

UNIVERSAL TECHNICAL INSTITUTE INC
Form 10-Q
August 04, 2017

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 June 30, 2017

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
(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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

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

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

Edgar Filing: UNIVERSAL TECHNICAL INSTITUTE INC - Form 10-Q

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

At July 27, 2017, there were 24,757,834 shares outstanding of the registrant's common stock.

UNIVERSAL TECHNICAL INSTITUTE, INC.
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017

| | Page Number |
|--|----------------|
| <u>Special Note Regarding Forward-Looking Statements</u> | ii |
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements (unaudited)</u> | |
| <u>Condensed Consolidated Balance Sheets at June 30, 2017 and September 30, 2016 (unaudited)</u> | 1 |
| <u>Condensed Consolidated Statements of Loss for the three months and nine months ended June 30, 2017 and 2016 (unaudited)</u> | 2 |
| <u>Condensed Consolidated Statements of Comprehensive Loss for the three months and nine months ended June 30, 2017 and 2016 (unaudited)</u> | 3 |
| <u>Condensed Consolidated Statement of Shareholders' Equity for the nine months ended June 30, 2017 (unaudited)</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2017 and 2016 (unaudited)</u> | 5 |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> | 7 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 26 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 38 |
| <u>Item 4. Controls and Procedures</u> | 38 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 40 |
| <u>Item 1A. Risk Factors</u> | 40 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 41 |
| <u>Item 6. Exhibits</u> | 41 |
| <u>SIGNATURES</u> | 42 |

Table of Contents

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, as amended (Exchange Act), and Section 27A of the Securities Act of 1933, as amended (Securities Act), 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 and anticipated timing for ongoing regulatory initiatives; 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,” “expect,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” and similar expressions, as well as statements in future tense identify forward-looking statements. However, not all forward-looking statements contain these identifying words.

We cannot guarantee that 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 potentially inaccurate assumptions. Many events beyond our control may determine whether results we anticipate will be achieved. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you 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 Annual Report on Form 10-K that we filed with the SEC on November 30, 2016 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 Exchange Act and Section 27A of the Securities Act. Readers can find them under the heading “Risk Factors” in the Form 10-K and in this Form 10-Q, 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.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | June 30, 2017 | September 30, 2016 |
|---|------------------|--------------------------|
| | (In thousands) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$35,077 | \$119,045 |
| Restricted cash | 13,598 | 5,956 |
| Trading securities | 39,790 | — |
| Held-to-maturity investments, current portion | 9,398 | 1,691 |
| Receivables, net | 10,091 | 15,253 |
| Prepaid expenses and other current assets | 19,618 | 20,004 |
| Total current assets | 127,572 | 161,949 |
| Held-to-maturity investments, less current portion | 251 | — |
| Property and equipment, net | 108,452 | 114,033 |
| Goodwill | 9,005 | 9,005 |
| Other assets | 11,492 | 12,172 |
| Total assets | \$256,772 | \$297,159 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$31,336 | \$42,545 |
| Dividends payable | 1,309 | — |
| Deferred revenue | 25,040 | 44,491 |
| Accrued tool sets | 2,920 | 2,938 |
| Financing obligation, current | 1,056 | 913 |
| Income tax payable | 845 | — |
| Other current liabilities | 4,099 | 3,673 |
| Total current liabilities | 66,605 | 94,560 |
| Deferred tax liabilities, net | 3,141 | 3,141 |
| Deferred rent liability | 7,365 | 8,987 |
| Financing obligation | 42,325 | 43,141 |
| Other liabilities | 10,021 | 10,716 |
| Total liabilities | 129,457 | 160,545 |
| Commitments and contingencies (Note 11) | | |
| Shareholders' equity: | | |
| Common stock, \$0.0001 par value, 100,000,000 shares authorized, 31,622,731 shares issued and 24,757,834 shares outstanding as of June 30, 2017 and 31,489,331 shares issued and 24,624,434 shares outstanding as of September 30, 2016 | 3 | 3 |
| Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; 700,000 shares of Series A Convertible Preferred Stock issued and outstanding as of June 30, 2017 and September 30, 2016, liquidation preference of \$100 per share | — | — |
| Paid-in capital - common | 184,597 | 182,615 |
| Paid-in capital - preferred | 68,853 | 68,820 |
| Treasury stock, at cost, 6,864,897 shares as of June 30, 2017 and September 30, 2016 | (97,388) | (97,388) |
| Retained deficit | (28,752) | (17,454) |

Edgar Filing: UNIVERSAL TECHNICAL INSTITUTE INC - Form 10-Q

| | | |
|--|-----------|-----------|
| Accumulated other comprehensive income | 2 | 18 |
| Total shareholders' equity | 127,315 | 136,614 |
| Total liabilities and shareholders' equity | \$256,772 | \$297,159 |

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

1

Table of ContentsUNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF LOSS (UNAUDITED)

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--|------------|-------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands, except per share amounts) | | | |
| Revenues | \$76,258 | \$82,266 | \$242,934 | \$260,231 |
| Operating expenses: | | | | |
| Educational services and facilities | 44,120 | 47,044 | 136,108 | 146,466 |
| Selling, general and administrative | 34,922 | 40,672 | 107,536 | 127,178 |
| Total operating expenses | 79,042 | 87,716 | 243,644 | 273,644 |
| Loss from operations | (2,784) | (5,450) | (710) | (13,413) |
| Other income (expense): | | | | |
| Interest expense, net | (559) | (802) | (2,020) | (2,416) |
| Equity in earnings of unconsolidated affiliates | 116 | 51 | 369 | 290 |
| Other income, net | 277 | 77 | 712 | 455 |
| Total other expense, net | (166) | (674) | (939) | (1,671) |
| Loss before income taxes | (2,950) | (6,124) | (1,649) | (15,084) |
| Income tax expense (benefit) | 967 | (1,055) | 5,722 | 23,667 |
| Net loss | \$(3,917) | \$(5,069) | \$(7,371) | \$(38,751) |
| Preferred stock dividends | 1,309 | 101 | 3,927 | 101 |
| Loss available for distribution | \$(5,226) | \$(5,170) | \$(11,298) | \$(38,852) |
| Loss per share: | | | | |
| Net loss per share - basic | \$(0.21) | \$(0.21) | \$(0.46) | \$(1.60) |
| Net loss per share - diluted | \$(0.21) | \$(0.21) | \$(0.46) | \$(1.60) |
| Weighted average number of shares outstanding: | | | | |
| Basic | 24,748 | 24,345 | 24,679 | 24,283 |
| Diluted | 24,748 | 24,345 | 24,679 | 24,283 |
| Cash dividends declared per common share | \$— | \$— | \$— | \$0.04 |

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

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

| | Three Months | | Nine Months | |
|---|----------------|------------|----------------|-------------|
| | Ended June 30, | | Ended June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands) | | | |
| Net loss | \$ (3,917) | \$ (5,069) | \$ (7,371) | \$ (38,751) |
| Other comprehensive loss (net of tax): | | | | |
| Equity interest in investee's unrealized losses on hedging derivatives, net of taxes ⁽¹⁾ | (7) | — | (16) | (1) |
| Comprehensive loss | \$ (3,924) | \$ (5,069) | \$ (7,387) | \$ (38,752) |

⁽¹⁾The tax effect during the three months and nine months ended June 30, 2017 and 2016 was not significant.

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

Table of ContentsUNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

| | Common Stock Shares | Common Stock Amount | Preferred Stock Shares | Preferred Stock Amount | Paid-in Capital - Common | Paid-in Capital - Preferred | Treasury Stock Shares | Treasury Stock Amount | Retained Deficit | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|--|---------------------------|---------------------------|------------------------------|------------------------------|--------------------------------|-----------------------------------|--------------------------|--------------------------|---------------------|---|----------------------------------|
| (In thousands) | | | | | | | | | | | |
| Balance as of September 30, 2016 | 31,489 | \$ 3 700 | \$ | -\$182,615 | \$68,820 | 6,865 | \$(97,388) | \$(17,454) | \$ 18 | \$ 136,614 | |
| Net loss | — | — | — | — | — | — | — | (7,371) | — | (7,371) | |
| Issuance of Series A Convertible Preferred Stock | — | — | — | — | 33 | — | — | — | — | 33 | |
| Issuance of common stock under employee plans | 137 | — | — | — | — | — | — | — | — | — | |
| Shares withheld for payroll taxes | (3) | — | — | (10) | — | — | — | — | — | (10) | |
| Stock-based compensation | — | — | — | 1,992 | — | — | — | — | — | 1,992 | |
| Preferred stock dividends | — | — | — | — | — | — | — | (3,927) | — | (3,927) | |
| Equity interest in investee's unrealized losses on hedging derivatives, net of tax | — | — | — | — | — | — | — | — | (16) | (16) | |
| Balance as of June 30, 2017 | 31,623 | \$ 3 700 | \$ | -\$184,597 | \$68,853 | 6,865 | \$(97,388) | \$(28,752) | \$ 2 | \$ 127,315 | |

