

UNIVERSAL TECHNICAL INSTITUTE INC  
Form 10-Q  
February 01, 2013  
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## U. S. 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, 2012

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

Commission File Number 1-31923

## UNIVERSAL TECHNICAL INSTITUTE, INC.

(Exact name of registrant as specified in its charter)

Delaware

86-0226984

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(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

16220 North Scottsdale Road, Suite 100

Scottsdale, Arizona 85254

(Address of principal executive offices)

(623) 445-9500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

At January 24, 2013, there were 24,383,031 shares outstanding of the registrant's common stock.

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**UNIVERSAL TECHNICAL INSTITUTE, INC.**

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### ***Special Note Regarding Forward-Looking Statements***

*This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, as amended, which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. From time to time, we also provide forward-looking statements in other materials we release to the public as well as verbal forward-looking statements. These forward-looking statements include, without limitation, statements regarding: proposed new programs; scheduled openings of new campuses and campus expansions; expectations that regulatory developments, or agency interpretations of such regulatory developments or other matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; and statements of management's goals and objectives and other similar expressions. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Words such as may, will, should, could, would, predicts, potential, continue, expects, anticipates, future, intends, plans, believes, estimates, and similar expressions, as well as statements in future tense, identify forward-looking statements.*

*We cannot guarantee any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.*

*Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission ( SEC ). The Form 10-K that we filed with the SEC on November 28, 2012 listed various important factors that could cause actual results to differ materially from expected and historical results. We note these factors for investors within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, as amended. Readers can find them under the heading Risk Factors in the Form 10-K and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties. Our filings with the SEC may be accessed at the SEC's web site at [www.sec.gov](http://www.sec.gov).*

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

|                                                                                                                                                                                                                                       | December 31,<br>2012 | September 30,<br>2012 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
|                                                                                                                                                                                                                                       | (In thousands)       |                       |
| <b>Assets</b>                                                                                                                                                                                                                         |                      |                       |
| Current assets:                                                                                                                                                                                                                       |                      |                       |
| Cash and cash equivalents                                                                                                                                                                                                             | \$ 30,197            | \$ 45,665             |
| Investments, current portion                                                                                                                                                                                                          | 52,092               | 51,455                |
| Receivables, net                                                                                                                                                                                                                      | 10,900               | 14,910                |
| Deferred tax assets, net                                                                                                                                                                                                              | 6,424                | 7,977                 |
| Prepaid expenses and other current assets                                                                                                                                                                                             | 15,815               | 14,977                |
| Total current assets                                                                                                                                                                                                                  | 115,428              | 134,984               |
| Investments, less current portion                                                                                                                                                                                                     | 7,040                | 4,533                 |
| Property and equipment, net                                                                                                                                                                                                           | 92,459               | 91,939                |
| Goodwill                                                                                                                                                                                                                              | 20,579               | 20,579                |
| Deferred tax assets, net                                                                                                                                                                                                              | 4,570                | 5,576                 |
| Other assets                                                                                                                                                                                                                          | 11,065               | 10,547                |
| Total assets                                                                                                                                                                                                                          | \$ 251,141           | \$ 268,158            |
| <b>Liabilities and Shareholders Equity</b>                                                                                                                                                                                            |                      |                       |
| Current liabilities:                                                                                                                                                                                                                  |                      |                       |
| Accounts payable and accrued expenses                                                                                                                                                                                                 | \$ 31,186            | \$ 40,865             |
| Deferred revenue                                                                                                                                                                                                                      | 43,249               | 52,564                |
| Accrued tool sets                                                                                                                                                                                                                     | 4,381                | 4,264                 |
| Income tax payable                                                                                                                                                                                                                    |                      | 744                   |
| Other current liabilities                                                                                                                                                                                                             | 1,472                | 1,003                 |
| Total current liabilities                                                                                                                                                                                                             | 80,288               | 99,440                |
| Deferred rent liability                                                                                                                                                                                                               | 12,598               | 12,946                |
| Construction liability                                                                                                                                                                                                                | 7,354                | 2,421                 |
| Other liabilities                                                                                                                                                                                                                     | 7,530                | 7,266                 |
| Total liabilities                                                                                                                                                                                                                     | 107,770              | 122,073               |
| <b>Commitments and contingencies (Note 9)</b>                                                                                                                                                                                         |                      |                       |
| Shareholders equity:                                                                                                                                                                                                                  |                      |                       |
| Common stock, \$0.0001 par value, 100,000,000 shares authorized, 30,250,370 shares issued and 24,363,343 shares outstanding at December 31, 2012 and 30,222,132 shares issued and 24,891,205 shares outstanding at September 30, 2012 | 3                    | 3                     |
| Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding                                                                                                                                    |                      |                       |
| Paid-in capital                                                                                                                                                                                                                       | 168,528              | 166,970               |
| Treasury stock, at cost, 5,887,027 shares at December 31, 2012 and 5,330,927 at September 30, 2012                                                                                                                                    | (89,288)             | (83,924)              |
| Retained earnings                                                                                                                                                                                                                     | 64,128               | 63,036                |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total shareholders' equity                 | 143,371    | 146,085    |
| Total liabilities and shareholders' equity | \$ 251,141 | \$ 268,158 |

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

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**UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)**

|                                                       | <b>Three Months Ended<br/>December 31,</b>          |             |
|-------------------------------------------------------|-----------------------------------------------------|-------------|
|                                                       | <b>2012</b>                                         | <b>2011</b> |
|                                                       | <b>(In thousands, except per<br/>share amounts)</b> |             |
| Revenues                                              | \$ 98,441                                           | \$ 106,427  |
| Operating expenses:                                   |                                                     |             |
| Educational services and facilities                   | 49,692                                              | 51,732      |
| Selling, general and administrative                   | 42,743                                              | 47,368      |
| Total operating expenses                              | 92,435                                              | 99,100      |
| Income from operations                                | 6,006                                               | 7,327       |
| Other income:                                         |                                                     |             |
| Interest income, net                                  | 47                                                  | 92          |
| Other income                                          | 119                                                 | 153         |
| Total other income                                    | 166                                                 | 245         |
| Income before income taxes                            | 6,172                                               | 7,572       |
| Income tax expense                                    | 2,610                                               | 3,093       |
| Net income                                            | \$ 3,562                                            | \$ 4,479    |
| Basic net income per share                            | \$ 0.14                                             | \$ 0.18     |
| Diluted net income per share                          | \$ 0.14                                             | \$ 0.18     |
| Weighted average number of common shares outstanding: |                                                     |             |
| Basic                                                 | 24,761                                              | 24,693      |
| Diluted                                               | 24,814                                              | 24,802      |
| Cash dividend declared per common share               | \$ 0.10                                             | \$          |

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

**Table of Contents****UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)**

|                                               | Common Stock   |        | Paid-in    | Treasury Stock |             | Retained  | Total        |
|-----------------------------------------------|----------------|--------|------------|----------------|-------------|-----------|--------------|
|                                               | Shares         | Amount | Capital    | Shares         | Amount      | Earnings  | Shareholders |
|                                               | (In thousands) |        |            |                |             |           |              |
| Balance at September 30, 2012                 | 30,222         | \$ 3   | \$ 166,970 | 5,331          | \$ (83,924) | \$ 63,036 | \$ 146,085   |
| Net income                                    |                |        |            |                |             | 3,562     | 3,562        |
| Issuance of common stock under employee plans | 30             |        | 262        |                |             |           | 262          |
| Shares withheld for payroll taxes             | (2)            |        | (17)       |                |             |           | (17)         |
| Tax charge from employee stock plans          |                |        | (132)      |                |             |           | (132)        |
| Stock-based compensation                      |                |        | 1,445      |                |             |           | 1,445        |
| Treasury stock repurchases                    |                |        |            | 556            | (5,364)     |           | (5,364)      |
| Cash dividend declared                        |                |        |            |                |             | (2,470)   | (2,470)      |
| Balance at December 31, 2012                  | 30,250         | \$ 3   | \$ 168,528 | 5,887          | \$ (89,288) | \$ 64,128 | \$ 143,371   |

