). When estimating the costs of exiting lease space, estimates are made which could differ materially from actual results and result in additional restructuring charges or reversals in future periods.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13: “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This guidance was issued to provide financial statement users with more decision-useful information about the expected losses on financial instruments by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses by requiring a broader range of reasonable and supportable information to inform credit loss estimates. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Management is evaluating the impact the guidance will have on Adtalem’s Consolidated Financial Statements.

In February 2016, FASB issued ASU 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 fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adtalem will implement this guidance effective July 1, 2019. Management is evaluating the impact the guidance will have on Adtalem’s Consolidated Financial Statements and believes the adoption will impact the Consolidated Balance Sheet with significant increases in assets and liabilities.

In January 2016, FASB issued ASU No. 2016-01: “Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” This guidance was issued to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The guidance eliminates the classification of equity securities into different categories (that is, trading or available-for-sale) and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. In the first quarter of fiscal year 2019, we retrospectively adopted this guidance. The adoption resulted in a cumulative adjustment to decrease retained earnings and increase additional paid-in capital, each by \$0.4 million. This guidance requires Adtalem to record the changes in the fair value of its available-for-sale equity investments through net income, which is included within the Consolidated Statements of Income (Loss) beginning with the first quarter of fiscal year 2019.

In May 2014, FASB issued ASU 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 GAAP and International Financial Reporting Standards (“IFRS”). The guidance is effective for the fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We adopted this guidance effective July 1, 2018 using the full retrospective approach. The adoption of this standard did not have any impact on Adtalem’s Consolidated Financial Statements, and therefore, no adjustments were made to the prior year comparative financial statements. See subsection “Revenue Recognition” in “Note 3: Summary of Significant Accounting Policies” for the disclosures related to this new accounting standard.

Reclassifications

Beginning in the second quarter of fiscal year 2018, DeVry University operations were classified as discontinued operations. In addition, beginning in the fourth quarter of fiscal year 2018, Carrington operations were classified as discontinued operations. See “Note 2: Discontinued Operations” for further information. Prior period amounts have been revised to conform to the current classification. Certain expenses in prior periods previously allocated to DeVry University and Carrington within the U.S. Traditional Postsecondary segment have been reclassified to the Home Office and Other segment based on discontinued operation reporting guidance regarding allocation of corporate overhead. See “Note 14: Segment Information” for additional information.

In addition, we have reclassified certain amounts in the operating section of the Consolidated Statement of Cash Flows to conform to current period classification.

NOTE 4: STOCK-BASED COMPENSATION

Adtalem maintains two stock-based incentive plans: the Amended and Restated Incentive Plan of 2005 and the Fourth 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 Adtalem's common stock. The Fourth 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-based RSUs and other stock and cash-based compensation. Although options remain outstanding under the 2005 incentive plan, no further stock-based grants will be issued under this plan. The Fourth 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.

Stock-based compensation expense is measured at the grant date based on the fair value of the award. Adtalem 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 stock-based compensation expense is recognized at the grant date for stock-based grants issued to retirement eligible employees. For non-retirement eligible employees, stock-based compensation expense is recognized as expense over the employee requisite service period. We account for forfeitures of outstanding but unvested grants in the period they occur.

As of December 31, 2018, 7,389,850 authorized but unissued shares of common stock were reserved for issuance under Adtalem's stock-based incentive plans.

The following is a summary of options activity for the six months ended December 31, 2018:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at July 1, 2018	1,806,133	\$ 32.88		
Granted	129,025	49.01		
Exercised	(404,510)	42.77		
Forfeited	-	-		
Expired	(18,367)	51.61		

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Outstanding at December 31, 2018	1,512,281	31.39	7.13	\$ 24,632
Exercisable at December 31, 2018	594,769	\$ 31.64	5.32	\$ 9,646

The total intrinsic value of options exercised for the six months ended December 31, 2018 and 2017 was \$4.2 million and \$2.3 million, respectively.

The fair value of Adtalem's stock option awards was estimated using a binomial model. This model uses historical cancellation and exercise experience of Adtalem to determine the option value. It also takes into account the illiquid nature of employee options during the vesting period.