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

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

| | Nine Months Ended | |
|---|-------------------|-------------|
| | June 30, | |
| | 2017 | 2016 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net loss | \$(7,371) | \$(38,751) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 10,726 | 11,358 |
| Amortization of assets subject to financing obligation | 2,012 | 2,012 |
| Amortization of discount on investments | 32 | 387 |
| Unrealized gains on trading securities | (10) | — |
| Bad debt expense | 503 | 931 |
| Stock-based compensation | 1,992 | 3,208 |
| Deferred income taxes | — | 27,928 |
| Equity in earnings of unconsolidated affiliates | (369) | (290) |
| Training equipment credits earned, net | (710) | (716) |
| Loss on disposal of property and equipment | 18 | 89 |
| Changes in assets and liabilities: | | |
| Restricted cash | (11,050) | 322 |
| Receivables | 2,453 | 11,221 |
| Prepaid expenses and other current assets | 358 | (1,535) |
| Other assets | 263 | (83) |
| Accounts payable and accrued expenses | (11,359) | (3,217) |
| Deferred revenue | (19,451) | (17,358) |
| Income tax payable/receivable | 3,052 | (5,973) |
| Accrued tool sets and other current liabilities | 768 | 359 |
| Deferred rent liability | (1,622) | (1,372) |
| Other liabilities | (70) | 648 |
| Net cash used in operating activities | (29,835) | (10,832) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (6,497) | (6,695) |
| Proceeds from disposal of property and equipment | 1 | 20 |
| Purchase of held-to-maturity investments | (9,671) | — |
| Proceeds received upon maturity of investments | 1,687 | 24,569 |
| Purchase of trading securities | (41,585) | — |
| Proceeds from sales of trading securities | 1,799 | — |
| Acquisitions | — | (1,500) |
| Investment in unconsolidated affiliates | — | (1,000) |
| Capitalized costs for intangible assets | (325) | (575) |
| Return of capital contribution from unconsolidated affiliate | 352 | 359 |
| Restricted cash: other | 3,407 | 2,258 |
| Net cash provided by (used in) investing activities | (50,832) | 17,436 |
| Cash flows from financing activities: | | |
| Proceeds from sale of preferred stock, net of issuance costs paid | — | 69,214 |
| Payment of common stock cash dividends | — | (1,457) |
| Payment of preferred stock cash dividend | (2,618) | — |
| Payment of financing obligation | (673) | (542) |

Edgar Filing: UNIVERSAL TECHNICAL INSTITUTE INC - Form 10-Q

| | | |
|--|-----------|-----------|
| Payment of payroll taxes on stock-based compensation through shares withheld | (10) | (12) |
| Net cash provided by (used in) financing activities | (3,301) | 67,203 |
| Net increase (decrease) in cash and cash equivalents | (83,968) | 73,807 |
| Cash and cash equivalents, beginning of period | 119,045 | 29,438 |
| Cash and cash equivalents, end of period | \$35,077 | \$103,245 |

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

5

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED), continued

| | Nine Months Ended June 30, | |
|---|-------------------------------|---------|
| | 2017 | 2016 |
| | (In thousands) | |
| Supplemental disclosure of cash flow information: | | |
| Taxes paid | \$2,670 | \$1,713 |
| Interest paid | \$2,543 | \$2,583 |
| Training equipment obtained in exchange for services | \$1,011 | \$2,346 |
| Depreciation of training equipment obtained in exchange for services | \$960 | \$1,000 |
| Change in accrued capital expenditures during the period | \$217 | \$2,075 |
| Dividends payable | \$1,309 | \$101 |
| Preferred stock issuance costs accrued | \$— | \$378 |
| The accompanying notes are an integral part of these unaudited condensed consolidated financial statements. | | |

Table of Contents

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 or diploma programs at 12 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 advanced training (MSAT) programs, including student-paid electives, at our campuses and manufacturer or dealer sponsored training at certain campuses and dedicated training centers.

We work closely with leading original equipment manufacturers (OEMs) in the automotive, diesel, motorcycle and marine industries to understand their needs for qualified service professionals. Revenues generated from our schools consist primarily of tuition and fees paid by students. To pay for a substantial portion of their tuition, the majority of students rely on funds received from federal financial aid programs under Title IV Programs of the Higher Education Act of 1965, as amended, as well as from various veterans benefits programs. For further discussion, see Note 2 "Summary of Significant Accounting Policies - Concentration of Risk" and Note 19 "Government Regulation and Financial Aid" included in our 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016.

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. 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 and nine months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending September 30, 2017. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016.

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

The preparation of financial statements in conformity with GAAP requires us 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.

Income Taxes

Historically, we have calculated income tax expense for interim periods based on estimated annual effective tax rates. These rates have been derived, in part, from expected income before taxes for the year. However, authoritative accounting guidance indicates that companies should not apply the estimated annual tax rate to interim financial

results if the estimated annual tax rate is not reliably predictable. We are not able to reasonably estimate the annual effective tax rate for the year ending September 30, 2017 because small fluctuations in our earnings before taxes could result in a material change in the estimated annual effective tax rate based on our current

7

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(\$'s in thousands, except per share amounts)

projections. Therefore, for the three months and nine months ended June 30, 2017, we calculated income taxes using the actual income tax rate for the respective periods.

Restricted Cash

Restricted cash includes the funds transferred in advance of loan purchases under our proprietary loan program, funds held for students from Title IV financial aid program funds that result in credit balances on a student's account and funds held as collateral for certain of the surety bonds that our insurers issue on behalf of our campuses and admissions representatives with multiple states, which are required to maintain authorization to conduct our business. Changes in restricted cash that represent funds held for students or that result from changes in the collateralization required for surety bonds as described above are included in cash flows from operating activities on our condensed consolidated statements of cash flows because these restricted funds are related to the core activity of our operations. All other changes in restricted cash are included in cash flows from investing activities on our condensed consolidated statements of cash flows.

3. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (FASB) issued guidance intended to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Instead, an entity will record an impairment charge based on the excess of a reporting unit's carrying value over its fair value (Step 1 of the existing goodwill impairment test). We adopted this guidance prospectively during the quarter ended March 31, 2017 for our interim goodwill impairment testing; the adoption had no impact on our results of operations, financial condition or financial statement disclosures.

In March 2016, the FASB issued guidance intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. We adopted this guidance prospectively as of October 1, 2016; the adoption had an immaterial impact on our results of operations, financial condition and financial statement disclosures.

In November 2015, the FASB issued guidance which simplifies the balance sheet classification of deferred taxes. The guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. We adopted this guidance prospectively as of October 1, 2016; the adoption had no impact on our results of operations, financial condition or financial statement disclosures.

In April 2015, the FASB issued guidance related to customers' accounting for fees paid in a cloud computing arrangement. The guidance provides clarification on whether a cloud computing arrangement includes a software license. If an arrangement includes a software license, then the software license element is accounted for consistent with the acquisition of other such licenses. If the arrangement does not include a software license, the arrangement is accounted for as a service contract. We adopted this guidance prospectively as of October 1, 2016; the adoption had an immaterial impact on our results of operations, financial condition and financial statement disclosures.

In February 2015, the FASB issued guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments (1) modify the evaluation of whether limited partnerships with similar legal entities are variable interest entities (VIEs) or voting interest entities, (2) eliminate the presumption that a general partner should consolidate a limited partnership, (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee

arrangements and related party relationships and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered

8

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(\$'s in thousands, except per share amounts)

money market funds. We adopted this guidance as of October 1, 2016. The guidance had no impact on our results of operations, financial condition or financial statement disclosures.
Effective the first quarter of fiscal 2019:

In January 2017, the FASB issued guidance which clarifies the definition of a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, then the acquisition is not a business. In addition, a business must include at least one substantive process. The standard is to be applied on a prospective basis to purchases or disposals of a business or an asset. The effect of this new standard on our consolidated financial statements will be dependent on any future acquisitions.

In August 2016, the FASB issued guidance which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. We are currently evaluating the impact that the standard will have on our consolidated statements of cash flows. Further, in November 2016, the FASB issued guidance that requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. Based on the restricted cash balances on our consolidated balance sheets, we expect this standard to have an impact on the presentation of our consolidated statements of cash flows.

In January 2016, the FASB issued guidance related to the classification and measurement of financial instruments. The guidance primarily impacts the accounting for equity investments other than those accounted for using the equity method of accounting, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. Additionally, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities and financial liabilities is largely unchanged. Based on our current portfolio of investments in debt securities accounted for as held-to-maturity securities and investments made in equity securities accounted for as trading securities, the adoption of this standard is not expected to have a material impact on our financial statements.

In May 2014, the FASB issued guidance which outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance, and requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Entities have the option of using either a full retrospective or modified approach to adopt the guidance. In 2016, the FASB issued further guidance that offers narrow scope improvements and clarifies certain implementation issues related to revenue recognition, including principal versus agent considerations, the identification of performance obligations and licensing. These additional updates have the same effective date as the new revenue guidance. We are continuing to evaluate the potential impact to our various revenue streams and continue to evaluate the adoption methods and the impact that the update will have on our results of operations, financial condition and financial statement disclosures.
Effective the first quarter of fiscal 2020:

In February 2016, the FASB issued guidance requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of income. We

are currently evaluating the impact that the update will have on our results of operations, financial condition and financial statement disclosures.

9

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

Effective the first quarter of fiscal 2021:

In June 2016, the FASB issued guidance which changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. We are currently evaluating the impact that the standard will have on our results of operations, financial condition and financial statement disclosures.

4. Postemployment Benefits

In November 2016, we completed a reduction in workforce impacting approximately 75 employees and provided postemployment benefits totaling approximately \$1.3 million. 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 month to 24 months, with the final agreement expiring in November 2018.

The postemployment benefit accrual activity for the nine months ended June 30, 2017 was as follows:

| | Liability Balance at September 30, 2016 | Postemployment Benefit Charges | Cash Paid | Other Non-cash (1) | Liability Balance at June 30, 2017 |
|-----------|---|-----------------------------------|------------|-----------------------|---------------------------------------|
| Severance | \$ 4,046 | \$ 1,681 | \$(4,251) | \$ (492) | \$ 984 |
| Other | 189 | 114 | (229) | (74) | — |
| Total | \$ 4,235 | \$ 1,795 | \$(4,480) | \$ (566) | \$ 984 |

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

5. Investments

During the third quarter of 2017, we began investing in various bond funds. These investments are held principally for resale in the near term and are classified as trading securities. Trading securities are recorded at fair value based on the closing market price of the security. The unrealized gain on trading securities at June 30, 2017 was less than \$0.1 million and was included in other income, net in the accompanying condensed consolidated statements of loss. Held-to-maturity securities consist of 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. Held-to-maturity securities also include 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 intention to hold our investments until maturity and therefore classify these investments as held-to-maturity and report them at amortized cost.