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



**Table of Contents****UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|                                                                                          | <b>Three Months Ended<br/>December 31,</b> |                |
|------------------------------------------------------------------------------------------|--------------------------------------------|----------------|
|                                                                                          | <b>2012</b>                                | <b>2011</b>    |
|                                                                                          | <b>(In thousands)</b>                      |                |
| <b>Cash flows from operating activities:</b>                                             |                                            |                |
| Net income                                                                               | \$ 3,562                                   | \$ 4,479       |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                            |                |
| Depreciation and amortization                                                            | 5,722                                      | 6,293          |
| Amortization of held-to-maturity investments                                             | 412                                        | 537            |
| Bad debt expense                                                                         | 1,544                                      | 1,733          |
| Stock-based compensation                                                                 | 1,445                                      | 1,682          |
| Deferred income taxes                                                                    | 2,427                                      | 77             |
| Training equipment credits earned                                                        | (445)                                      | (478)          |
| Loss on disposal of property and equipment                                               |                                            | 23             |
| <b>Changes in assets and liabilities:</b>                                                |                                            |                |
| Receivables                                                                              | 2,587                                      | (1,172)        |
| Prepaid expenses and other current assets                                                | (443)                                      | (1,643)        |
| Other assets                                                                             | (520)                                      | (332)          |
| Accounts payable and accrued expenses                                                    | (8,361)                                    | 1,375          |
| Deferred revenue                                                                         | (9,315)                                    | (7,302)        |
| Income tax payable/receivable                                                            | (866)                                      | (120)          |
| Accrued tool sets and other current liabilities                                          | 586                                        | (96)           |
| Deferred rent liability                                                                  | (348)                                      | 363            |
| Other liabilities                                                                        | 422                                        | 152            |
| <b>Net cash (used in) provided by operating activities</b>                               | <b>(1,591)</b>                             | <b>5,571</b>   |
| <b>Cash flows from investing activities:</b>                                             |                                            |                |
| Purchase of property and equipment                                                       | (2,756)                                    | (1,498)        |
| Proceeds from disposal of property and equipment                                         | 24                                         |                |
| Purchase of investments                                                                  | (21,975)                                   | (16,770)       |
| Proceeds received upon maturity of investments                                           | 18,419                                     | 10,148         |
| <b>Net cash used in investing activities</b>                                             | <b>(6,288)</b>                             | <b>(8,120)</b> |
| <b>Cash flows from financing activities:</b>                                             |                                            |                |
| Payment of cash dividend                                                                 | (2,470)                                    |                |
| Payment of payroll taxes on stock-based compensation through shares withheld             | (17)                                       | (54)           |
| Proceeds from issuance of common stock under employee plans                              | 262                                        |                |
| Purchase of treasury stock                                                               | (5,364)                                    |                |
| <b>Net cash used in financing activities</b>                                             | <b>(7,589)</b>                             | <b>(54)</b>    |
| Net decrease in cash and cash equivalents                                                | (15,468)                                   | (2,603)        |
| Cash and cash equivalents, beginning of period                                           | 45,665                                     | 53,670         |
| Cash and cash equivalents, end of period                                                 | \$ 30,197                                  | \$ 51,067      |
| <b>Supplemental disclosure of cash flow information:</b>                                 |                                            |                |
| Taxes paid                                                                               | \$ 1,050                                   | \$ 3,137       |

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|                                                                               |            |          |
|-------------------------------------------------------------------------------|------------|----------|
| Training equipment obtained in exchange for services                          | \$ 158     | \$ 602   |
| Change in accrued capital expenditures during the period                      | \$ (1,318) | \$ (842) |
| Construction in progress financed by construction liability during the period | \$ 4,933   | \$       |

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

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**UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**(\$ s in thousands, except per share amounts)**

**1. Nature of the Business**

We are the leading provider of postsecondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians as measured by total average undergraduate full-time student enrollment and graduates. We offer undergraduate degree, diploma and certificate programs at 11 campuses across the United States under the banner of several well-known brands, including Universal Technical Institute, Motorcycle Mechanics Institute and Marine Mechanics Institute and NASCAR Technical Institute. We also offer manufacturer-specific training programs including student paid electives at our campuses and manufacturer or dealer sponsored training at certain campuses and dedicated training centers.

Our business model provides benefits for multiple distinct groups: our company, our students, our industry relationships and employers and the communities in which we operate. We benefit from the high standards and the material and consultative support of our industry relationships which are key contributors to the overall quality of training and also to our market appeal to prospective students. Students benefit from our specialized education while improving their opportunities for employment through our direct relationships with these employers. Our industry relationships and employers benefit from a steady flow of well-trained entry-level technicians which is the ultimate driver of the dynamics of our business model.

**2. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, our condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair statement of the results for the interim periods have been included. Operating results for the three months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending September 30, 2013. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2012 Annual Report on Form 10-K filed with the SEC on November 28, 2012.

The unaudited condensed consolidated financial statements include the accounts of Universal Technical Institute, Inc. (UTI) and our wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

We have no items which affect comprehensive income other than net income.

*Revision of Previously Issued Financial Statements*

During the three months ended December 31, 2011, we identified and recorded an out of period adjustment of \$0.8 million (pre-tax) of bad debt expense arising from processing issues related to student funds received from a non-Title IV federal funding agency that should have been recognized during prior years. During the three months ended December 31, 2011, we evaluated the impact of this item on prior periods under the materiality guidance and determined that the amount was not material. We also evaluated the impact of correcting this item through a cumulative adjustment to our financial statements for the three months ended December 31, 2011 and concluded that the impact was not material. During the three months ended June 30, 2012, we identified \$0.3 million (pre-tax) of compensation which required payment for services received in periods from October 1, 2002 through March 31, 2012 for which amounts had not been accrued.

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(\$ s in thousands, except per share amounts)

We evaluated the impact of the cumulative errors identified during the nine month period ended June 30, 2012 under the materiality guidance on each of the years affected between the years ended September 30, 2003 and September 30, 2011 and concluded the items were not material to any such periods. We also evaluated the impact of correcting these items through a cumulative adjustment to our fiscal 2012 financial statements and concluded that, based on the guidance, it was appropriate to revise our previously issued financial statements to reflect the cumulative impact of this correction. The following table presents the impact of this revision on our condensed consolidated statement of income and condensed consolidated statement of cash flows for the three months ended December 31, 2011:

|                                                         | As Reported | December 31, 2011<br>Adjustment | As Revised |
|---------------------------------------------------------|-------------|---------------------------------|------------|
| <b>Condensed Consolidated Statement of Income Data:</b> |             |                                 |            |
| Education services and facilities                       | \$ 51,691   | \$ 41                           | \$ 51,732  |
| Selling, general and administrative                     | \$ 48,170   | \$ (802)                        | \$ 47,368  |
| Total operating expenses                                | \$ 99,861   | \$ (761)                        | \$ 99,100  |
| Income from operations                                  | \$ 6,566    | \$ 761                          | \$ 7,327   |
| Income before income taxes                              | \$ 6,811    | \$ 761                          | \$ 7,572   |
| Income tax expense                                      | \$ 2,771    | \$ 322                          | \$ 3,093   |
| Net income                                              | \$ 4,040    | \$ 439                          | \$ 4,479   |
| Net income per share basic                              | \$ 0.16     | \$ 0.02                         | \$ 0.18    |
| Net income per share diluted                            | \$ 0.16     | \$ 0.02                         | \$ 0.18    |

|                                                             | As Reported | December 31, 2011<br>Adjustment | As Revised |
|-------------------------------------------------------------|-------------|---------------------------------|------------|
| <b>Condensed Consolidated Statement of Cash Flows Data:</b> |             |                                 |            |
| Net income                                                  | \$ 4,040    | \$ 439                          | \$ 4,479   |
| Bad debt expense                                            | \$ 2,533    | \$ (800)                        | \$ 1,733   |
| Deferred income taxes                                       | \$ (219)    | \$ 296                          | \$ 77      |
| Receivables                                                 | \$ (1,972)  | \$ 800                          | \$ (1,172) |
| Other assets                                                | \$ (333)    | \$ 1                            | \$ (332)   |
| Accounts payable and accrued expenses                       | \$ 2,137    | \$ (762)                        | \$ 1,375   |
| Income tax payable                                          | \$ (145)    | \$ 25                           | \$ (120)   |
| Accrued tool sets and other current liabilities             | \$ (98)     | \$ 2                            | \$ (96)    |
| Other liabilities                                           | \$ 153      | \$ (1)                          | \$ 152     |