The weighted average estimated grant date fair value of options granted at market price under Adtalem's stock-based incentive plans during the first six months of fiscal years 2019 and 2018 was \$20.96 and \$14.63, per share, respectively. The fair value of Adtalem's stock option grants was estimated assuming the following weighted average assumptions:

	Fiscal Year	
	2019	2018
Expected Life (in Years)	6.50	6.68
Expected Volatility	39.60%	41.45%
Risk-free Interest Rate	2.73 %	1.95 %
Dividend Yield	0.00 %	0.00 %

The expected life of the options granted is based on the weighted average exercise life with age and salary adjustment factors from historical exercise behavior. Adtalem's expected volatility is computed by combining and weighting the implied market volatility, the most recent volatility over the expected life of the option grant and Adtalem's long-term historical volatility.

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

During the first six months of fiscal year 2019, Adtalem granted 216,430 RSUs to selected employees and directors. Of these, 65,160 are performance-based RSUs and 151,270 are non-performance-based RSUs. Performance-based RSUs are earned by the recipients over a three-year period based on achievement of certain mission-based goals, academic goals, achievement of a minimum level of Adtalem’s earnings before interest, taxes, depreciation and amortization (“EBITDA”), achievement of a minimum level of Adtalem’s return on invested capital (“ROIC”) or achievement of a minimum level of Adtalem’s free cash flow per share. Non-performance-based RSUs are subject to restrictions which lapse ratably over one, three or four-year periods on the grant anniversary date based on the recipient’s continued service on the Board, employment with Adtalem or upon retirement. During the restriction period, the recipient of the non-performance based RSUs has the right to receive dividend equivalents, if any. This right does not pertain to the performance-based RSUs. The following is a summary of RSU activity for the six months ended December 31, 2018:

	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding at July 1, 2018	1,226,958	\$ 28.31
Granted	216,430	49.57
Vested	(443,859)	27.81
Forfeited	(70,385)	32.00
Outstanding at December 31, 2018	929,144	\$ 33.45

The weighted average estimated grant date fair value of RSUs granted at market price under Adtalem’s stock-based incentive plans during the first six months of fiscal years 2019 and 2018 was \$49.57 and \$34.15, per share, respectively.

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

	Three Months Ended		Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2018	2017	2018	2017
Cost of Educational Services	\$ 302	\$ 1,214	\$ 696	\$ 2,634

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Student Services and Administrative Expense	2,922	2,581	6,664	5,598
Restructuring Expense	-	-	-	548
	3,224	3,795	7,360	8,780
Income Tax Benefit	(1,231)	(1,667)	(3,238)	(4,101)
Net Stock-Based Compensation Expense	\$ 1,993	\$ 2,128	\$ 4,122	\$ 4,679

As of December 31, 2018, \$24.9 million of total pre-tax unrecognized stock-based compensation expense related to unvested grants is expected to be recognized over a weighted average period of 2.4 years. The total fair value of options and RSUs vested during the six months ended December 31, 2018 and 2017 was approximately \$13.5 million and \$14.2 million, respectively.

There was no capitalized stock-based compensation cost at each of December 31, 2018, June 30, 2018 and December 31, 2017.

Adtalem has an established practice of issuing new shares of common stock to satisfy stock-based grant exercises. However, Adtalem also may issue treasury shares to satisfy stock-based grant exercises under certain of its stock-based incentive plans.

NOTE 5: FAIR VALUE MEASUREMENTS

Adtalem has elected not to measure any assets or liabilities at fair value other than those required to be measured at fair value on a recurring basis. Assets measured at fair value on a nonrecurring basis include goodwill, intangible assets and assets of businesses where the long-term value of the operations have been impaired.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The guidance specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The guidance establishes fair value measurement classifications under the following hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level 3 – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, Adtalem uses quoted market prices to determine fair value, and such measurements are classified within Level 1. In some cases where market prices are not available, Adtalem makes use of observable market-based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates and yield curves. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

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Assets measured at fair value on a nonrecurring basis include goodwill and indefinite-lived intangibles arising from a business combination. These assets are not amortized and charged to expense over time. Instead, goodwill and indefinite-lived intangibles must be reviewed annually for impairment or more frequently if circumstances arise indicating potential impairment. This impairment review was most recently completed as of May 31, 2018. See “Note 9: Intangible Assets” for further discussion on the impairment review including valuation techniques and assumptions.