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

Amortized cost and fair value for investments classified as held-to-maturity at June 30, 2017 were as follows:

| | Amortized Cost | Gross Gain | Unrealized Losses | Estimated Fair Market Value |
|--------------------------|-------------------|---------------|----------------------|-----------------------------------|
| Due in less than 1 year: | | | | |
| Corporate bonds | \$ 9,398 | \$ — | \$(9) | \$ 9,389 |
| Due in 1 - 2 years: | | | | |
| Corporate bonds | 251 | — | (1) | 250 |
| | \$ 9,649 | \$ — | \$(10) | \$ 9,639 |

Amortized cost and fair value for investments classified as held-to-maturity at September 30, 2016 were as follows:

| | Amortized Cost | Gross Gains | Unrealized Losses | Estimated Fair Market Value |
|--------------------------|-------------------|----------------|----------------------|-----------------------------------|
| Due in less than 1 year: | | | | |
| Municipal bonds | \$ 744 | \$ — | \$ — | —\$ 744 |
| Corporate bonds | 200 | — | — | 200 |
| Certificates of deposit | 747 | — | — | 747 |
| | \$ 1,691 | \$ — | \$ — | —\$ 1,691 |

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, condensed consolidated statements of loss and condensed consolidated statements of comprehensive loss.

6. 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. Any transfers of investments between levels occurs at the end of the reporting period.

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

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

| | June 30, 2017 | Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
|---|------------------|---|---|--|---|
| Trading securities | \$39,790 | \$39,790 | \$ | —\$ | — |
| Money market funds | 27,925 | 27,925 | — | — | |
| Corporate bonds | 9,639 | 9,639 | — | — | |
| Total assets at fair value on a recurring basis | \$77,354 | \$77,354 | \$ | —\$ | — |

| | September 30, 2016 | Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
|---|-----------------------|--|---|--|---|
| Money market funds | \$108,963 | \$108,963 | \$ | \$ | — |
| Corporate bonds | 200 | 200 | — | — | |
| Commercial paper | 2,501 | — | 2,501 | — | |
| Municipal bonds | 744 | — | 744 | — | |
| Certificates of deposit | 747 | — | 747 | — | |
| Total assets at fair value on a recurring basis | \$113,155 | \$109,163 | \$3,992 | \$ | — |

Our Level 2 investments are valued using readily available pricing sources which utilize market observable inputs, including the current interest rate for similar types of instruments.

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

7. Property and Equipment, net

Property and equipment, net consisted of the following:

| | Depreciable Lives (in years) | June 30, 2017 | September 30, 2016 |
|--|---------------------------------|------------------|-----------------------|
| Land | — | \$3,189 | \$ 3,189 |
| Buildings and building improvements | 30-35 | 79,406 | 78,870 |
| Leasehold improvements | 1-28 | 40,437 | 39,539 |
| Training equipment | 3-10 | 92,391 | 92,601 |
| Office and computer equipment | 3-10 | 37,042 | 37,688 |
| Curriculum development | 5 | 18,736 | 18,702 |
| Software developed for internal use | 1-5 | 11,970 | 11,905 |
| Vehicles | 5 | 1,275 | 1,228 |
| Construction in progress | — | 5,062 | 2,195 |
| | | 289,508 | 285,917 |
| Less accumulated depreciation and amortization | | (181,056) | (171,884) |
| | | \$108,452 | \$ 114,033 |

The following amounts, which are included in the above table, represent assets financed by financing obligations resulting from the build-to-suit arrangements at our Lisle, Illinois and Long Beach, California campuses:

| | June 30, 2017 | September 30, 2016 |
|--|------------------|-----------------------|
| Buildings and building improvements | \$45,816 | \$ 45,816 |
| Less accumulated depreciation and amortization | (8,174) | (6,162) |
| Assets financed by financing obligations, net | \$37,642 | \$ 39,654 |

8. Investment in Unconsolidated Affiliates

We have an equity interest in a joint venture related to the lease of our Lisle, Illinois campus facility (JV). In connection with this investment, we do not possess a controlling financial interest as we do not hold a majority of the equity interest, nor do we have the power to make major decisions without approval from the other equity member. Therefore, we do not qualify as the primary beneficiary. Accordingly, this investment is accounted for under the equity method of accounting and is included in other assets in our condensed consolidated balance sheets. We recognize our proportionate share of the net income or loss during each accounting period and any return of capital as a change in our investment.

Currently, the JV uses an interest rate cap to manage interest rate risk associated with its floating rate debt. This derivative instrument is designated as a cash flow hedge based on the nature of the risk being hedged. As such, the effective portion of the gain or loss on the derivative is initially reported as a component of the JV's accumulated other comprehensive income or loss, net of tax, and is subsequently reclassified into earnings when the hedged transaction affects earnings. Any ineffective portion of the gain or loss is recognized in the JV's current earnings. Due to our equity method investment in the JV, when the JV reports a current year component of other comprehensive income (OCI), we, as an investor, likewise adjust our investment account for the change in investee equity. In addition, we

adjust our OCI for our share of the JV's currently reported OCI item.

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

Additionally, in February 2016, we made an investment in and entered into a licensing agreement with Pro-MECH Learning Systems, LLC (Pro-MECH), a company that provides comprehensive technician development programs and shop operations services. This investment resulted in our ownership of 25% of the outstanding equity interests of Pro-MECH. The \$1.0 million investment was accounted for under the equity method of accounting. During the three months ended September 30, 2016, we determined that the carrying value of our investment was not recoverable and recorded a full impairment loss.

Investment in unconsolidated affiliates consisted of the following:

| | June 30, 2017 | | September 30, 2016 | |
|------------------------|----------------|----------------------|--------------------|----------------------|
| | Carrying Value | Ownership Percentage | Carrying Value | Ownership Percentage |
| Investment in JV | \$4,037 | 27.972 % | \$4,036 | 27.972 % |
| Investment in Pro-MECH | \$— | 25.000 % | \$— | 25.000 % |

Investment in unconsolidated affiliates included the following activity during the period:

| | Nine Months Ended June 30, | |
|--|----------------------------|---------|
| | 2017 | 2016 |
| Balance at beginning of period | \$4,036 | \$3,986 |
| Investment in unconsolidated affiliate | — | 1,000 |
| Equity in earnings of unconsolidated affiliates | 369 | 290 |
| Return of capital contribution from unconsolidated affiliates | (352) | (359) |
| Equity interest in investee's unrealized losses on hedging derivatives, net of taxes | (16) | (1) |
| Balance at end of period | \$4,037 | \$4,916 |

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

| | June 30, 2017 | September 30, 2016 |
|-----------------------------------|---------------|--------------------|
| Accounts payable | \$7,104 | \$ 11,805 |
| Accrued compensation and benefits | 13,915 | 22,501 |
| Other accrued expenses | 10,317 | 8,239 |
| | \$31,336 | \$ 42,545 |

10. Income Taxes

Each reporting period, we estimate the likelihood that we will be able to recover our deferred tax assets, which represent timing differences in the recognition of revenue and certain tax deductions for accounting and tax purposes. The realization of deferred tax assets is dependent, in part, upon future taxable income. In assessing the need for a valuation allowance, we consider all available evidence, including our historical profitability and projections of future taxable income. If, based on the weight of available evidence, it is more likely than not the deferred tax assets will not

be realized, we record a valuation allowance. Such valuation allowance is maintained

14

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

on our deferred tax assets until sufficient positive evidence exists to support its reversal in future periods. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. Significant judgment is required to determine if, and the extent to which, valuation allowances should be recorded against deferred tax assets.

During the three months ended March 31, 2016, there were several pieces of negative evidence that contributed to our conclusion that a valuation allowance was appropriate against all deferred tax assets that rely upon future taxable income for their realization. As a result of our assessment, we recorded a full valuation allowance during the three months ended March 31, 2016. The amount of the deferred tax assets considered realizable, however, could be adjusted in future periods if estimates of future taxable income during the carryforward period are increased, if objective negative evidence in the form of cumulative losses is no longer present and if additional weight may be given to subjective evidence such as our projections for growth. We will continue to evaluate our valuation allowance in future periods for any change in circumstances that causes a change in judgment about the realizability of the deferred tax assets.

Under Section 382 of the Internal Revenue Code (IRC), for income tax purposes only, we underwent a change in ownership as a result of a preferred stock issuance in June 2016, which is discussed in Note 12. Under the IRC, a change in ownership occurs when a five percent shareholder, as measured by ownership value, increases their ownership in a loss corporation by more than 50 percentage points during the defined testing period; both common and preferred stock are included in the determination of ownership value. Since the purchaser of the preferred stock acquired ownership exceeding 50 percent of our total ownership value, this transaction qualified as a change in ownership under section 382 of the IRC only. Accordingly, certain deductions and losses will be subject to an annual Section 382 limitation. The limitation will affect the timing of when these deductions and losses can be used and may cause us to make income tax payments even if a pre-tax loss is recorded in future periods. The limitation may also cause the deductions and losses to expire unused.

The components of income tax expense are as follows:

| | Three Months | | Nine Months | |
|----------------------------------|----------------|-----------|----------------|-----------|
| | Ended June 30, | | Ended June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Current expense (benefit) | | | | |
| Federal | \$569 | \$(1,012) | \$4,504 | \$(4,388) |
| State | 398 | (43) | 1,218 | 127 |
| Total current expense (benefit) | 967 | (1,055) | 5,722 | (4,261) |
| Deferred expense | | | | |
| Federal | — | — | — | 24,877 |
| State | — | — | — | 3,051 |
| Total deferred expense | — | — | — | 27,928 |
| Total provision for income taxes | \$967 | \$(1,055) | \$5,722 | \$23,667 |

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

The income tax provision differs from the tax that would result from application of the statutory federal tax rate of 35% to pre-tax income for the period. The reasons for the differences are as follows:

| | Three Months | | Nine Months | |
|--|----------------|-----------|----------------|------------|
| | Ended June 30, | | Ended June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Income tax expense (benefit) at statutory rate | \$(1,032) | \$(2,158) | \$(577) | \$(5,294) |
| State income taxes (benefits), net of federal tax benefit | 88 | (242) | 314 | (400) |
| Deferred tax asset write-off related to share based compensation | — | — | — | 51 |
| Increase in valuation allowance | 1,866 | 1,407 | 5,880 | 29,356 |
| Other, net | 45 | (62) | 105 | (46) |
| Total income tax expense | \$967 | \$(1,055) | \$5,722 | \$23,667 |