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(\$ s in thousands, except per share amounts)

**3. Investments**

We invest in pre-funded municipal bonds which are generally secured by escrowed-to-maturity U.S. Treasury notes. Municipal bonds represent debt obligations issued by states, cities, counties and other governmental entities, which earn interest that is exempt from federal income taxes. Additionally, we invest in certificates of deposit issued by financial institutions and corporate bonds from large cap industrial and selected financial companies with a minimum credit rating of A. We have the ability and intent to hold our investments until maturity and therefore classify these investments as held-to-maturity and report them at amortized cost.

Amortized cost and fair value for investments classified as held-to-maturity at December 31, 2012 were as follows:

|                          | Amortized<br>Cost | Gross Unrealized<br>Gains | Losses  | Estimated<br>Fair Market<br>Value |
|--------------------------|-------------------|---------------------------|---------|-----------------------------------|
| Due in less than 1 year: |                   |                           |         |                                   |
| Municipal bonds          | \$ 27,694         | \$ 6                      | \$ (8)  | \$ 27,692                         |
| Corporate bonds          | 13,688            | 3                         | (3)     | 13,688                            |
| Certificates of deposit  | 10,710            | 2                         |         | 10,712                            |
| Due in 1 - 2 years:      |                   |                           |         |                                   |
| Municipal bonds          | 4,591             | 2                         | (2)     | 4,591                             |
| Corporate bonds          | 319               |                           |         | 319                               |
| Certificates of deposit  | 2,130             |                           |         | 2,130                             |
|                          | \$ 59,132         | \$ 13                     | \$ (13) | \$ 59,132                         |

Amortized cost and fair value for investments classified as held-to-maturity at September 30, 2012 were as follows:

|                          | Amortized<br>Cost | Gross Unrealized<br>Gains | Losses  | Estimated<br>Fair Market<br>Value |
|--------------------------|-------------------|---------------------------|---------|-----------------------------------|
| Due in less than 1 year: |                   |                           |         |                                   |
| Municipal bonds          | \$ 23,402         | \$ 2                      | \$ (8)  | \$ 23,396                         |
| Corporate bonds          | 18,210            | 8                         | (3)     | 18,215                            |
| Certificates of deposit  | 9,843             | 3                         |         | 9,846                             |
| Due in 1 - 2 years:      |                   |                           |         |                                   |
| Municipal bonds          | 170               |                           |         | 170                               |
| Corporate bonds          |                   |                           |         |                                   |
| Certificates of deposit  | 4,363             |                           |         | 4,363                             |
|                          | \$ 55,988         | \$ 13                     | \$ (11) | \$ 55,990                         |

Investments are exposed to various risks, including interest rate, market and credit risk and as a result, it is possible that changes in the values of these investments may occur and that such changes could affect the amounts reported in the condensed consolidated balance sheets and condensed consolidated statements of income.



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(\$ s in thousands, except per share amounts)

**4. Fair Value Measurements**

The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities and Level 3, defined as unobservable inputs that are not corroborated by market data.

Assets measured at fair value on a recurring basis consisted of the following:

|                                                 | December 31,<br>2012 | Fair Value Measurements Using                                                 |                                                           |                                                    |
|-------------------------------------------------|----------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                                 |                      | Quoted Prices<br>in Active<br>Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Money market funds                              | \$ 12,896            | \$ 12,896                                                                     | \$                                                        | \$                                                 |
| Corporate bonds                                 | 14,007               | 14,007                                                                        |                                                           |                                                    |
| Municipal bonds                                 | 32,283               |                                                                               | 32,283                                                    |                                                    |
| Certificates of deposit                         | 12,842               |                                                                               | 12,842                                                    |                                                    |
| Commercial paper                                | 8,260                |                                                                               | 8,260                                                     |                                                    |
| Total assets at fair value on a recurring basis | \$ 80,288            | \$ 26,903                                                                     | \$ 53,385                                                 | \$                                                 |

|                                                 | September 30,<br>2012 | Fair Value Measurements Using                                                       |                                                           |                                                    |
|-------------------------------------------------|-----------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                                 |                       | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Money market funds                              | \$ 32,506             | \$ 32,506                                                                           | \$                                                        | \$                                                 |
| Corporate bonds                                 | 18,215                | 18,215                                                                              |                                                           |                                                    |
| Municipal bonds                                 | 23,566                |                                                                                     | 23,566                                                    |                                                    |
| Certificates of deposit                         | 14,209                |                                                                                     | 14,209                                                    |                                                    |
| Commercial paper                                | 4,506                 |                                                                                     | 4,506                                                     |                                                    |
| Total assets at fair value on a recurring basis | \$ 93,002             | \$ 50,721                                                                           | \$ 42,281                                                 | \$                                                 |





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(\$ s in thousands, except per share amounts)

**5. Postemployment Benefits**

In September 2012, we implemented a nationwide reduction in workforce and provided postemployment benefits to approximately 50 impacted employees. Additionally, we periodically enter into agreements which provide postemployment benefits to personnel whose employment is terminated. The postemployment benefit liability, which is included in accounts payable and accrued expenses on the accompanying condensed consolidated balance sheets, is generally paid out ratably over the terms of the agreements, which range from 1 to 12 months, with the final agreement expiring in September 2013.

The postemployment activity for the three months ended December 31, 2012 is as follows:

|              | Liability Balance at<br>September 30,<br>2012 | Postemployment<br>Benefit<br>Charges | Cash Paid         | Other<br>Non-cash<br>(1) | Liability Balance at<br>December 31, 2012 |
|--------------|-----------------------------------------------|--------------------------------------|-------------------|--------------------------|-------------------------------------------|
| Severance    | \$ 2,002                                      | \$ 312                               | \$ (900)          | \$ (136)                 | \$ 1,278                                  |
| Other        | 149                                           | 34                                   | (113)             |                          | 70                                        |
| <b>Total</b> | <b>\$ 2,151</b>                               | <b>\$ 346</b>                        | <b>\$ (1,013)</b> | <b>\$ (136)</b>          | <b>\$ 1,348</b>                           |

(1) Primarily relates to the expiration of benefits not used within the time offered under the separation agreement and non-cash severance.

**6. Earnings per Share**

Basic net income per share is calculated by dividing net income by the weighted average number of shares outstanding for the period. Diluted net income per share reflects the assumed conversion of all dilutive securities. For the three months ended December 31, 2012 and 2011, 1,939,435 shares and 1,528,326 shares, respectively, which could be issued under outstanding stock-based grants, were not included in the determination of our diluted shares outstanding as they were anti-dilutive.