The following table presents Adtalem's assets and liabilities at December 31, 2018, that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$294,801	\$-	\$ -
Marketable Securities and Investments	7,269	-	-
Institutional Loans Receivable, Net	-	42,146	-
Loan Receivable from DeVry University	-	10,000	-
Deferred Acquisition Obligations	-	18,485	-
Total Financial Assets at Fair Value	\$302,070	\$70,631	\$ -

The following table presents Adtalem's assets and liabilities at June 30, 2018, that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$430,690	\$-	\$ -
Marketable Securities and Investments	4,255	-	-
Institutional Loans Receivable, Net	-	44,320	-
Deferred Acquisition Obligations	-	18,585	-
Total Financial Assets at Fair Value	\$434,945	\$62,905	\$ -

The following table presents Adtalem's assets and liabilities at December 31, 2017, that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$212,239	\$-	\$ -
Marketable Securities and Investments	4,268	-	-
Institutional Loans Receivable, Net	-	38,311	-
Deferred Acquisition Obligations	-	23,903	-
FIES Receivable	-	16,087	-
Total Financial Assets at Fair Value	\$216,507	\$78,301	\$ -

Cash and Cash Equivalents and Investments in Marketable Securities are valued using a market approach based on quoted market prices of identical instruments.

The fair value of the institutional loans receivable included in Accounts Receivable, Net and Other Assets, Net on the Consolidated Balance Sheets as of December 31, 2018, June 30, 2018 and December 31, 2017 is estimated by discounting the future cash flows using current rates for similar arrangements. See "Note 6: Financing Receivables" for further discussion on these institutional loans receivable.

In connection with the completion of the sale of DeVry University, Adtalem loaned \$10.0 million to DeVry University under the terms of the promissory note, dated December 11, 2018 (the "Note"). The Note bears interest at a rate of 4% per annum, payable annually in arrears, and has a maturity date of January 1, 2022. The fair value of the DeVry University loan receivable included in Other Assets, Net on the Consolidated Balance Sheet as of December 31, 2018 is estimated by discounting the future cash flows using current rates for similar arrangements.

The fair value of the deferred acquisition obligations is estimated by discounting the future cash flows using current rates for similar arrangements. \$4.3 million, \$4.3 million and \$4.0 million were classified as Accrued Liabilities on the Consolidated Balance Sheets at December 31, 2018, June 30, 2018 and December 31, 2017, respectively, and \$14.2 million, \$14.3 million and \$19.9 million were classified as Other Liabilities on the Consolidated Balance Sheets at December 31, 2018, June 30, 2018 and December 31, 2017, respectively.

The fair value of Adtalem Brazil's receivable under Brazil's "Fundo de Financiamento Estudantil" or "Students Financing Fund" ("FIES") public loan program included in Accounts Receivable, Net on the Consolidated Balance Sheet as of December 31, 2017 is estimated by discounting the future cash flows using published market data on Brazilian interest and inflation rates.

As of December 31, 2018, June 30, 2018 and December 31, 2017, there were no assets or liabilities measured at fair value using Level 3 inputs.

NOTE 6: FINANCING RECEIVABLES

Adtalem's institutional loan programs are available to students at Chamberlain, AUC, RUSM and RUSVM. These loan programs are designed to assist students who are unable to completely cover educational costs consisting of tuition, books and fees and are available only after all other student financial assistance has been applied toward those purposes. In addition, AUC, RUSM and RUSVM loans may be used for students' living expenses. Repayment plans for institutional loan program balances are developed to address the financial circumstances of the particular student. Interest charges at rates from 3.76% to 12.0% per annum accrue each month on the unpaid balance. Students are required to begin repaying their loans while they are still in school with a minimum payment level designed to demonstrate their capability to repay, reduce the possibility of over borrowing and to minimize interest being accrued on the loan balance. Payments may increase upon completing or departing the program. After a student leaves school, the student typically will have a monthly installment repayment plan. In addition, the Becker CPA Exam Review Course can be financed through Becker with an 18-month term loan program.

Reserves for uncollectible loans are determined by analyzing the current aging of institutional loans and historical loss rates of loans at each institution. Management performs this analysis periodically throughout the year. Loans are considered nonperforming and are fully reserved if they are more than 90 days past due. Since all of Adtalem's financing receivables are generated through the extension of credit to fund educational costs, all such receivables are considered part of the same loan portfolio.

The following table details the institutional loan balances along with the related allowances for credit losses (in thousands).