The components of the deferred tax assets (liabilities) recorded in the accompanying condensed consolidated balance sheets were as follows:

| | June 30, | September |
|---|-----------|------------|
| | 2017 | 30, 2016 |
| Gross deferred tax assets: | | |
| Deferred compensation | \$2,332 | \$ 2,083 |
| Reserves and accruals | 5,062 | 5,417 |
| Accrued tool sets | 1,157 | 1,188 |
| Deferred revenue | 27,307 | 22,326 |
| Deferred rent liability | 625 | 1,213 |
| Depreciation and amortization of property and equipment | 2,857 | 684 |
| Charitable contribution carryovers | 474 | 671 |
| Deductions limited by Section 382 | 860 | 592 |
| Net operating losses and tax credit carryforwards | 413 | 479 |
| Valuation allowance | (38,606) | (32,828) |
| Total gross deferred tax assets | 2,481 | 1,825 |
| Gross deferred tax liabilities: | | |
| Amortization of goodwill and intangibles | (3,141) | (3,141) |
| Prepaid and other expenses deductible for tax | (2,481) | (1,825) |
| Total gross deferred tax liabilities | (5,622) | (4,966) |
| Net deferred tax liabilities | \$(3,141) | \$(3,141) |

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

The following table summarizes the activity for the valuation allowance for the nine months ended June 30, 2017:

| Additions | | | Balance at |
|------------|----------|------------|------------|
| Balance at | Income | Write-offs | End of |
| Beginning | Tax | | Period |
| Period | Expense | | Period |
| \$32,828 | \$ 5,880 | \$ (102) | \$ 38,606 |

11. Commitments and Contingencies

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 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, it is not currently possible to provide such an estimate. The ultimate outcome of 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.

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 from September 2006 to September 2012. We responded timely to the request. The Attorney General made a follow-up request for documents, and we complied with this request in February 2013. In response to a status update request from us, the Attorney General requested and we provided in April 2015 additional documents and information related to graduate employment at our Norwood, Massachusetts campus and our policies and practices for determining graduate employment. We have not received any additional requests since April 2015. 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 condensed consolidated 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 bank.

Under terms of the proprietary loan program, 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 provides these services in exchange for a fee at a percentage of the principal balance of each loan and related fees. Under the terms of the related agreement, we transfer funds for loan purchases to a deposit

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

account with the bank in advance of the bank funding the loan, which secures our related loan purchase obligation. Such funds are classified as restricted cash in our condensed consolidated balance sheet.

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. All related expenses incurred with the bank or other service providers are expensed as incurred within educational services and facilities expense and were approximately \$0.3 million for each of the three months ended June 30, 2017 and 2016 and approximately \$1.0 million and \$1.1 million for the nine months ended June 30, 2017 and 2016, respectively. Since loan collectability is not reasonably assured, the loans and related deferred tuition revenue are not recognized in our condensed consolidated balance sheets.

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 statements of loss. 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.

| | Three Months Ended June 30, | | Nine Months Ended June 30, | | Inception to date |
|---------------------------------------|--------------------------------|----------|-------------------------------|----------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | |
| Tuition and interest income excluded | \$4,796 | \$5,197 | \$16,013 | \$17,361 | \$158,728 |
| Amounts collected and recognized | (2,135) | (1,969) | (6,071) | (5,341) | (27,156) |
| Net amount excluded during the period | \$2,661 | \$3,228 | \$9,942 | \$12,020 | \$131,572 |

As of June 30, 2017, we had committed to provide loans to our students for approximately \$153.0 million since inception.

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 recognized in our condensed consolidated balance sheets. Amounts written off represent amounts which have been turned over to third party collectors; such amounts are not included within bad debt expense in our condensed consolidated statements of loss.

| | Nine Months Ended June 30, | |
|----------------------------------|-------------------------------|-----------|
| | 2017 | 2016 |
| Balance at beginning of period | \$75,511 | \$74,664 |
| Loans extended | 11,041 | 13,483 |
| Interest accrued | 2,637 | 2,856 |
| Amounts collected and recognized | (6,071) | (5,341) |
| Amounts written off | (12,888) | (11,113) |
| Balance at end of period | \$70,230 | \$74,549 |

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(\$'s in thousands, except per share amounts)

12. 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 June 9, 2016, our Board of Directors voted to eliminate the quarterly cash dividend on our common stock. Any future common stock dividends require the approval of a majority of the voting power of the Series A Preferred Stock.

Preferred Stock

Preferred Stock consists of 10,000,000 authorized preferred shares of \$0.0001 par value each. As of June 30, 2017 and September 30, 2016, 700,000 shares of Series A Convertible Preferred Stock (Series A Preferred Stock) were issued and outstanding. The liquidation preference associated with the Series A Preferred Stock was \$100 per share at June 30, 2017.

Pursuant to the terms of the Securities Purchase Agreement, we may pay a cash dividend on each share of the Series A Preferred Stock at a rate of 7.5% per year on the liquidation preference then in effect (Cash Dividend). If we do not pay a Cash Dividend, the liquidation preference shall be increased to an amount equal to the current liquidation preference in effect plus an amount reflecting that liquidation preference multiplied by the Cash Dividend rate then in effect plus 2.0% per year (Accrued Dividend). Cash Dividends are payable semi-annually in arrears on September 30 and March 31 of each year, and begin to accrue on the first day of the applicable dividend period. We paid Cash Dividends of \$2.6 million on March 28, 2017 and accrued Cash Dividends of \$1.3 million as of June 30, 2017.

Share Repurchase Program

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. We did not repurchase shares during the nine months ended June 30, 2017. As of June 30, 2017, we have purchased 1,677,570 shares at an average price per share of \$9.09 and a total cost of approximately \$15.3 million under this program. Under the terms of the Securities Purchase Agreement, future stock purchases under this program require the approval of a majority of the voting power of the Series A Preferred Stock.

Stockholder Rights Agreement

On June 29, 2016, our Board of Directors authorized the adoption of a stockholder Rights Agreement to protect against any potential future use of coercive or abusive takeover techniques and to ensure that our stockholders are not deprived of the opportunity to realize the full and fair value of their investment. This agreement, was designed to mitigate the risk of any person or group from acquiring beneficial ownership of 15% or more of our outstanding common stock, or, in the case of any person or group that already owned 15% or more of the outstanding common stock, an additional 0.25%. On February 21, 2017, this agreement was amended to accelerate the expiration date, effectively terminating the agreement as of that date. The agreement was terminated based on the consideration of the current environment, proxy advisory guidelines and feedback from shareholders. In connection with the termination of this agreement, the preferred stock purchase rights were deregistered.

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

13. Earnings per Share

Basic net income (loss) per share has historically been calculated by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Our Series A Preferred Stock is considered a participating security because, in the event that we pay a dividend or make a distribution on the outstanding common stock, we shall also pay each holder of the Series A Preferred Stock a dividend on an as-converted basis. As such, for periods subsequent to the issuance of the Series A Preferred Stock, which occurred on June 24, 2016, we calculated basic earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividend and participation rights in undistributed earnings. Under this method, all earnings, distributed and undistributed, are allocated to common shares and participating securities based on their respective rights to receive dividends. The Series A Preferred Stock is not included in the computation of basic income (loss) per share in periods in which we have a net loss, as the Series A Preferred Stock is not contractually obligated to share in our net losses. Accordingly, the two-class method was not applicable for the three months ended June 30, 2017 and 2016 and for the nine months ended June 30, 2017.

Diluted net income per share is calculated using the more dilutive of the as-converted or the two-class method. The two-class method assumes conversion of all potential shares other than the participating securities. Dilutive potential common shares include outstanding stock options, unvested restricted share awards and units and convertible preferred stock. The basic and diluted net loss amounts are the same for the three months and nine months ended June 30, 2017 and 2016 as a result of the net loss and anti-dilutive impact of the potentially dilutive securities. The following table summarizes the computation of basic and diluted loss per share under the as-converted method:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|--------------------------------|-----------|-------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands) | | | |
| Loss available for distribution | \$(5,226) | \$(5,170) | \$(11,298) | \$(38,852) |
| Weighted average number of shares | | | | |
| Basic shares outstanding | 24,748 | 24,345 | 24,679 | 24,283 |
| Dilutive effect related to employee stock plans | — | — | — | — |
| Diluted shares outstanding | 24,748 | 24,345 | 24,679 | 24,283 |
| Net loss per share - basic | \$(0.21) | \$(0.21) | \$(0.46) | \$(1.60) |
| Net loss per share - diluted | \$(0.21) | \$(0.21) | \$(0.46) | \$(1.60) |

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

The following table summarizes the potential weighted average shares of common stock that were excluded from the determination of our diluted shares outstanding as they were anti-dilutive:

| | Three | Nine | | |
|--------------------------------|----------------|------------|--------|-------|
| | Months | Months | | |
| | Ended June | Ended June | | |
| | 30, | 30, | | |
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands) | | | |
| Outstanding stock-based grants | 423 | 778 | 585 | 834 |
| Convertible preferred stock | 21,021 | 1,386 | 21,021 | 460 |
| | 21,444 | 2,164 | 21,606 | 1,294 |

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 (\$'s in thousands, except per share amounts)

14. 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. Our equity method investments and other non-Postsecondary Education operations are also included within the Other category. Corporate expenses are allocated to Postsecondary Education and the Other category based on compensation expense. Depreciation and amortization includes amortization of assets subject to a financing obligation.