The calculation of the weighted average number of shares outstanding used in computing basic and diluted net income per share is as follows:

|                                                 | Three Months Ended<br>December 31,<br>2012      2011<br>(In thousands) |        |
|-------------------------------------------------|------------------------------------------------------------------------|--------|
| Weighted average number of shares               |                                                                        |        |
| Basic shares outstanding                        | 24,761                                                                 | 24,693 |
| Dilutive effect related to employee stock plans | 53                                                                     | 109    |
| Diluted shares outstanding                      | 24,814                                                                 | 24,802 |

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(\$ s in thousands, except per share amounts)

**7. Property and Equipment, net**

Property and equipment, net consist of the following:

|                                                | Depreciable<br>Lives (in years) | December 31,<br>2012 | September 30,<br>2012 |
|------------------------------------------------|---------------------------------|----------------------|-----------------------|
| Land                                           |                                 | \$ 1,456             | \$ 1,456              |
| Building and building improvements             | 35                              | 13,675               | 13,675                |
| Leasehold improvements                         | 1-28                            | 47,606               | 47,185                |
| Training equipment                             | 3-10                            | 80,726               | 79,952                |
| Office and computer equipment                  | 3-10                            | 39,895               | 39,656                |
| Software developed for internal use            | 3-5                             | 11,148               | 11,048                |
| Curriculum development                         | 5                               | 18,716               | 18,716                |
| Vehicles                                       | 5                               | 949                  | 949                   |
| Construction in progress                       |                                 | 11,686               | 7,225                 |
|                                                |                                 | 225,857              | 219,862               |
| Less accumulated depreciation and amortization |                                 | (133,398)            | (127,923)             |
|                                                |                                 | \$ 92,459            | \$ 91,939             |

At December 31, 2012, construction in progress included \$7.4 million related to the design and construction of our Lisle, Illinois campus.

**8. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following:

|                                   | December 31,<br>2012 | September 30,<br>2012 |
|-----------------------------------|----------------------|-----------------------|
| Accounts payable                  | \$ 3,040             | \$ 8,246              |
| Accrued compensation and benefits | 19,473               | 24,372                |
| Other accrued expenses            | 8,673                | 8,247                 |
|                                   | \$ 31,186            | \$ 40,865             |

**9. Commitments and Contingencies****Operating Leases**

We lease our facilities and certain equipment under non-cancelable operating leases, some of which contain renewal options, escalation clauses and requirements to pay other fees associated with the leases. We recognize rent expense on a straight-line basis. Two of our campus properties are leased from a related party. In December 2012, we entered into amended lease agreements for certain buildings on our Phoenix, Arizona campus which extended the lease term to December 31, 2022. The future minimum lease payments under the amended lease agreements are \$0.5

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million, \$0.7 million, \$0.7 million, \$0.8 million, \$0.8 million, and \$4.5 million for the years ended September 30, 2013, 2014, 2015, 2016, 2017 and thereafter, respectively. Such amounts are included in the table below.

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(\$ s in thousands, except per share amounts)

Future minimum rental commitments at December 31, 2012 for all non-cancelable operating leases were as follows:

|                           |            |
|---------------------------|------------|
| Year ending September 30, |            |
| 2013 (Remaining)          | \$ 20,768  |
| 2014                      | 26,981     |
| 2015                      | 26,269     |
| 2016                      | 25,093     |
| 2017                      | 22,189     |
| Thereafter                | 94,265     |
|                           | \$ 215,565 |

***Legal***

In the ordinary conduct of our business, we are periodically subject to lawsuits, demands in arbitration, investigations, regulatory proceedings or other claims, including, but not limited to, claims involving current or former students, routine employment matters, business disputes and regulatory demands. When we are aware of a claim or potential claim, we assess the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, we would accrue a liability for the loss. When a loss is not both probable and estimable, we do not accrue a liability. Where a loss is not probable but is reasonably possible, including if a loss in excess of an accrued liability is reasonably possible, we determine whether it is possible to provide an estimate of the amount of the loss or range of possible losses for the claim. Because we cannot predict with certainty the ultimate resolution of the legal proceedings (including lawsuits, investigations, regulatory proceedings or claims) asserted against us, such current pending legal proceedings to which we are a party may have a material adverse effect on our business, cash flows, results of operations or financial condition.

The United States Department of Justice has notified us that we are the subject of a preliminary investigation (DOJ Preliminary Investigation) concerning Federal False Claims Act (31 U.S.C. § 3729 et seq.) claims. We understand that a former employee alleged our compensation of our enrollment counselors violated the incentive compensation ban of Title IV of the Higher Education Act, amongst other potential violations allegedly occurring over a number of years. We intend to fully cooperate with the DOJ Preliminary Investigation. There are no requests for production of documents to date. Pursuant to applicable law and the United States request, we cannot make further disclosures concerning this matter.

The same former employee who made allegations subject to the aforementioned DOJ Preliminary Investigation also filed a complaint with the Occupational Safety and Health Administration of the U.S. Department of Labor (DOL) alleging retaliatory employment practices in violation of the whistleblower provisions of the Sarbanes-Oxley Act of 2002. We received a request from the DOL in May 2012, pursuant to the complaint filed on May 3, 2012, to furnish documents and other information in response to this complaint. We believe that the former employee was properly terminated based upon failure of performance and not for any illegal or retaliatory reason, and we intend to vigorously defend the claims asserted. We have timely provided the information requested by the government and will continue to cooperate fully with the DOL. At this time, we cannot predict the outcome of the complaint nor can we reasonably estimate the potential costs that may be associated with its eventual resolution. Consequently, we have not recorded any associated liabilities in the accompanying financial statements.

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**UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**(\$ s in thousands, except per share amounts)**

In September 2012, we received a Civil Investigative Demand (CID) from the Attorney General of the Commonwealth of Massachusetts related to a pending investigation in connection with allegations that we caused false claims to be submitted to the Commonwealth relating to student loans, guarantees and grants provided to students at our Norwood, Massachusetts campus. The CID required us to produce documents and provide written testimony regarding a broad range of our business since September 2006 to the present. We responded timely to the request, as well as a follow-up request for additional information made in December 2012. At this time, we cannot predict the eventual scope, duration, outcome or associated costs of this request and accordingly we have not recorded any liability in the accompanying financial statements.

In October 2012 and January 2013, the Accrediting Commission of Career Schools and Colleges (ACCSC) requested certain documentation related to the preliminary investigation by the United States Department of Justice. Pursuant to applicable law and the United States request, we are not able to provide the information requested and have notified ACCSC as such. At this time, we cannot predict the eventual scope, duration, outcome or associated costs, if any, of this request and accordingly we have not recorded any liability in the accompanying financial statements.

***Proprietary Loan Program***

In order to provide funding for students who are not able to fully finance the cost of their education under traditional governmental financial aid programs, commercial loan programs or other alternative sources, we established a private loan program with a national chartered bank. Under terms of the related agreement, the bank originates loans for our students who meet our specific credit criteria with the related proceeds used exclusively to fund a portion of their tuition. We then purchase all such loans from the bank at least monthly and assume all of the related credit risk. The loans bear interest at market rates; however, principal and interest payments are not required until six months after the student completes or withdraws from his or her program. After the deferral period, monthly principal and interest payments are required over the related term of the loan.

The bank agreed to provide these services in exchange for a fee equivalent to 0.4% of the principal balance of each loan and related fees. Under the terms of the related agreement, we have a \$2.0 million deposit with the bank in order to secure our related loan purchase obligation. This balance is classified as other assets in our condensed consolidated balance sheets.

In substance, we provide the students who participate in this program with extended payment terms for a portion of their tuition and as a result, we account for the underlying transactions in accordance with our tuition revenue recognition policy. However, due to the nature of the program coupled with the extended payment terms required under the student loan agreements, collectability is not reasonably assured. Accordingly, we recognize tuition and loan origination fees financed by the loan and any related interest income required under the loan when such amounts are collected. We will reevaluate and modify this policy if appropriate. All related expenses incurred with the bank or other service providers are expensed as incurred and were approximately \$0.7 million and \$0.3 million during the three months December 31, 2012 and 2011, respectively. Since loan collectability is not reasonably assured, the loans and related deferred tuition revenue are not recognized in our condensed consolidated balance sheets. Our presentation may be modified in the future in conjunction with our revenue recognition policy.