	December 31, 2018	June 30, 2018	December 31, 2017
Gross Institutional Loans	\$46,633	\$54,323	\$49,523
Allowance for Credit Losses:			
Balance at July 1	\$(10,003)	\$(9,736)	\$(9,736)
Charge-offs and Adjustments	8,570	330	146
Recoveries	(53)	(61)	(40)
Additional Provision	(3,001)	(536)	(1,582)
Balance at End of Period	(4,487)	(10,003)	(11,212)
Net Institutional Loans	\$42,146	\$44,320	\$38,311

Of the net balances above, \$12.8 million, \$21.2 million and \$18.2 million was classified as Accounts Receivable, Net on the Consolidated Balance Sheets at December 31, 2018, June 30, 2018 and December 31, 2017, respectively, and \$29.3 million, \$23.1 million and \$20.1 million, representing amounts due beyond one year, was classified as Other Assets, Net on the Consolidated Balance Sheets at December 31, 2018, June 30, 2018 and December 31, 2017, respectively.

The following tables detail the credit risk profiles of the institutional loan balances based on payment activity and an aging of past due institutional loans (in thousands):

	December 31, 2018	June 30, 2018	December 31, 2017
Institutional Loans:			
Performing	\$ 42,297	\$44,492	\$ 38,496
Nonperforming	4,336	9,831	11,027
Total Institutional Loans	\$ 46,633	\$54,323	\$ 49,523

	1-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Institutional Loans
Institutional Loans:							
December 31, 2018	\$ 5,535	\$ 963	\$ 308	\$ 4,336	\$ 11,142	\$35,491	\$ 46,633
June 30, 2018	\$ 8,473	\$ 900	\$ 3,099	\$ 9,831	\$ 22,303	\$32,020	\$ 54,323
December 31, 2017	\$ 7,254	\$ 463	\$ 715	\$ 11,027	\$ 19,459	\$30,064	\$ 49,523

NOTE 7: SHARE REPURCHASE PROGRAMS

Adtalem has repurchased shares under the following programs as of December 31, 2018:

Date	Shares	Total Cost
Authorized	Repurchased	(in millions)
November 15, 2006	908,399	\$ 35.0
May 13, 2008	1,027,417	50.0
November 11, 2009	972,205	50.0
August 11, 2010	1,103,628	50.0
November 10, 2010	968,105	50.0
May 20, 2011	2,396,143	100.0
November 2, 2011	3,478,299	100.0
August 29, 2012	2,005,317	62.7
December 15, 2015	1,672,250	36.6
February 16, 2017	6,695,592	281.0
Totals	21,227,355	\$ 815.3

On February 16, 2017, the Board authorized Adtalem's tenth share repurchase program, which allows Adtalem to repurchase up to \$300 million of its common stock through December 31, 2020. A total of 2,365,451 shares were repurchased during the six months ended December 31, 2018 under the tenth share repurchase program for an aggregate of \$115.9 million. On November 7, 2018, the Board authorized Adtalem's eleventh share repurchase program, which allows Adtalem to repurchase up to \$300 million of its common stock through December 31, 2021. The new program will commence when the repurchases from the current program are complete. The timing and amount of any repurchase will be determined based on evaluation of market conditions and other factors. These repurchases may be made through the open market, including block purchases, in privately negotiated transactions, or otherwise. The buyback will be funded through available cash balances and/or borrowings and may be suspended or discontinued at any time.

Shares of stock repurchased under the programs are held as treasury shares. These repurchased shares have reduced the weighted average number of shares of common stock outstanding for basic and diluted earnings per share calculations.

NOTE 8: BUSINESS COMBINATIONS

EduPristine

On February 5, 2018, Adtalem completed the acquisition of a majority interest in EduPristine. Under the terms of the agreement, Adtalem agreed to pay approximately \$3.2 million in cash, in exchange for stock of EduPristine, increasing Adtalem's ownership share from 36% to 64%. This ownership percentage was increased to 69% with an additional equity investment of \$1.3 million in March 2018. The payments for these additional investments were made in the third quarter of fiscal year 2018. EduPristine is a professional education provider in India in the areas of finance, accounting, analytics, marketing and healthcare. The acquisition furthers Adtalem's global growth strategy into professional education.

The operations of EduPristine are included in Adtalem's Professional Education segment. Prior to the February 5, 2018 investment, Adtalem accounted for its ownership interest in EduPristine under the equity method of accounting for investments. The results of EduPristine's operations have been fully consolidated in the Consolidated Financial Statements of Adtalem since the February 5, 2018 acquisition date. The fair value of Adtalem's equity investment immediately prior to the majority interest investment was \$4.1 million, which was based on a discounted cash flow analysis. The \$4.1 million noncontrolling interest recorded on the acquisition date was also derived using the same discounted cash flow analysis. In the third quarter of fiscal year 2018, Adtalem recorded a \$1.2 million gain on its previous equity investment.