Summary information by reportable segment is as follows:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|--|--------------------------------|------------|-------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | |
| Postsecondary Education | \$72,568 | \$79,156 | \$231,282 | \$ 250,558 |
| Other | 3,690 | 3,110 | 11,652 | 9,673 |
| Consolidated | \$76,258 | \$82,266 | \$242,934 | \$ 260,231 |
| Income (loss) from operations | | | | |
| Postsecondary Education | \$(2,081) | \$(4,297) | \$1,141 | \$(10,206) |
| Other | (703) | (1,153) | (1,851) | (3,207) |
| Consolidated | \$(2,784) | \$(5,450) | \$(710) | \$(13,413) |
| Depreciation and amortization ⁽¹⁾ | | | | |
| Postsecondary Education | \$4,115 | \$4,180 | \$12,455 | \$ 12,902 |
| Other | 110 | 167 | 283 | 468 |
| Consolidated | \$4,225 | \$4,347 | \$12,738 | \$ 13,370 |
| Net income (loss) | | | | |
| Postsecondary Education | \$(3,393) | \$(4,426) | \$(6,807) | \$(37,366) |
| Other | (524) | (643) | (564) | (1,385) |
| Consolidated | \$(3,917) | \$(5,069) | \$(7,371) | \$(38,751) |

| | June 30, 2017 | September 30, 2016 |
|-------------------------|------------------|-----------------------|
| Goodwill | | |
| Postsecondary Education | \$8,222 | \$ 8,222 |
| Other | 783 | 783 |
| Consolidated | \$9,005 | \$ 9,005 |
| Total assets | | |
| Postsecondary Education | \$249,220 | \$ 289,688 |
| Other | 7,552 | 7,471 |
| Consolidated | \$256,772 | \$ 297,159 |

⁽¹⁾ Excludes depreciation of training equipment obtained in exchange for services of \$0.3 million and \$0.4 million for the three months ended June 30, 2017 and 2016, respectively, and of \$1.0 million for each of the nine months ended June 30, 2017 and 2016.

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(\$'s in thousands, except per share amounts)

15. Government Regulation and Financial Aid

State Authorization and Regulation

On December 16, 2016, the Massachusetts Division of Professional Licensure published disclosure and business practice regulations applicable to proprietary schools operating in or recruiting from Massachusetts. As published, certain of the regulations were effective immediately and others become effective through January 1, 2018. The disclosure obligations under the new regulations are similar to those already required by Massachusetts. The regulations also require various business practice changes, including, among other items, ethics training for admissions representatives, creation of program outlines separate from existing catalogs, changes to refund requirements for students who begin school with pending financial aid and changes to enrollment agreements to reflect the refund policy change. We believe we are in compliance with all of the regulations that are currently effective and are working to comply with the remaining disclosure regulations, which will go into effect on January 1, 2018.

Each of our campuses must be authorized by the applicable state education agency in which the campus is located to operate and to grant degrees, diplomas or certificates to its students. Our campuses are subject to extensive, ongoing regulation by each of these states. Additionally, our campuses are required to be authorized by the applicable state education agencies of certain other states in which our campuses recruit students. Our insurers issue surety bonds for us on behalf of our campuses and admissions representatives with multiple states to maintain authorization to conduct our business. We are obligated to reimburse our insurers for any surety bonds that are paid by the insurers. In April 2017, the Arizona State Board for Private Postsecondary Education requested that we post a \$3.0 million surety bond related to our Avondale and Phoenix, Arizona campuses. We have complied with this request.

Accreditation

The procedures of our accrediting agency for the renewal of accreditation of a campus require a team of professionals to conduct an on-site visit at the campus and issue a Team Summary Report, which includes an assessment of the school's compliance with accrediting standards. On July 20, 2017, we received a Team Summary Report from the Accrediting Commission of Career Schools and Colleges (ACCSC) that summarized three findings from its visit to our Long Beach, California campus in connection with renewing the campus' accreditation. The first finding related to the campus' application for a hybrid-distance education model, which is used in several programs. The second finding related to the campus' application of ACCSC's standards for the calculation of credit hours. The third finding related to the campus' application of certain aspects of its leave of absence policy. Under ACCSC procedures, we intend to respond to the Team Summary Report by the September 1, 2017 due date. ACCSC has indicated that our response will be considered at the November 2017 meeting.

On July 20, 2017, we also received the Team Summary Reports that summarize the findings from the renewal of accreditation evaluations for our Norwood, Massachusetts and Sacramento, California campuses. One of the programs at the Norwood campus did not meet the graduation benchmark set by ACCSC. We anticipate discontinuing this program. One of the programs at the Sacramento campus did not meet the employment benchmark set by ACCSC. Our response is due to ACCSC by September 1, 2017. We are continuing to implement initiatives designed to improve our graduation and employment rates.

In June 2017, our Exton, Pennsylvania and Dallas/Ft. Worth, Texas campuses received the "School of Excellence" designation by the Accrediting Commission of Career Schools and Colleges (ACCSC). The School of Excellence Award recognizes ACCSC-accredited institutions for their commitment to the expectations and rigors of ACCSC accreditation, as well as the efforts made by the institution in maintaining high-levels of achievement among their

students. In order to be eligible for the School of Excellence Award, an ACCSC-accredited institution must meet the conditions of renewing accreditation without any finding of non-compliance, satisfy all requirements necessary to be in good standing with ACCSC and demonstrate that the majority of the schools' student graduation and graduate employment rates for all programs offered meet or exceed the average rates of graduation and

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(\$'s in thousands, except per share amounts)

employment among all ACCSC-accredited institutions. Additionally, each of these campuses received a six-year renewal of accreditation instead of the standard five-year renewal.

In March 2017, ACCSC conducted an unannounced site visit at our Houston, Texas campus. One program in the automotive division did not achieve the graduation benchmark set by ACCSC and was placed on heightened monitoring status effective June 9, 2017. We are continuing to implement retention strategies designed to improve our graduation rates.

As of September 30, 2016, two programs in the automotive and automotive/diesel/industrial divisions at our Rancho Cucamonga, California campus did not achieve the graduation benchmarks set by ACCSC and were placed on outcomes reporting. One of the two programs has since met the graduation benchmark using more recent data. Both programs were removed from outcomes reporting in June 2017. We began offering our Automotive Technology and Diesel Technology II curricula at this campus in April 2017; as part of this rollout, the below-benchmark programs are being discontinued.

Regulation of Federal Student Financial Aid Programs

Gainful Employment. In June 2017, the Department of Education (ED) announced its intent to convene a negotiated rulemaking committee to develop proposed regulations to revise the gainful employment regulations. ED has suggested that the committee will convene in late 2017 and early 2018 and issue proposed regulations for public comment during the first half of 2018, but ED has not established a final schedule.

On June 30, 2017, ED announced the extension of the compliance deadline for certain gainful employment disclosure requirements from July 1, 2017 to July 1, 2018. ED stated that institutions are still required to comply with other gainful employment disclosure requirements by July 1, 2017. ED also announced its intent to extend the deadline for all programs to file alternate earnings appeals from July 1, 2017 to a later date to be provided in a future announcement expected by early August 2017. ED has not announced a delay or suspension in the enforcement of any other gainful employment regulations, nor in the issuance of new draft or final gainful employment rates in the future. In January 2017, ED issued to our schools final versions of the first set of debt to earnings rates under the new gainful employment rule. The final rates were consistent with the draft rates previously discussed in our 2016 Annual Report on Form 10-K, with nine of our 12 educational programs achieving passing rates and the other three programs in the zone.

Borrower Defense to Repayment Regulations. In November 2016, ED published final regulations establishing new rules regarding, among other things, the ability of borrowers to obtain discharges of their obligations to repay certain Title IV loans and for ED to initiate a proceeding to collect from the institution the discharged and returned amounts and the extensive list of circumstances that may require institutions to provide letters of credit or other financial protection to ED. In June 2017, the effective date of the majority of the Borrower Defense and Other Discharges regulations was delayed until further notice. ED also announced its intent to convene a negotiated rulemaking committee to develop proposed regulations to revise the regulations on borrower defenses to repayment of Federal student loans and other matters published on November 1, 2016. ED has suggested that the committee will convene in late 2017 and early 2018 and issue proposed regulations for public comment during the first half of 2018, but ED has not established a final schedule.

Other Federal Student Financial Aid Matters. In May 2017, Congress approved the FY 2017 omnibus appropriations bill that included the reinstatement of year-round Pell grants beginning with the 2017-2018 award year. The reinstatement will provide up to an additional \$2,960 in 2017-2018 Pell grant funding for eligible students.

In February 2017, ED notified us that it had completed its review of our audited financial statements for the year ended September 30, 2016 and concluded that they yield a composite score of 1.7 out of 3.0. As a result of our composite score exceeding the 1.5 required to be deemed financially responsible under ED composite score regulations, we are no longer subject to Heightened Cash Monitoring 1 restrictions under the Zone Alternative, imposed by ED beginning in October 2016. However, we will continue to provide a monthly student roster and a

Table of Contents

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(\$'s in thousands, except per share amounts)

biweekly cash flow projection, which was requested in connection with the issuance of our Series A Convertible Preferred Stock in June 2016.

In December 2016, we were advised by ED that our applications for Title IV program participation recertification with respect to our Universal Technical Institute of Arizona and Universal Technical Institute of Phoenix institutions had been processed. The Universal Technical Institute of Arizona institution has received its program participation agreement, which places the institution on provisional certification until March 31, 2018, based on an open ED program review from April 2015 for which we have not yet received a report. As a result of the institution's placement on provisional certification, ED requires that we apply for and receive approval prior to awarding or disbursing Title IV aid for any new locations or new programs. In March 2017, we received a standard, non-provisional program participation agreement for the Universal Technical Institute of Phoenix institution with an expiration date of March 31, 2018. This timeframe has been designed to allow for participation alignment of all three of our institutions, as our Universal Technical Institute of Texas institution is also set to expire on March 31, 2018. We will submit recertification applications for all of our institutions in December 2017 as required.

Table of Contents

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 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016. 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 2016 Annual Report on Form 10-K and included in Part II, Item 1A of this report. See also "Special Note Regarding Forward-Looking Statements" on page ii of this report.

Overview

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 enrollment and graduates. We offer undergraduate degree or diploma programs at 12 campuses across the United States. We also offer MSAT programs, including student-paid electives, at our campuses and manufacturer or dealer sponsored training at certain campuses and dedicated training centers. We have provided technical education for 52 years.

We work closely with leading OEMs in the automotive, diesel, motorcycle and marine industries to understand their needs for qualified service professionals. Through our relationships with OEMs, we are able to continuously refine and expand our programs and curricula. We believe our industry-oriented educational philosophy and national presence have enabled us to develop valuable industry relationships, which provide us with significant competitive strength and support our market leadership. We are a primary, and often the sole, provider of MSAT programs, and we have relationships with over 30 OEMs.