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(\$ s in thousands, except per share amounts)

The following table summarizes the impact of the proprietary loan program on our tuition revenue and interest income during the period as well as on a cumulative basis at the end of each period in our condensed consolidated income statements. Tuition revenue and interest income excluded represents amounts which would have been recognized during the period had collectability of the related amounts been assured. Amounts collected and recognized represent actual cash receipts during the period and amounts written-off represent amounts which have been turned over to third party collectors.

|                                       | Three Months Ended<br>December 31, |          | Inception<br>to date |
|---------------------------------------|------------------------------------|----------|----------------------|
|                                       | 2012                               | 2011     |                      |
| Tuition and interest income excluded  | \$ 6,737                           | \$ 3,232 | \$ 53,619            |
| Amounts collected and recognized      | (450)                              | (321)    | (3,195)              |
| Amounts written-off                   | (987)                              | (2,799)  | (15,687)             |
| Net amount excluded during the period | \$ 5,300                           | \$ 112   | \$ 34,737            |

At December 31, 2012, we had committed to provide loans to our students for approximately \$65.1 million.

The following table summarizes the activity related to the balances outstanding under our proprietary loan program, including loans outstanding, interest and origination fees, which are not reflected in our condensed consolidated balance sheets:

|                                  | Three Months Ended<br>December 31, |           |
|----------------------------------|------------------------------------|-----------|
|                                  | 2012                               | 2011      |
| Balance at beginning of period   | \$ 42,880                          | \$ 26,863 |
| Loans extended                   | 10,399                             | 4,822     |
| Interest accrued                 | 967                                | 625       |
| Amounts collected and recognized | (450)                              | (321)     |
| Amounts written off              | (987)                              | (2,799)   |
| Balance at end of period         | \$ 52,809                          | \$ 29,190 |

**10. Common Shareholders Equity*****Common Stock***

Holders of our common stock are entitled to receive dividends when and as declared by our Board of Directors and have the right to one vote per share on all matters requiring shareholder approval. On December 21, 2012, we paid a cash dividend of \$0.10 per share to common stockholders of record as of December 7, 2012, totaling approximately \$2.5 million. At the discretion of our Board of Directors, we intend to pay a dividend quarterly in future periods.

***Share Repurchase Program***

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On December 20, 2011, our Board of Directors authorized the repurchase of up to \$25.0 million of our common stock in the open market or through privately negotiated transactions. The timing and actual number of shares purchased will depend on a variety of factors such as price, corporate and regulatory requirements and prevailing market conditions. We may terminate or limit the share repurchase program at any time without prior notice. During the three months ended December 31, 2012, we purchased 556,100 shares at an average price per share of \$9.61 and a total cost of approximately \$5.4 million. At December 31, 2012, we have purchased 699,700 shares at an average price per share of \$10.27 and a total cost of approximately \$7.2 million under this program.

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(\$ s in thousands, except per share amounts)

**11. Segment Information**

Our principal business is providing postsecondary education. We also provide manufacturer-specific training, and these operations are managed separately from our campus operations. These operations do not currently meet the quantitative criteria for segments and therefore are reflected in the Other category. Corporate expenses are allocated to Postsecondary Education and the Other category based on compensation expense.

Summary information by reportable segment is as follows:

|                                      | <b>Three Months Ended<br/>December 31,</b> |             |
|--------------------------------------|--------------------------------------------|-------------|
|                                      | <b>2012</b>                                | <b>2011</b> |
| <b>Revenues</b>                      |                                            |             |
| Postsecondary education              | \$ 95,920                                  | \$ 104,153  |
| Other                                | 2,521                                      | 2,274       |
| Consolidated                         | \$ 98,441                                  | \$ 106,427  |
| <b>Income (loss) from operations</b> |                                            |             |
| Postsecondary education              | \$ 6,656                                   | \$ 7,811    |
| Other                                | (650)                                      | (484)       |
| Consolidated                         | \$ 6,006                                   | \$ 7,327    |
| <b>Depreciation and amortization</b> |                                            |             |
| Postsecondary education              | \$ 5,621                                   | \$ 6,172    |
| Other                                | 101                                        | 121         |
| Consolidated                         | \$ 5,722                                   | \$ 6,293    |
| <b>Net income (loss)</b>             |                                            |             |
| Postsecondary education              | \$ 3,933                                   | \$ 4,750    |
| Other                                | (371)                                      | (271)       |
| Consolidated                         | \$ 3,562                                   | \$ 4,479    |
| <b>Goodwill</b>                      |                                            |             |
| Postsecondary education              | \$ 20,579                                  | \$ 20,579   |
| Other                                |                                            |             |
| Consolidated                         | \$ 20,579                                  | \$ 20,579   |
| <b>Total assets</b>                  |                                            |             |
| Postsecondary education              | \$ 244,341                                 | \$ 261,846  |
| Other                                | 6,800                                      | 2,410       |



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|              |            |            |
|--------------|------------|------------|
| Consolidated | \$ 251,141 | \$ 264,256 |
|--------------|------------|------------|

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**UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**(\$ s in thousands, except per share amounts)**

**12. Government Regulation and Financial Aid**

On January 1, 2013, Congress passed the American Taxpayer Relief Act of 2012 (ATRA), delaying sequestration of many federal programs including a potential 7.6% cut to campus-based aid programs. Unless Congress takes additional measures, sequestration will take effect on March 1, 2013. Additionally, ATRA extended the American Opportunity Tax Credit for five years, temporarily extended deductions for qualified tuition and related educational expenses for two years and permanently extended the interest rate deduction for student loans.

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### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in this report and those in our 2012 Annual Report on Form 10-K filed with the SEC on November 28, 2012. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in such forward-looking statements as a result of certain factors, including but not limited to those described under "Risk Factors" in our 2012 Annual Report on Form 10-K and included in Part II, Item 1A of this report.*

#### **2013 Overview**

##### **Operations**

Lower student population levels as we began 2013, combined with lower new student starts during the period, resulted in a 9.8% decline in our average undergraduate full-time student enrollment to approximately 16,500 students for the three months ended December 31, 2012. We started 2,700 students during the three months ended December 31, 2012, which represents a decrease of 18.2% as compared to flat starts for the three months ended December 31, 2011. The decrease in starts was partially due to a decrease in student applications, as well as the result of certain macro-economic headwinds and regulatory challenges.

Several factors continue to challenge our ability to attract and start new students including the following:

Unemployment; during periods when the unemployment rate declines or remains stable as it did in 2012, prospective students have more employment options;

The state of the general macro-economic environment and its impact on the ability and willingness of students and their families to incur debt;

Competition for prospective students continues to increase from within our sector as well as with traditional post-secondary educational institutions; and

Regulatory changes which occurred during 2012 and 2011:

The amount of Title IV financial aid available decreased during 2012 which increased the funding gap between the amount of Title IV financial aid our students are eligible for and the cost of education; this funding gap requires students and their families to obtain additional financing; and

Incentive compensation changes which became effective July 1, 2011 limited the means by which we may compensate our admissions representatives and required significant changes to our compensation and performance management processes. We are continuing to adapt to those changes within the organization.

The decline in our average undergraduate full-time student enrollment resulted in a decline in revenues, operating income and net income for the three months ended December 31, 2012. Our results of operations were also impacted by decreases in compensation and benefits expenses as well as advertising expense. Our revenues for the three months ended December 31, 2012 were \$98.4 million, a decrease of \$8.0 million, or 7.5%, from the prior year. Our net income for the three months ended December 31, 2012 was \$3.6 million, a decrease of \$0.9 million from the prior year. Additionally, our revenues for the three months ended December 31, 2012 excluded \$5.8 million of tuition related to students participating in our proprietary loan program.