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The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition of Adtalem's majority interest in EduPristine (in thousands):

	February 5, 2018
Current Assets	\$ 866
Property and Equipment	239
Other Long-term Assets	69
Intangible Assets	1,380
Goodwill	11,527
Total Assets Acquired	14,081
Liabilities Assumed	2,715
Net Assets Acquired	\$ 11,366

Goodwill, which represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, was assigned to the Professional Education reporting unit and reporting segment. Factors that contributed to a purchase price resulting in the recognition of goodwill include EduPristine's strategic fit into Adtalem's expanding presence in professional education and the acquired assembled workforce. None of the goodwill acquired is expected to be deductible for income tax purposes. The \$1.4 million of acquired intangible assets was assigned to Trade Names. None of the acquired intangible assets were determined to be subject to amortization.

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

São Judas Tadeu

On November 1, 2017, Adtalem Brazil completed the acquisition of São Judas Tadeu (“SJT”). Under the terms of the agreement, Adtalem Brazil agreed to pay approximately \$6.0 million in cash, in exchange for 100% of the stock of SJT. Approximately \$1.0 million of payments were made in the second quarter of fiscal year 2018, with additional aggregate payments of approximately \$5.0 million required over the succeeding four years. Located in São Paulo, SJT offers medical doctor specialty test preparation and currently serves approximately 2,700 students. The acquisition of SJT adds a new product offering to Adtalem Brazil’s test preparation business.

The operations of SJT are included in Adtalem’s Technology and Business segment. The results of SJT’s operations have been included in the Consolidated Financial Statements of Adtalem since the date of acquisition.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

	November 1, 2017
Current Assets	\$ 558
Property and Equipment	64
Other Long-term Assets	9
Intangible Assets	381
Goodwill	5,636
Total Assets Acquired	6,648
Liabilities Assumed	684
Net Assets Acquired	\$ 5,964

Goodwill, which represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, was assigned to the Adtalem Brazil reporting unit, which is classified within the Technology and Business segment. Factors that contributed to a purchase price resulting in the recognition of goodwill include SJT’s strategic fit into Adtalem’s expanding presence in test preparation and the acquired assembled workforce. Of the \$0.4 million of acquired intangible assets, \$0.2 million was assigned to Trade Names, which has been determined not to be subject to amortization. The remaining acquired intangible asset was determined to be subject to amortization with a useful life of approximately six months. The value and estimated useful life by asset type is as follows (in thousands):

	November 1, 2017
	Value Estimated
	Assigned Useful Life
Student Relationships	\$ 162 6 months

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

NOTE 9: INTANGIBLE ASSETS

Intangible assets relate mainly to acquired business operations. These assets consist of the acquisition fair value of certain identifiable intangible assets acquired and goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

Intangible assets consist of the following (in thousands):

	December 31, 2018		Weighted Average Amortization Period
	Gross Carrying Amount	Accumulated Amortization	
Amortizable Intangible Assets:			
Student Relationships	\$8,039	\$ (7,352)	) 5 Years
Customer Relationships	42,900	(11,913)	) 10 Years
Curriculum/Software	6,829	(5,279)	) 4 Years
Franchise Contracts	9,044	(1,968)	) 18 Years
Clinical Agreements	335	(123)	) 15 Years
Trade Names	975	(951)	) 10 Years
Proprietary Technology	500	(312)	) 4 Years
Total	\$68,622	\$ (27,898))
Indefinite-Lived Intangible Assets:			
Trade Names	\$106,049		
Ross Title IV Eligibility and Accreditations	14,100		
Intellectual Property	13,940		
Chamberlain Title IV Eligibility and Accreditations	1,200		
AUC Title IV Eligibility and Accreditations	100,000		
Adtalem Brazil Accreditation	82,402		
Total	\$317,691		