Participating manufacturers typically assist us in the development of course content and curricula, while providing us with vehicles, equipment, specialty tools and parts at reduced prices or at no charge. In some instances they offer tuition reimbursement and other hiring incentives to our graduates. Our collaboration with OEMs enables us to provide highly specialized education to our students, resulting in enhanced employment opportunities and the potential for higher wages for our graduates. Our industry partners and their dealers benefit from a supply of technicians who are certified or credentialed by the manufacturer as graduates of the MSAT programs. The MSAT programs offer a cost-effective alternative for sourcing and developing technicians for both OEMs and their dealers. These relationships also support the development of incremental revenue opportunities from training the OEMs' existing employees.

2017 Overview

Operations

Lower student population levels as we began 2017 and fewer new student starts during the period resulted in a decline of 9.9% in our average undergraduate full-time student enrollment to approximately 10,000 students for the three months ended June 30, 2017. We started approximately 1,800 students during the three months ended June 30, 2017, which was an increase of 12.5% from the prior year comparable period. For the nine months ended June 30, 2017, we started approximately 5,000 students, which represents a decrease of 12.3% as compared to the prior year comparable period.

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

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

26

Table of Contents

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

Adverse media coverage, legislative hearings, regulatory actions and investigations by attorneys general and various agencies related to allegations of wrongdoing on the part of other companies within the education and training services industry, which have cast the industry in a negative light; and

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

In response to these challenges, we continue to focus on our key strategies. We continue to add and renew contracts with our OEM partners as well as other employers to provide career opportunities and tuition reimbursement for our graduates. We are seeking opportunities to expand into new geographic markets either organically or through strategic acquisitions. We began offering our associate level degree programs at our Rancho Cucamonga and Sacramento, California campuses during the three months ended June 30, 2017. Additionally, we will begin offering two new programs in 2017; our welding program opened at our Rancho Cucamonga, California campus in July 2017 and our CNC (computer numeric control) machining program will open at our NASCAR Tech campus in Mooresville, North Carolina in August 2017. We work to help students choose course and program structures that make getting an education more affordable and to balance our scholarship offerings with increased financial support from employers of our graduates. As part of our affordability initiatives, we are working to fine-tune our institutional scholarship and grant programs based on financial need, merit, or to assist in managing student loan debt. We are continuing our initiative designed to shift perceptions and build advocacy with key policy makers and influencers. Finally, we remain focused on operating our business as efficiently as possible and managing discretionary operating costs. In September 2016, we implemented a Financial Improvement Plan (the Plan), the first steps of which were reductions in workforce impacting approximately 70 employees at our corporate office and approximately 75 employees at our campus locations. We now expect the Plan to deliver annualized cost savings at the higher end of between \$30 million and \$40 million for the year ending September 30, 2017 coming from the reduction in our workforce, changes to our marketing strategy and admissions structure and a number of process improvement initiatives.

ED published guidance in November 2015 that eliminated certain restrictions on incentive compensation for admissions representatives. Specifically, ED reconsidered its previous interpretation and stated that its regulations do not prohibit compensation for admissions representatives that is based upon students' graduation from, or completion of, educational programs. Compensation based on enrolling students, however, continues to be prohibited. Please see further discussion in "Business - Regulatory Environment - Regulation of Federal Student Financial Aid Programs - Incentive Compensation" included in our 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016. We have begun making adjustments to the compensation practices for our admissions representatives which we believe will be compliant with ED's November 2015 guidance. The transition period for the new compensation structure will continue through calendar year 2018. We will continue to evaluate other compensation options under these regulations and guidance.

Our revenues for the three months ended June 30, 2017 were \$76.3 million, a decline of \$6.0 million, or 7.3%, from the comparable period in the prior year. We had an operating loss of \$2.8 million compared to \$5.5 million for the same period in the prior year. The improvement in our operating results was due primarily to decreases in compensation, partially offset by an increase in advertising expense. The improvement in operating expenses was offset by the decline in revenues, which were negatively impacted by the decline in our average undergraduate full-time student enrollment. We incurred a net loss of \$3.9 million compared to \$5.1 million for the comparable period in the prior year. During 2016, we determined that a valuation allowance on our deferred tax assets was necessary. During the three months ended June 30, 2017, we determined that an additional valuation allowance on our deferred tax assets was necessary, which resulted in income tax expense of \$1.9 million.

Table of Contents

Our revenues for the nine months ended June 30, 2017 were \$242.9 million, a decline of \$17.3 million, or 6.6%, from the comparable period in the prior year. We had an operating loss of \$0.7 million compared to \$13.4 million for the same period in the prior year. The improvement in our operating results was due primarily to decreases in compensation, advertising, supplies and maintenance, depreciation and amortization, travel and entertainment and legal services expenses. These decreases were partially offset by the decline in revenues, which were negatively impacted by the decline in our average undergraduate full-time student enrollment. We incurred a net loss of \$7.4 million compared to \$38.8 million for the comparable period in the prior year. During the nine months ended June 30, 2016, net loss was impacted by the determination in the prior year that a valuation allowance on our deferred tax assets was necessary, which impacted income tax expense by \$29.4 million. During the nine months ended June 30, 2017, we determined that an additional valuation allowance on our deferred tax assets was necessary, which resulted in income tax expense of \$5.9 million.

Automotive Technology and Diesel Technology II Integration

We currently offer the Automotive Technology and Diesel Technology II curricula at our Avondale, Arizona; Dallas/Ft. Worth, Texas; Long Beach, California; Orlando, Florida; Rancho Cucamonga, California and Sacramento, California campuses. We began offering this curricula at our Rancho Cucamonga, California campus during the third quarter of 2017; this rollout was approved to offer our associate level degree programs at this campus. We anticipate having the program fully implemented at this campus late this year or early in 2018.

Graduate Employment

Our consolidated graduate employment rate for our 2016 graduates during the nine months ended June 30, 2017 is below the rate at the same time in the prior year. The rate has remained consistent for our Collision Repair program, while the rate has declined for our Automotive and Diesel Technology, Marine and Motorcycle programs. There are multiple factors contributing to the declines, including graduates who receive higher compensating jobs outside their field of study and changing regulatory standards and guidance on employment classification and availability for employment.

Regulatory Environment

State Authorization and Regulation

On December 16, 2016, the Massachusetts Division of Professional Licensure published disclosure and business practice regulations applicable to proprietary schools operating in or recruiting from Massachusetts. As published, certain of the regulations were effective immediately and others become effective through January 1, 2018. The disclosure obligations under the new regulations are similar to those already required by Massachusetts. The regulations also require various business practice changes, including, among other items, ethics training for admissions representatives, creation of program outlines separate from existing catalogs, changes to refund requirements for students who begin school with pending financial aid and changes to enrollment agreements to reflect the refund policy change. We believe we are in compliance with all of the regulations that are currently effective and are working to comply with the remaining disclosure regulations, which will go into effect on January 1, 2018.

Accreditation

The procedures of our accrediting agency for the renewal of accreditation of a campus require a team of professionals to conduct an on-site visit at the campus and issue a Team Summary Report, which includes an assessment of the school's compliance with accrediting standards. On July 20, 2017, we received a Team Summary Report from the

Accrediting Commission of Career Schools and Colleges (ACCSC) that summarized three findings from its visit to our Long Beach, California campus in connection with renewing the campus' accreditation. The first finding related to the campus' application for a hybrid-distance education model, which is used in several

Table of Contents

programs. The second finding related to the campus' application of ACCSC's standards for the calculation of credit hours. The third finding related to the campus' application of certain aspects of its leave of absence policy. Under ACCSC procedures, we intend to respond to the Team Summary Report by the September 1, 2017 due date. ACCSC has indicated that our response will be considered at the November 2017 meeting. If ACCSC determines our responses or remedial efforts are sufficient, it may close the findings and provide a five year renewal of accreditation for the Long Beach, California campus. If ACCSC ultimately determines our responses or remedial efforts are insufficient, program accreditation and Title IV awards for students at our campuses could be negatively impacted. On July 20, 2017, we also received the Team Summary Reports that summarize the findings from the renewal of accreditation evaluations for our Norwood, Massachusetts and Sacramento, California campuses. One of the programs at the Norwood campus did not meet the graduation benchmark set by ACCSC. We anticipate discontinuing this program. One of the programs at the Sacramento campus did not meet the employment benchmark set by ACCSC. Our response is due to ACCSC by September 1, 2017. We are continuing to implement initiatives designed to improve our graduation and employment rates.

In June 2017, our Exton, Pennsylvania and Dallas/Ft. Worth, Texas campuses received the "School of Excellence" designation by ACCSC. The School of Excellence Award recognizes ACCSC-accredited institutions for their commitment to the expectations and rigors of ACCSC accreditation, as well as the efforts made by the institution in maintaining high-levels of achievement among their students. In order to be eligible for the School of Excellence Award, an ACCSC-accredited institution must meet the conditions of renewing accreditation without any finding of non-compliance, satisfy all requirements necessary to be in good standing with ACCSC and demonstrate that the majority of the schools' student graduation and graduate employment rates for all programs offered meet or exceed the average rates of graduation and employment among all ACCSC-accredited institutions. Additionally, each of these campuses received a six-year renewal of accreditation instead of the standard five-year renewal.

In March 2017, ACCSC conducted an unannounced site visit at our Houston, Texas campus. One program in the automotive division did not achieve the graduation benchmark set by ACCSC and was placed on heightened monitoring status effective June 9, 2017. We are continuing to implement retention strategies designed to improve our graduation rates.

As of September 30, 2016, two programs in the automotive and automotive/diesel/industrial divisions at our Rancho Cucamonga, California campus did not achieve the graduation benchmarks set by ACCSC and were placed on outcomes reporting. One of the two programs has since met the graduation benchmark using more recent data. Both programs were removed from outcomes reporting in June 2017. We began offering our Automotive Technology and Diesel Technology II curricula at this campus in April 2017; as part of this rollout, the below-benchmark programs are being discontinued.