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Balancing the impact of our lower student populations and our highly fixed cost structure with our commitment to invest in our future resulted in lower operating margins for the three months ended December 31, 2012.

In response to these challenges, we continue to manage discretionary operating costs, to develop our strong industry relationships and to provide alternative solutions to help students achieve their educational goals. Additionally, we have implemented programs to improve the effectiveness of our student recruitment and admissions processes.

### **Automotive Technology and Diesel Technology II Integration**

We began offering our Automotive Technology and Diesel Technology II curricula at our Avondale, Arizona campus in 2012. In future years, we intend to continue integrating the new curricula at existing campuses which offer Automotive and Diesel Technology programs beginning with an additional campus in calendar year 2013. As we integrate the curricula at our automotive campuses, we expect to make additional capital investments and incur higher than usual operating expenses. We anticipate capitalizing an additional \$2.8 million to \$3.2 million and incurring an additional \$3.9 million to \$4.2 million in operating expenses during the year ending September 30, 2013.

### **Graduate Employment**

Our consolidated graduate employment rate for our 2012 graduates during the three months ended December 31, 2012 is slightly above the rate at the same time in the prior year. The rate has improved for our Automotive and Diesel Technology, Motorcycle and Marine programs while the rate has declined for our Collision Repair program.

### **Regulatory Environment**

#### *Congressional Action and Financial Aid Funding*

On January 1, 2013, Congress passed the American Taxpayer Relief Act of 2012 (ATRA), delaying sequestration of many federal programs including a potential 7.6% cut to campus-based aid programs. Unless Congress takes additional measures, sequestration will take effect on March 1, 2013. Additionally, ATRA extended the American Opportunity Tax Credit for five years, temporarily extended deductions for qualified tuition and related educational expenses for two years and permanently extended the interest rate deduction for student loans.

#### *Accreditation*

Our Norwood, Massachusetts campus accreditation expired in July 2012. We are currently in the process of reaccreditation with the renewal site visit for accreditation completed in May 2012. The visiting accreditation team reported that there were three findings of non-compliance which we believe we have remediated. Our application was considered at the November 2012 meeting of the Accrediting Commission of Career Schools and Colleges (ACCSC), our accreditor. In December 2012, we received notification that ACCSC deferred its decision pending the receipt of additional information. In January 2013, we provided the additional information requested by ACCSC. Final action will be considered by ACCSC at its February 2013 meeting. We believe that each of our institutions is in substantial compliance with ACCSC accreditation standards.

**Table of Contents****2013 Outlook**

With slightly worsening macroeconomic pressure, the time required for new initiatives to take hold and the lag between students applying for school and starting school increasing, we expect new student starts to be down for much of 2013, before possibly showing year over year improvement in the fourth quarter. While that trend would prove positive for 2014, we do anticipate full year new student starts for 2013 to be down mid to high single digits resulting in a lower average student population this year. These lower levels of enrollment will most likely result in a high single digit decline in revenue in 2013 and an overall decline in operating margin and net income compared to 2012. Due to the seasonality of our business and normal fluctuations in student populations, we would expect volatility in our quarterly results.

**Results of Operations**

The following table sets forth selected statements of operations data as a percentage of revenues for each of the periods indicated.

|                                     | <b>Three Months Ended<br/>December 31,</b> |              |
|-------------------------------------|--------------------------------------------|--------------|
|                                     | <b>2012</b>                                | <b>2011</b>  |
| Revenues                            | 100.0%                                     | 100.0%       |
| Operating expenses:                 |                                            |              |
| Educational services and facilities | 50.5%                                      | 48.6%        |
| Selling, general and administrative | 43.4%                                      | 44.5%        |
| <b>Total operating expenses</b>     | <b>93.9%</b>                               | <b>93.1%</b> |
| Income from operations              | 6.1%                                       | 6.9%         |
| Interest income, net                | 0.1%                                       | 0.1%         |
| Other income                        | 0.1%                                       | 0.1%         |
| <b>Total other income</b>           | <b>0.2%</b>                                | <b>0.2%</b>  |
| Income before income taxes          | 6.3%                                       | 7.1%         |
| Income tax expense                  | 2.7%                                       | 2.9%         |
| Net income                          | 3.6%                                       | 4.2%         |

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the three months ended December 31, 2012 and 2011 were \$12.1 million and \$14.0 million, respectively.

EBITDA is a non-GAAP financial measure which is provided to supplement, but not substitute for, the most directly comparable GAAP measure. We choose to disclose to investors this non-GAAP financial measure because it provides an additional analytical tool to clarify our results from operations and helps to identify underlying trends. Additionally, this measure helps compare our performance on a consistent basis across time periods. To obtain a complete understanding of our performance, this measure should be examined in connection with net income determined in accordance with GAAP. Since the items excluded from this measure should be examined in connection with net income determined in financial performance under GAAP, this measure should not be considered to be an alternative to net income as a measure of our operating performance or profitability. Exclusion of items in our non-GAAP presentation should not be construed as an inference that these items are unusual, infrequent or non-recurring. Other companies, including other companies in the education industry, may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure across companies. Investors are encouraged to use GAAP measures when evaluating our financial performance.



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EBITDA reconciles to net income as follows:

|                               | <b>Three Months Ended<br/>December 31,<br/>2012      2011<br/>(In thousands)</b> |                  |
|-------------------------------|----------------------------------------------------------------------------------|------------------|
| Net income                    | \$ 3,562                                                                         | \$ 4,479         |
| Interest income, net          | (47)                                                                             | (92)             |
| Income tax expense            | 2,610                                                                            | 3,093            |
| Depreciation and amortization | 5,985                                                                            | 6,523            |
| <b>EBITDA</b>                 | <b>\$ 12,110</b>                                                                 | <b>\$ 14,003</b> |

Return on equity for the trailing four quarters ended December 31, 2012 was 5.5% compared to 6.2% for the trailing four quarters ended September 30, 2012. Return on equity is calculated as the sum of net income for the last four quarters divided by the average of our total shareholders' equity balances at the end of each of the last five quarters.

Capacity utilization is the ratio of our average undergraduate full-time student enrollment to total seats available. Total seats available represents our maximum capacity; however, due to certain dynamics, our operating capacity tends to be lower. The following table sets forth our average capacity utilization during each of the periods indicated and the total seats available at the end of each of the periods indicated:

|                                                    | <b>Three Months Ended<br/>December 31,<br/>2012      2011</b> |        |
|----------------------------------------------------|---------------------------------------------------------------|--------|
| Average undergraduate full-time student enrollment | 16,500                                                        | 18,300 |
| Total seats available                              | 28,000                                                        | 29,400 |
| Average capacity utilization                       | 58.9%                                                         | 62.2%  |

We continue to seek alternate uses for our underutilized space at existing campuses. Alternate uses may include subleasing space to third parties, allocating space for use by our manufacturer specific advanced training programs, adding new industry relationships or consolidating administrative functions into campus facilities.

**Three Months Ended December 31, 2012 Compared to Three Months Ended December 31, 2011**

**Revenues.** Our revenues for the three months ended December 31, 2012 were \$98.4 million, representing a decrease of \$8.0 million, or 7.5%, as compared to revenues of \$106.4 million for the three months ended December 31, 2011 as a result of a decrease in our average undergraduate full-time student enrollment of 9.8%. The decrease was offset by tuition rate increases between 3% and 5%, depending on the program. Our revenues for the three months ended December 31, 2012 and 2011 excluded \$5.8 million and \$2.6 million, respectively, of tuition related to students participating in our proprietary loan program. In accordance with our accounting policy, we recognize the related revenues as payments are received from the students participating in this program. We recognized \$0.4 million and \$0.3 million of revenues and interest under the program during the three months ended December 31, 2012 and 2011, respectively.