	June 30, 2018	
	Gross Carrying Amount	Accumulated Amortization
Amortizable Intangible Assets:		
Student Relationships	\$8,193	\$ (6,972)
Customer Relationships	42,900	(9,598)
Non-compete Agreements	700	(700)
Curriculum/Software	6,833	(4,265)
Franchise Contracts	9,064	(1,720)
Clinical Agreements	336	(112)
Trade Names	976	(904)
Proprietary Technology	500	(250)
Total	\$69,502	\$ (24,521)
Indefinite-Lived Intangible Assets:		
Trade Names	\$106,132	
Ross Title IV Eligibility and Accreditations	14,100	
Intellectual Property	13,940	
Chamberlain Title IV Eligibility and Accreditations	1,200	
AUC Title IV Eligibility and Accreditations	100,000	
Adtalem Brazil Accreditation	82,578	
Total	\$317,950	
	December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization
Amortizable Intangible Assets:		
Student Relationships	\$11,049	\$ (8,999)
Customer Relationships	42,900	(7,261)
Non-compete Agreements	700	(682)
Curriculum/Software	7,143	(3,375)
Franchise Contracts	10,597	(1,717)
Clinical Agreements	392	(118)
Trade Names	1,143	(1,000)
Proprietary Technology	500	(187)
Total	\$74,424	\$ (23,339)
Indefinite-Lived Intangible Assets:		
Trade Names	\$109,462	
Ross Title IV Eligibility and Accreditations	14,100	
Intellectual Property	13,940	
Chamberlain Title IV Eligibility and Accreditations	1,200	
AUC Title IV Eligibility and Accreditations	100,000	
Adtalem Brazil Accreditation	97,013	
Total	\$335,715	

Amortization expense for amortized intangible assets was \$2.1 million and \$4.2 million for the three and six months ended December 31, 2018, respectively, and \$2.5 million and \$5.0 million for the three and six months ended December 31, 2017, respectively. Estimated amortization expense for amortizable intangible assets for the next five fiscal years ending June 30 and in the aggregate, by reporting unit, is as follows (in thousands):

Fiscal Year	Professional	Adtalem	Total
	Education	Brazil	
2019 (excluding the six months ended December 31, 2018)	\$ 3,211	\$ 712	\$3,923
2020	4,671	1,246	5,917
2021	4,440	774	5,214
2022	4,300	525	4,825
2023	4,119	525	4,644
Thereafter	11,268	4,933	16,201

All amortizable intangible assets except student relationships and customer relationships are being amortized on a straight-line basis. The amount being amortized for student relationships is based on the estimated progression of the students through the respective Damásio Educacional (“Damasio”) and Grupo Ibmecc Educacional S.A. (“Grupo Ibmecc”) programs, giving consideration to the revenue and cash flow associated with both existing students and new applicants. The amount being amortized for customer relationships related to ACAMS is based on the estimated retention of the customers, giving consideration to the revenue and cash flow associated with these existing customers.

Indefinite-lived intangible assets related to trade names, Title IV eligibility, accreditations and intellectual property are not amortized, as there are no legal, regulatory, contractual, economic or other factors that limit the useful life of these intangible assets to the reporting entity.

In accordance with GAAP, goodwill and indefinite-lived intangibles arising from a business combination are not amortized and charged to expense over time. Instead, these assets must be reviewed annually for impairment or more frequently if circumstances arise indicating potential impairment. Adtalem’s annual impairment review was most recently completed as of May 31, 2018, at which time, there was no impairment loss associated with recorded goodwill or indefinite-lived intangible assets for any reporting unit.

Adtalem has five reporting units that contained goodwill as of the second quarter of fiscal year 2019. These reporting units constitute components for which discrete financial information is available and regularly reviewed by segment management. If the carrying amount of a reporting unit containing the goodwill exceeds the fair value of that reporting unit, an impairment loss to goodwill is recognized. In analyzing the results of operations and business conditions of all the reporting units, as of December 31, 2018, it was determined that no triggering event had occurred that would indicate the carrying value of a reporting unit had exceeded its fair value.

Adtalem has five reporting units that contained indefinite-lived intangible assets as of the second quarter of fiscal year 2019. For indefinite-lived intangible assets, management first analyzes qualitative factors including results of operations and business conditions of the five reporting units that contained indefinite-lived intangible assets, significant changes in cash flows at the individual indefinite-lived intangible asset level, if applicable, as well as how much previously calculated fair values exceed carrying values to determine if it is more likely than not that the

intangible assets associated with these reporting units have been impaired.

Management does not believe the effects of Hurricanes Irma and Maria created a triggering event that would require an impairment analysis of AUC's or RUSM's indefinite-lived intangible assets and goodwill. Damage to physical property was repaired with the majority of costs reimbursed by insurance proceeds. The September 2017 semesters at both institutions were completed with minimal lost students and revenue and commencement of future semesters was not impacted. Management believes it is probable that the response to the crises and the institutions' ability to continue providing educational services demonstrates AUC's and RUSM's capacity to generate future revenue and operating results sufficient to maintain fair values of these assets in excess of their carrying values.