Regulation of Federal Student Financial Aid Programs

Gainful Employment. In June 2017, the Department of Education (ED) announced its intent to convene a negotiated rulemaking committee to develop proposed regulations to revise the gainful employment regulations. ED has suggested that the committee will convene in late 2017 and early 2018 and issue proposed regulations for public comment during the first half of 2018, but ED has not established a final schedule. Any regulations published in final form by November 1, 2018 typically would take effect on July 1, 2019, but we cannot provide any assurances as to the timing or content of any such regulations.

On June 30, 2017, ED announced the extension of the compliance deadline for certain gainful employment disclosure requirements from July 1, 2017 to July 1, 2018. ED stated that institutions are still required to comply with other gainful employment disclosure requirements by July 1, 2017. ED also announced its intent to extend the deadline for all programs to file alternate earnings appeals from July 1, 2017 to a later date to be provided in

Table of Contents

a future announcement expected by early August 2017. ED has not announced a delay or suspension in the enforcement of any other gainful employment regulations, nor in the issuance of new draft or final gainful employment rates in the future. The gainful employment regulations are discussed at “Business - Regulation of Federal Student Financial Aid Programs - Gainful Employment” in our 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016. In January 2017, ED issued to our schools final versions of the first set of debt to earnings rates under the new gainful employment rule. The final rates were consistent with the draft rates previously discussed in our 2016 Annual Report on Form 10-K, with nine of our 12 educational programs achieving passing rates and the other three programs in the zone. While we have implemented a mitigation strategy for those programs identified as in the zone, because we cannot calculate the exact impact of such action on a program's debt to earnings rates, we may overestimate the required tuition reduction, which would have a negative impact on our tuition revenues. Conversely, we may underestimate the required tuition reduction, and fail to improve the program's debt to earnings rates.

Borrower Defense to Repayment Regulations. In November 2016, ED published final regulations establishing new rules regarding, among other things, the ability of borrowers to obtain discharges of their obligations to repay certain Title IV loans and for ED to initiate a proceeding to collect from the institution the discharged and returned amounts and the extensive list of circumstances that may require institutions to provide letters of credit or other financial protection to ED. These regulations are discussed at “Business - Regulation of Federal Student Financial Aid Programs - Defense To Repayment Regulations” in our 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016. In June 2017, the effective date of the majority of the Borrower Defense and Other Discharges regulations was delayed until further notice. ED also announced its intent to convene a negotiated rulemaking committee to develop proposed regulations to revise the regulations on borrower defenses to repayment of Federal student loans and other matters published on November 1, 2016. ED has suggested that the committee will convene in late 2017 and early 2018 and issue proposed regulations for public comment during the first half of 2018, but ED has not established a final schedule. Any regulations published in final form by November 1, 2018 typically would take effect in July 1, 2019, but we cannot provide any assurances as to the timing or content of any such regulations.

Other Federal Student Financial Aid Matters. In May 2017, Congress approved the FY 2017 omnibus appropriations bill that included the reinstatement of year-round Pell grants beginning with the 2017-2018 award year. The reinstatement will provide up to an additional \$2,960 in 2017-2018 Pell grant funding for eligible students.

In February 2017, ED notified us that it had completed its review of our audited financial statements for the year ended September 30, 2016 and concluded that they yield a composite score of 1.7 out of 3.0. As a result of our composite score exceeding the 1.5 required to be deemed financially responsible under ED composite score regulations, we are no longer subject to Heightened Cash Monitoring 1 restrictions under the Zone Alternative, imposed by ED beginning in October 2016. However, we will continue to provide a monthly student roster and a biweekly cash flow projection, which was requested in connection with the issuance of our Series A Convertible Preferred Stock in June 2016.

In December 2016, we were advised by ED that our applications for Title IV program participation recertification with respect to our Universal Technical Institute of Arizona and Universal Technical Institute of Phoenix institutions had been processed. The Universal Technical Institute of Arizona institution has received its program participation agreement, which places the institution on provisional certification until March 31, 2018, based on an open ED program review from April 2015 for which we have not yet received a report. Should the program review remain open beyond the expiration of this agreement, a subsequent agreement may continue to reflect provisional status. As a result of the institution's placement on provisional certification, ED requires that we apply for and receive approval prior to awarding or disbursing Title IV aid for any new locations or new programs. ED may more closely review any application we file for recertification, new locations, new or revised educational programs, acquisitions of other institutions, increases in degree level or other significant changes. Furthermore, for an institution that is provisionally certified, ED may revoke the institution's certification without advance notice or advance opportunity to challenge the

action.

30

Table of Contents

In March 2017, we received a standard, non-provisional program participation agreement for the Universal Technical Institute of Phoenix institution with an expiration date of March 31, 2018. This timeframe has been designed to allow for participation alignment of all three of our institutions, as our Universal Technical Institute of Texas institution is also set to expire on March 31, 2018. We will submit recertification applications for all of our institutions in December 2017 as required.

Other Federal and State Programs

In May 2017, we received approval of our reinstatement application to participate in the Cal Grant program for the 2017-2018 award year for our Universal Technical Institute of Arizona institution. This institution includes our Rancho Cucamonga and Long Beach, California campuses. This enables eligible students to access up to approximately \$3,000 per year in funding.

2017 Outlook

For the year ending September 30, 2017, we continue to expect to grow new student starts in the second half of the year. We expect the majority of this growth will have been reflected during the three months ended June 30, 2017, with new student starts for the three months ending September 30, 2017 expected to range from slightly up to slightly down as compared to the prior year period. New student starts are now expected to decline by mid-to-high single digits for the full year, as compared to previous guidance of a high single-digit decline in new student starts. Combined with the number of students currently in school and the timing of the anticipated start growth, we expect our average student population to be down in the low-double digits as a percentage compared with the year ended September 30, 2016. We continue to expect revenue to be down in the mid-to-high single digits. Additionally, our Financial Improvement Plan implemented in September 2016 is still expected to deliver annualized cost savings at the higher end of between \$30 million and \$40 million for the year ending September 30, 2017. We continue to anticipate that operating results will range between operating income of \$1.0 million and an operating loss of \$1.0 million. We are evaluating our institutional grant program and continue to invest in success-based marketing and show rate improvement initiatives; each of these three factors could positively or negatively impact year-end operating income. We continue to expect significantly improved EBITDA as compared to the year ended September 30, 2016. Capital expenditures are expected to be approximately \$10.5 million to \$11.5 million for the year ending September 30, 2017, reflecting expected incremental investments in a second welding program and internally developed software to support marketing.

Table of Contents

Results of Operations

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

| | Three Months | | Nine Months | |
|-------------------------------------|----------------|---------|----------------|----------|
| | Ended June 30, | | Ended June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Operating expenses: | | | | |
| Educational services and facilities | 57.9 % | 57.2 % | 56.0 % | 56.3 % |
| Selling, general and administrative | 45.8 % | 49.4 % | 44.3 % | 48.9 % |
| Total operating expenses | 103.7 % | 106.6 % | 100.3 % | 105.2 % |
| Income (loss) from operations | (3.7)% | (6.6)% | (0.3)% | (5.2)% |
| Interest expense, net | (0.7)% | (1.0)% | (0.8)% | (0.9)% |
| Other income | 0.5 % | 0.2 % | 0.4 % | 0.3 % |
| Total other expense, net | (0.2)% | (0.8)% | (0.4)% | (0.6)% |
| Income (loss) before income taxes | (3.9)% | (7.4)% | (0.7)% | (5.8)% |
| Income tax expense (benefit) | 1.2 % | (1.3)% | 2.3 % | 9.1 % |
| Net loss | (5.1)% | (6.1)% | (3.0)% | (14.9)% |
| Preferred stock dividends | 1.7 % | 0.1 % | 1.6 % | — % |
| Loss available for distribution | (6.8)% | (6.2)% | (4.6)% | (14.9)% |

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016 and Nine Months Ended June 30, 2017 Compared to Nine Months Ended June 30, 2016

Revenues. Our revenues for the three months ended June 30, 2017 were \$76.3 million, a decrease of \$6.0 million, or 7.3%, as compared to revenues of \$82.3 million for the three months ended June 30, 2016. Our average undergraduate full-time student enrollment decreased 9.9%, which resulted in a decrease in revenues of approximately \$7.7 million. The decrease was partially offset by tuition rate increases of up to 3%, depending on the program. Our revenues for the three months ended June 30, 2017 and 2016 excluded \$4.0 million and \$4.2 million, respectively, of tuition related to students participating in our proprietary loan program. We recognized \$2.2 million and \$2.0 million of revenues and interest under our proprietary loan program for the three months ended June 30, 2017 and 2016, respectively. Revenues for our Long Beach, California campus, which opened in August 2015, were \$4.6 million for the three months ended June 30, 2017 as compared to \$3.4 million for the three months ended June 30, 2016. Additionally, industry training revenue increased by \$0.7 million compared to the same period in the prior year primarily due to increased dealer training.

Our revenues for the nine months ended June 30, 2017 were \$242.9 million, a decrease of \$17.3 million, or 6.6%, as compared to revenues of \$260.2 million for the nine months ended June 30, 2016. Our average undergraduate full-time student enrollment decreased 10.7%, which resulted in a decrease in revenues of approximately \$25.5 million. Additionally, there was one less earning day during the nine months ended June 30, 2017 as compared to the nine months ended June 30, 2016, which resulted in a decrease in revenues of approximately \$1.3 million. The decreases were partially offset by tuition rate increases of up to 3%, depending on the program. Our revenues for the nine months ended June 30, 2017 and 2016 excluded \$13.4 million and \$14.5 million, respectively, of tuition related to students participating in our proprietary loan program. We recognized \$6.1 million and \$5.4 million of revenues and interest under our proprietary loan program for the nine months ended June 30, 2017 and 2016, respectively. Revenues for our Long Beach, California campus, which opened in August 2015, were \$13.3 million for the nine months ended June 30, 2017 as compared to \$7.9 million for the nine months ended

Table of Contents

June 30, 2016. Additionally, industry training revenue increased by \$1.9 million compared to the same period in the prior year primarily due to increased dealer training.

Educational services and facilities expenses. Our educational services and facilities expenses for the three months and nine months ended June 30, 2017 were \$44.1 million and \$136.1 million, respectively. This represents decreases of \$2.9 million and \$10.4 million, respectively, as compared to \$47.0 million and \$146.5 million, respectively, for the three months and nine months ended June 30, 2016.