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**Educational services and facilities expenses.** Our educational services and facilities expenses for the three months ended December 31, 2012 were \$49.7 million, representing a decrease of \$2.0 million as compared to \$51.7 million for the same period in the prior year.

The following table sets forth the significant components of our educational services and facilities expenses:

|                                                   | <b>Three Months Ended<br/>December 31,<br/>2012      2011<br/>(In thousands)</b> |                  |
|---------------------------------------------------|----------------------------------------------------------------------------------|------------------|
| Salaries expense                                  | \$ 21,727                                                                        | \$ 22,244        |
| Employee benefits and tax                         | 3,730                                                                            | 4,293            |
| Bonus expense                                     | 548                                                                              | 1,093            |
| Stock-based compensation                          | 220                                                                              | 276              |
| <b>Compensation and related costs</b>             | <b>26,225</b>                                                                    | <b>27,906</b>    |
| Occupancy costs                                   | 9,222                                                                            | 9,181            |
| Other educational services and facilities expense | 5,004                                                                            | 5,000            |
| Depreciation and amortization expense             | 4,688                                                                            | 4,841            |
| Tools and training aids expense                   | 2,404                                                                            | 2,416            |
| Supplies and maintenance                          | 2,149                                                                            | 2,388            |
|                                                   | <b>\$ 49,692</b>                                                                 | <b>\$ 51,732</b> |

Compensation and related costs decreased \$1.7 million during the three months ended December 31, 2012, compared to the same period in the prior year. The decrease was primarily attributable to a decrease in employee headcount due to a reduction in workforce in September 2012. We anticipate our compensation and related costs will decrease for the year ending September 30, 2013 as compared to the year ended September 30, 2012.

**Selling, general and administrative expenses.** Our selling, general and administrative expenses for the three months ended December 31, 2012 were \$42.7 million, representing a decrease of \$4.7 million as compared to \$47.4 million for the same period in the prior year.

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The following table sets forth the significant components of our selling, general and administrative expenses:

|                                                    | <b>Three Months Ended<br/>December 31,<br/>2012      2011<br/>(In thousands)</b> |                  |
|----------------------------------------------------|----------------------------------------------------------------------------------|------------------|
| Salaries expense                                   | \$ 18,001                                                                        | \$ 17,968        |
| Employee benefits and tax                          | 3,447                                                                            | 4,049            |
| Bonus expense                                      | 1,606                                                                            | 2,594            |
| Stock-based compensation                           | 1,225                                                                            | 1,406            |
| <b>Compensation and related costs</b>              | <b>24,279</b>                                                                    | <b>26,017</b>    |
| Advertising expense                                | 8,370                                                                            | 10,499           |
| Other selling, general and administrative expenses | 5,600                                                                            | 5,605            |
| Bad debt expense                                   | 1,544                                                                            | 1,733            |
| Depreciation and amortization expense              | 1,297                                                                            | 1,682            |
| Contract services expense                          | 1,334                                                                            | 1,215            |
| Legal services expense                             | 319                                                                              | 617              |
|                                                    | <b>\$ 42,743</b>                                                                 | <b>\$ 47,368</b> |

Compensation and related costs decreased \$1.7 million during the three months ended December 31, 2012, compared to the same period in the prior year, primarily due to a reduction in the bonus plan pay-out levels for 2013 as well as a decrease in self-insurance claims during the three months ended December 31, 2012. We anticipate our compensation and related costs will decrease for the year ending September 30, 2013 as compared to the year ended September 30, 2012.

Advertising expense decreased \$2.1 million for the three months ended December 31, 2012, as compared to the same period in the prior year. The decrease was primarily due to accelerated spending in the prior year comparable period. We continue to execute on our plan to optimize marketing to generate higher quality inquiries from potential students while controlling our costs.

**Income taxes.** Our provision for income taxes for the three months ended December 31, 2012 was \$2.6 million, or 42.3% of pre-tax income. Our provision for income taxes for the three months ended December 31, 2011 was \$3.1 million, or 40.8% of pre-tax income. The effective income tax rate in each period differed from the federal statutory tax rate of 35% primarily as a result of state income taxes, net of related federal income tax benefits.

**Liquidity and Capital Resources**

Based on past performance and current expectations, we believe that our cash flows from operations, cash on hand and investments will satisfy our working capital needs, capital expenditures, commitments and other liquidity requirements associated with our existing operations through the next 12 months.

We believe that the strategic use of our cash resources includes supporting the integration of our Automotive Technology and Diesel Technology II curricula to existing campuses, as well as subsidizing funding alternatives for our students. Additionally, we evaluate the repurchase of our common stock, payment of dividends, consideration of strategic acquisitions and other potential uses of cash. In December 2012, we paid a cash dividend of \$0.10 per share on the common stock of the Company. At the discretion of our

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Board of Directors, we intend to pay a dividend quarterly in future periods. Additionally, we repurchased approximately \$5.4 million of our outstanding common stock during the three months ended December 31, 2012. To the extent that potential acquisitions are large enough to require financing beyond cash from operations, we may issue debt resulting in increased interest expense. Our aggregate cash and cash equivalents and current investments were \$82.3 million at December 31, 2012.

Our principal source of liquidity is operating cash flows. A majority of our revenues is derived from Title IV Programs. Federal regulations dictate the timing of disbursements of funds under Title IV Programs. Students must apply for a new loan for each academic year consisting of thirty-week periods. Loan funds are generally provided by lenders in two disbursements for each academic year. The first disbursement is usually received within 30 days of the start of a student's academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. We established a proprietary loan program in which we bear all credit and collection risk and students are not required to begin repayment until six months after the student completes or withdraws from his or her program. These factors, together with the timing of when our students begin their programs, affect our operating cash flow.

### ***Operating Activities***

Our net cash used in operating activities was \$1.6 million for the three months ended December 31, 2012 compared to cash provided by operating activities of \$5.6 million for the three months ended December 31, 2011. For the three months ended December 31, 2012, changes in our operating assets and liabilities resulted in cash outflows of \$16.3 million and were primarily attributable to changes in deferred revenue, accounts payable and accrued expenses and receivables. The decrease in deferred revenue resulted in a cash outflow of \$9.3 million. The decrease was primarily attributable to the timing of student starts, the number of students in school and where they were at period end in relation to the completion of their program at December 31, 2012 compared to September 30, 2012. The decrease in accounts payable and accrued expenses was primarily due to payment of our 2012 annual bonus as well as the timing of our payroll cycle. The decrease in receivables was related to a decrease in our ending student population and the timing of Title IV disbursements and other cash receipts on behalf of our students. The decrease in receivables was partially offset by six of our 11 campuses becoming subject to delayed disbursements on October 22, 2012. This 30 day delay in receiving the first disbursement on federal student loans has the result of increasing receivables during the period in which the campus is subject to the delay.

During the three months ended December 31, 2011, the changes in our operating assets and liabilities resulted in cash outflows of \$8.8 million and were primarily attributable to changes in deferred revenue, receivables, prepaid expenses and other current assets and accounts payable and other accrued expenses. The decrease in deferred revenue resulted in cash used of \$7.3 million. The decrease was primarily attributable to the timing of student starts, the number of students in school and where they were at period end in relation to the completion of their program at December 31, 2011 compared to September 30, 2011. The increase in receivables was related to the timing of Title IV disbursements and other cash receipts on behalf of our students. The increase in accounts payable and accrued expenses was primarily due to the timing of our payroll cycle. The increase in prepaid expenses and other current assets resulted in cash used of \$1.6 million primarily related to our prepaid insurance plans.

### ***Investing Activities***

During the three months ended December 31, 2012, cash used in investing activities was \$6.3 million. We had cash outflows of \$22.0 million to purchase investments and cash inflows of \$18.4 million from proceeds received upon maturity of investments. We had cash outflows of \$2.8 million related to the purchase of new and replacement training equipment for our ongoing operations.