These interim triggering event conclusions were based on the fact that the annual impairment review of Adtalem's reporting units and indefinite-lived intangible assets resulted in no impairment indicators as of the end of fiscal year 2018, and that no interim events or deviations from planned operating results occurred as of December 31, 2018, that would cause management to reassess these conclusions.

On August 3, 2018, Adtalem announced plans to relocate RUSM to Barbados from its temporary locations in Knoxville, Tennessee at facilities owned by Lincoln Memorial University ("LMU") and at a facility on St Kitts. Management believes the values of RUSM's goodwill and indefinite-lived intangible assets are not affected by this move. The Trade Name will continue to be used and the U.S. Department of Education ("ED") has provided approval for RUSM to operate in Barbados. No new accreditation is necessary, as RUSM's secondary accreditor, the Caribbean Accreditation Authority for Education in Medicine and other Health Professions ("CAAM-HP"), is now its primary accreditor as of the start of the January 2019 semester. CAAM-HP is authorized by the government of Barbados to accredit medical programs.

Determining the fair value of a reporting unit or an intangible asset involves the use of significant estimates and assumptions. Management bases its fair value estimates on assumptions it believes to be reasonable at the time, but such assumptions are subject to inherent uncertainty. Actual results may differ from those estimates, which could lead to additional impairments of intangible assets or goodwill.

As of December 31, 2018, intangible assets from business combinations totaled \$358.4 million and goodwill totaled \$813.2 million. Together, these assets equaled 55% of total assets as of such date, and any impairment could significantly affect future results of operations.

The table below summarizes goodwill balances by reporting unit (in thousands):

Reporting Unit	December 31, 2018	June 30, 2018	December 31, 2017
Chamberlain	\$ 4,716	\$4,716	\$ 4,716
AUC	68,321	68,321	68,321
RUSM and RUSVM	237,173	237,173	237,173
Professional Education	317,384	317,699	306,808
Adtalem Brazil	185,582	185,978	215,925
Total	\$ 813,176	\$813,887	\$ 832,943

The table below summarizes goodwill balances by reporting segment (in thousands):

Reporting Segment	December 31, 2018	June 30, 2018	December 31, 2017
Medical and Healthcare	\$ 310,210	\$310,210	\$ 310,210
Professional Education	317,384	317,699	306,808
Technology and Business	185,582	185,978	215,925
Total	\$ 813,176	\$813,887	\$ 832,943

The table below summarizes the changes in goodwill balances by reporting segment (in thousands):

	Medical and Healthcare	Professional Education	Technology and Business	Total
Balance at June 30, 2017	310,210	306,653	212,223	829,086

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Acquisitions	-	-	4,121	4,121
Foreign exchange rate changes	-	155	(419)	(264)
Balance at December 31, 2017	310,210	306,808	215,925	832,943
Acquisitions	-	11,527	-	11,527
Purchase accounting adjustments	-	-	1,515	1,515
Foreign exchange rate changes	-	(636)	(31,462)	(32,098)
Balance at June 30, 2018	310,210	317,699	185,978	813,887
Foreign exchange rate changes	-	(315)	(396)	(711)
Balance at December 31, 2018	\$ 310,210	\$ 317,384	\$ 185,582	\$ 813,176

The decrease in the goodwill balance from June 30, 2018 in the Professional Education segment is the result of a change in the value of the British Sterling Pound and Indian Rupee compared to the U.S. dollar. Since Becker's European subsidiary's and EduPristine's goodwill is recorded in local currency, fluctuations in the values of the British Sterling Pound and Indian Rupee in relation to the U.S. dollar will cause changes in the balance of this asset. The decrease in the goodwill balance from June 30, 2018 in the Technology and Business segment is the result of a change in the value of the Brazilian Real compared to the U.S. dollar. Since Adtalem Brazil goodwill is recorded in local currency, fluctuations in the value of the Brazilian Real in relation to the U.S. dollar will cause changes in the balance of this asset.

The table below summarizes the indefinite-lived intangible asset balances by reporting segment (in thousands):

Reporting Segment	December 31, 2018	June 30, 2018	December 31, 2017
Medical and Healthcare	\$ 137,500	\$ 137,500	\$ 137,500
Professional Education	69,105	69,126	67,812
Technology and Business	111,086	111,324	130,403
Total	\$ 317,691	\$ 317,950	\$ 335,715

Total indefinite-lived intangible assets decreased by \$0.3 million from June 30, 2018. The decrease is the result of a change in the value of the Brazilian Real as compared to the U.S. dollar. Since Adtalem Brazil intangible assets are recorded in local currency, fluctuations in the value of the Brazilian Real in relation to the U.S. dollar will cause changes in the balance of these assets.