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During the three months ended December 31, 2011, cash used in investing activities was \$8.1 million and was primarily related to our purchases of investments of \$16.8 million and cash inflows of \$10.1 million from proceeds received upon maturity of investments. We had cash outflows of \$1.5 million related to new and replacement training equipment for our ongoing operations.

### ***Financing Activities***

During the three months ended December 31, 2012, cash used in financing activities was primarily attributable to the repurchase of approximately \$5.4 million of treasury stock and the payment of a cash dividend on December 21, 2012 of \$0.10 per share totaling approximately \$2.5 million. During the three months ended December 31, 2011 cash provided by financing activities was primarily attributable to activity in our stock-based compensation plans.

### **Seasonality and Trends**

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in total student population and costs associated with opening or expanding our campuses. Our student population varies as a result of new student enrollments, graduations and student attrition. Historically, our schools have had lower student populations in our third quarter than in the remainder of our year because fewer students are enrolled during the summer months. Additionally, our schools have had higher student populations in our fourth quarter than in the remainder of the year because more students enroll during this period. Our expenses, however, do not vary significantly with changes in student population and revenues and, as a result, such expenses do not fluctuate significantly on a quarterly basis. We expect quarterly fluctuations in operating results to continue as a result of seasonal enrollment patterns. Such patterns may change, however, as a result of new school openings, new program introductions, increased enrollments of adult students or acquisitions. Additionally, our revenues for the first quarter ending December 31 are impacted by the closure of our campuses for a week in December for a holiday break and, accordingly, we do not earn revenue during that closure period.

### **Critical Accounting Policies and Estimates**

Our critical accounting policies are disclosed in our 2012 Annual Report on Form 10-K, filed with the SEC on November 28, 2012. During the three months ended December 31, 2012, there have been no significant changes in our critical accounting policies.

### **Recent Accounting Pronouncements**

Recent accounting pronouncements are disclosed in our 2012 Annual Report on Form 10-K, filed with the SEC on November 28, 2012. During the three months ended December 31, 2012, there have been no new accounting pronouncements which are expected to significantly impact our consolidated financial statements.

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### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes to our market risk since September 30, 2012. For a discussion of our exposure to market risk, refer to our 2012 Annual Report on Form 10-K, filed with the SEC on November 28, 2012.

### **Item 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15 as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that occurred during the three months ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

In the ordinary conduct of our business, we are periodically subject to lawsuits, demands in arbitrations, investigations, regulatory proceedings or other claims, including, but not limited to, claims involving current and former students, routine employment matters, business disputes and regulatory demands. When we are aware of a claim or potential claim, we assess the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, we would accrue a liability for the loss. When a loss is not both probable and estimable, we do not accrue a liability. Where a loss is not probable but is reasonably possible, including if a loss in excess of an accrued liability is reasonably possible, we determine whether it is possible to provide an estimate of the amount of the loss or range of possible losses for the claim. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations, regulatory proceedings or claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party, individually or in the aggregate, will have a material adverse effect on our business, cash flows, results of operations or financial condition.

The United States Department of Justice has notified us that we are the subject of a preliminary investigation (DOJ Preliminary Investigation) concerning Federal False Claims Act (31 U.S.C. § 3729 et seq.) claims. We understand that a former employee alleged our compensation of our enrollment counselors violated the incentive compensation ban of Title IV of the Higher Education Act, amongst other potential violations allegedly occurring over a number of years. We intend to fully cooperate with the DOJ Preliminary Investigation. There are no requests for production of documents to date. Pursuant to applicable law and the United States request, we cannot make further disclosures concerning this matter.

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The same former employee who made allegations subject to the aforementioned DOJ Preliminary Investigation also filed a complaint with the Occupational Safety and Health Administration of the U.S. Department of Labor (DOL) alleging retaliatory employment practices in violation of the whistleblower provisions of the Sarbanes-Oxley Act of 2002. We received a request from the DOL in May 2012, pursuant to the complaint filed on May 3, 2012, to furnish documents and other information in response to this complaint. We believe that the former employee was properly terminated based upon failure of performance and not for any illegal or retaliatory reason, and we intend to vigorously defend the claims asserted. We have timely provided the information requested by the government and will continue to cooperate fully with the DOL. At this time, we cannot predict the outcome of the complaint nor can we reasonably estimate the potential costs that may be associated with its eventual resolution. Consequently, we have not recorded any associated liabilities in the accompanying financial statements.

In September 2012, we received a Civil Investigative Demand (CID) from the Attorney General of the Commonwealth of Massachusetts related to a pending investigation in connection with allegations that we caused false claims to be submitted to the Commonwealth relating to student loans, guarantees and grants provided to students at our Norwood, Massachusetts campus. The CID required us to produce documents and provide written testimony regarding a broad range of our business since September 2006 to the present. We responded timely to the request, as well as a follow-up request for additional information made in December 2012. At this time, we cannot predict the eventual scope, duration, outcome or associated costs of this request and accordingly we have not recorded any liability in the accompanying financial statements.

In October 2012 and January 2013, the ACCSC requested certain documentation related to the preliminary investigation by the United States Department of Justice. Pursuant to applicable law and the United States request, we are not able to provide the information requested and have notified ACCSC as such. At this time, we cannot predict the eventual scope, duration, outcome or associated costs, if any, of this request and accordingly we have not recorded any liability in the accompanying financial statements.

### **Item 1A. RISK FACTORS**

In addition to the other information set forth in this report, including the information contained in Part I, Item 3, you should carefully consider the factors discussed in Part I, Item 1A of our 2012 Annual Report on Form 10-K filed with the SEC on November 28, 2012, which could materially affect our business, financial condition or operating results. The risks described in this report and in our 2012 Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

**Table of Contents****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

The following table summarizes the purchase of equity securities for the three months ended December 31, 2012:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b> | <b>(a) Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>(b) Average<br/>Price<br/>Paid<br/>per Share</b> | <b>(c) Total<br/>Number of<br/>Shares<br/>Purchased As<br/>Part of Publicly<br/>Announced<br/>Plans</b> | <b>(d) Approximate Dollar<br/>Value of Shares<br/>that<br/>May Yet Be<br/>Purchased<br/>Under the Plans<br/>Or<br/>Programs<br/>(In thousands) <sup>(1)</sup></b> |
|---------------|---------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| October 2012  |                                                         | \$                                                  |                                                                                                         | \$ 23,156                                                                                                                                                         |
| November 2012 | 137,600                                                 | \$ 9.31                                             | 137,600                                                                                                 | \$ 21,874                                                                                                                                                         |
| December 2012 | 418,500                                                 | \$ 9.70                                             | 418,500                                                                                                 | \$ 17,814                                                                                                                                                         |
| Total         | 556,100                                                 |                                                     | 556,100                                                                                                 | \$ 17,814                                                                                                                                                         |

- (1) On December 20, 2011, our Board of Directors authorized the repurchase of up to \$25.0 million of our common stock in the open market or through privately negotiated transactions.

**Item 6. EXHIBITS**

| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1          | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)                                                                                                                                                                                                                                                                                                                                         |
| 31.2          | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)                                                                                                                                                                                                                                                                                                                                         |
| 32.1          | Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)                                                                                                                                                                                                                                                                                                 |
| 32.2          | Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)                                                                                                                                                                                                                                                                                                 |
| 101*          | The following financial information from our Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Income Statements; (iii) Condensed Consolidated Statement of Shareholders' Equity; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements. |

- \* This information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSAL TECHNICAL INSTITUTE, INC.

Dated: February 1, 2013

By: /s/ Eugene S. Putnam, Jr.  
Eugene S. Putnam, Jr.  
President and Chief Financial Officer

(Principal Financial Officer and Duly Authorized Officer)