NOTE 10: RESTRUCTURING CHARGES

During the second quarter and first six months of fiscal year 2019, Adtalem recorded restructuring charges primarily related to the impairment of the land, buildings and equipment at the Dominica campus of RUSM and severance related to workforce reductions in Dominica. On August 3, 2018, management announced its decision to relocate RUSM's campus operations to Barbados and not return to Dominica. The land, buildings and equipment in Dominica have been fully impaired as management has determined the market value less the costs to sell the facilities or move the equipment is zero (see "Note 3: Summary of Significant Accounting Policies"). In addition, during the second quarter and first six months of fiscal year 2019, Adtalem recorded restructuring charges primarily related to real estate consolidations at Adtalem's home office. During the second quarter and first six months of fiscal year 2018, Adtalem recorded restructuring charges primarily related to workforce reductions and real estate consolidations at Adtalem's home office. When estimating costs of exiting lease space, estimates are made which could differ materially from actual results and result in additional restructuring charges or reversals in future periods. Termination benefit charges, as a result of reducing Adtalem's workforce by 201 and 40 positions in the first six months of fiscal year 2019 and 2018, respectively, represented severance pay and benefits for these employees. Adtalem's home office is classified as "Home Office and Other" in "Note 14: Segment Information." Pre-tax restructuring charges by segment were as follows (in thousands):

	Three Months Ended December 31, 2018			Six Months Ended December 31, 2018		
	Real Estate and Other	Termination Benefits	Total	Real Estate and Other	Termination Benefits	Total
Medical and Healthcare	\$ 2,389	\$ 56	\$ 2,445	\$ 40,143	\$ 1,317	\$ 41,460
Technology and Business	110	-	110	185	-	185

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Home Office and Other	968	122	1,090	1,477	71	1,548
Total	\$ 3,467	\$ 178	\$ 3,645	\$ 41,805	\$ 1,388	\$ 43,193

	Three Months Ended December 31, 2017			Six Months Ended December 31, 2017		
	Real Estate	Termination	Total	Real Estate	Termination	Total
	and Other	Benefits		and Other	Benefits	
Medical and Healthcare	\$ -	\$ -	\$ -	\$ 26	\$ 86	\$ 112
Home Office and Other	160	1,266	1,426	(465)	2,916	2,451
Total	\$ 160	\$ 1,266	\$ 1,426	\$ (439)	\$ 3,002	\$ 2,563

The following table summarizes the separation and restructuring plan activity for the fiscal years 2019 and 2018, for which cash payments are required (in thousands):

Liability balance at June 30, 2017	\$46,115
Increase in liability (separation and other charges)	19,893
Reduction in liability (payments and adjustments)	(27,081)
Liability balance at June 30, 2018	38,927
Increase in liability (separation and other charges)	2,797
Reduction in liability (payments and adjustments)	(13,557)
Liability balance at December 31, 2018	\$28,167

Of this liability balance, \$9.0 million is recorded as Accrued Liabilities and \$19.2 million is recorded as Other Liabilities on the Consolidated Balance Sheet as of December 31, 2018. These liability balances primarily represent rent accruals and costs for employees who have either not yet separated from Adtalem or for whom full severance has not yet been paid. All of these remaining costs are expected to be paid out for periods of up to 7 years.

NOTE 11: INCOME TAXES

The effective tax rate on income from continuing operations was 20.0% in the second quarter and 19.1% in the first six months of fiscal year 2019, compared to 202.0% on income from continuing operations in the second quarter and 141.2% in the first six months of fiscal year 2018. Tax expense in the second quarter of fiscal year 2019 included a special item related to one-time impacts from the Tax Cuts and Jobs Act of 2017 (the "Tax Act") and various impacts due to the sale of DeVry University. The effective tax rates on income from continuing operations excluding tax expense related to special items were 17.7% in the second quarter and 16.5% in the first six months of fiscal year 2019. Also, tax expense in the second quarter of fiscal year 2018 included a special item of \$101.2 million related to the Tax Act. The effective tax rates on income from continuing operations excluding special items were 15.6% in the second quarter and 15.0% in the first six months of fiscal year 2018. This increase in fiscal year 2019 primarily reflects a lower U.S. tax rate resulting from the Tax Act offset by h