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

| | Three Months | | Nine Months Ended | |
|---|----------------|----------|-------------------|-----------|
| | Ended June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands) | | | |
| Salaries expense | \$19,626 | \$21,524 | \$61,152 | \$66,250 |
| Employee benefits and tax | 4,354 | 4,405 | 12,812 | 13,611 |
| Bonus expense | 179 | 463 | 1,072 | 997 |
| Stock-based compensation | 43 | 74 | 132 | 209 |
| Compensation and related costs | 24,202 | 26,466 | 75,168 | 81,067 |
| Occupancy costs | 8,772 | 8,912 | 26,545 | 27,015 |
| Depreciation and amortization expense | 3,829 | 4,115 | 11,614 | 12,465 |
| Other educational services and facilities expense | 3,410 | 3,699 | 11,473 | 12,433 |
| Supplies and maintenance | 2,066 | 2,075 | 5,572 | 6,828 |
| Tools and training aids expense | 1,597 | 1,356 | 4,954 | 5,130 |
| Travel and entertainment expense | 244 | 421 | 782 | 1,528 |
| | \$44,120 | \$47,044 | \$136,108 | \$146,466 |

Compensation and related costs decreased \$2.3 million and \$5.9 million for the three months and nine months ended June 30, 2017, respectively:

Salaries expense decreased \$1.9 million and \$5.1 million for the three months and nine months ended June 30, 2017, respectively. The decrease was largely attributable to a decrease in the number of employees related to the previously discussed reductions in workforce undertaken in September and November 2016, which primarily impacted non-instructor positions and related salaries expense. The savings were partially offset during the year-to-date period by severance expense of \$1.0 million related to the November 2016 reduction in workforce. Additionally, salaries expense for our Long Beach, California campus, which opened in August 2015, increased by \$0.9 million for the nine months ended June 30, 2017.

Employee benefits and tax decreased \$0.8 million for the nine months ended June 30, 2017. The savings were due to the reduction in employee headcount and other changes to employee benefits.

Depreciation and amortization expense decreased \$0.3 million and \$0.9 million for the three and nine months ended June 30, 2017, respectively. The decrease was primarily a result of a higher percentage of our fixed assets becoming fully depreciated.

Table of Contents

Supplies and maintenance expense decreased \$1.2 million for the nine months ended June 30, 2017. The decrease was attributable to a higher level of spending in the prior year related to classroom renovations at certain campus locations and purchases related to the opening of our Long Beach, California campus, as well as increased focus on cost control initiatives during the current year.

Travel and entertainment expense decreased \$0.7 million for the nine months ended June 30, 2017. The decrease was attributable to a higher level of spending in the prior year related to the opening of our Long Beach, California campus, as well as increased focus on cost control initiatives during the current year.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the three and nine months ended June 30, 2017 were \$34.9 million and \$107.5 million, respectively. This represents decreases of \$5.8 million and \$19.7 million, respectively, as compared to \$40.7 million and \$127.2 million, respectively, for the three and nine months ended June 30, 2016.

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

| | Three Months | | Nine Months Ended | |
|--|----------------|----------|-------------------|-----------|
| | Ended June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands) | | | |
| Salaries expense | \$14,066 | \$17,658 | \$43,264 | \$52,110 |
| Employee benefits and tax | 3,343 | 4,026 | 9,653 | 11,842 |
| Bonus expense | 651 | 1,760 | 1,838 | 3,893 |
| Stock-based compensation | 514 | 847 | 1,910 | 2,998 |
| Compensation and related costs | 18,574 | 24,291 | 56,665 | 70,843 |
| Advertising expense | 9,255 | 8,689 | 29,074 | 30,814 |
| Other selling, general and administrative expenses | 5,986 | 6,626 | 18,422 | 21,258 |
| Depreciation and amortization expense | 708 | 630 | 2,084 | 1,905 |
| Bad debt expense | 176 | 179 | 503 | 931 |
| Legal services expense | 223 | 257 | 788 | 1,427 |
| | \$34,922 | \$40,672 | \$107,536 | \$127,178 |

Compensation and related costs decreased \$5.7 million and \$14.1 million for the three months and nine months ended June 30, 2017, respectively:

Salaries expense decreased \$3.6 million and \$8.8 million for the three months and nine months ended June 30, 2017, respectively, primarily due to savings realized following the September 2016 reduction in workforce and the restructuring of our campus admissions organization in June 2016. Additionally, severance expense decreased \$0.8 million and \$0.5 million for the three months and nine months ended June 30, 2017, respectively.

Employee benefits and tax decreased \$0.7 and \$2.1 million for the three months and nine months ended June 30, 2017, respectively, primarily as a result of the decrease in employee headcount.

Bonus expense decreased by \$1.1 million and \$2.1 million for the three months and nine months ended June 30, 2017, respectively. During the three months ended March 31, 2017, we recorded an adjustment to reflect anticipated minimal attainment on our largest bonus plan.

Table of Contents

Stock-based compensation decreased by \$0.3 million and \$1.1 million for the three months and nine months ended June 30, 2017, respectively, primarily as a result of the September 2016 reduction in workforce. Additionally, the September 2016 annual grant was structured at a lower value than in prior years.

Advertising expense increased by \$0.6 million and decreased by \$1.7 million for the three months and nine months ended June 30, 2017, respectively. We have reduced or eliminated spending on certain channels in our media mix, reviewed our lead generation sources and eliminated lower-quality inquiries, and increased spending on digital sources and local advertising in line with our budget plan for the year. Additionally, we invested approximately \$0.3 million in additional success-based marketing initiatives.

Legal services expense decreased \$0.6 million for the nine months ended June 30, 2017. During 2016, we incurred increased legal fees related to regulatory requests.

Income taxes. Our income tax expense for the three months ended June 30, 2017 was \$1.0 million, or (32.8)% of pre-tax loss, compared to an income tax benefit of \$1.1 million, or 17.2% of pre-tax loss, for the three months ended June 30, 2016. Our provision for income taxes for the nine months ended June 30, 2017 was \$5.7 million, or (347.0)% of pre-tax loss, compared to \$23.7 million, or (156.9)% of pre-tax loss, for the nine months ended June 30, 2016. We recognized significant tax expense during the three months and nine months ended June 30, 2017 due to the tax treatment of certain expenses anticipated to be deductible in future years. Such deductions are included in the balance of deferred tax assets, which is currently subject to a full valuation allowance. The effective income tax rate in each period also differed from the federal statutory tax rate of 35% as a result of state income taxes, net of related federal income tax benefits.

As discussed in our 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016, certain deductions and losses are subject to an annual Section 382 limitation. The limitation will affect the timing of when these deductions and losses can be used and may cause us to make income tax payments even if a pre-tax loss is recorded in future periods. The limitation may also cause the deductions and losses to expire unused.

Preferred stock dividends. On June 24, 2016, we sold 700,000 shares of Series A Preferred Stock for \$70.0 million in cash, less \$1.1 million in issuance costs. In accordance with the terms of the related purchase agreement, we recorded a preferred stock cash dividend of \$1.3 million and \$3.9 million during the three months and nine months ended June 30, 2017, respectively.

Loss available for distribution. Loss available for distribution refers to net loss reduced by dividends on our Series A Preferred Stock. As a result of the foregoing, we reported a loss available for distribution for the three months and nine months ended June 30, 2017 of \$5.2 million and \$11.3 million, respectively, as compared to \$5.2 million and \$38.9 million for the three months and nine months ended June 30, 2016, respectively.

Non-GAAP Financial Measures

Our earnings (loss) before interest, tax, depreciation and amortization (EBITDA) for the three months and nine months ended June 30, 2017 were \$2.1 million and \$14.1 million, respectively, as compared to \$(0.6) million and \$1.7 million for the three months and nine months ended June 30, 2016, 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 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. Management also utilizes EBITDA as a performance measure internally. 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 in determining financial

Table of Contents

performance under GAAP, this measure should not be considered 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.

EBITDA reconciles to net loss as follows:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|--|--------------------------------|-----------|-------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands) | | | |
| Net loss | \$(3,917) | \$(5,069) | \$(7,371) | \$(38,751) |
| Interest expense, net | 559 | 802 | 2,020 | 2,416 |
| Income tax expense (benefit) | 967 | (1,055) | 5,722 | 23,667 |
| Depreciation and amortization ⁽¹⁾ | 4,537 | 4,745 | 13,698 | 14,370 |
| EBITDA | \$2,146 | \$(577) | \$14,069 | \$1,702 |

⁽¹⁾Includes depreciation of training equipment obtained in exchange for services of \$0.3 million and \$0.4 million for the three months ended June 30, 2017 and 2016, respectively, and of \$1.0 million for each of the nine months ended June 30, 2017 and 2016.

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 as well as the expansion of programs at existing campuses through the next 12 months.

We believe that the strategic use of our cash resources includes subsidizing funding alternatives for our students. Additionally, we evaluate the repurchase of our common stock, consideration of strategic acquisitions, expansion of programs at existing campuses, opening additional campus locations and other potential uses of cash. On June 24, 2016, we issued 700,000 shares of Series A Preferred Stock for a total purchase price of \$70.0 million. The proceeds from the offering are intended to be used to fund strategic long-term growth initiatives, including the expansion to new markets of campuses on a scale similar to our Long Beach, California and Dallas/Ft. Worth, Texas campuses and the creation of new programs in existing markets with under-utilized campus facilities. We may use the proceeds to fund strategic acquisitions that complement our core business. To the extent that potential acquisitions are large enough to require financing beyond cash from operations, cash and cash equivalents and investments on hand or we need capital to fund operations, new campus openings or expansion of programs at existing campuses, we may enter into a credit facility, issue debt or issue additional equity. The annual cash dividend that we anticipate paying on the Series A Preferred Stock is approximately \$5.3 million per year. Additionally, to the extent that we enter into leasing transactions that result in financing obligations or capital leases, our interest expense would increase. Our aggregate cash and cash equivalents and current investments were \$84.3 million as of June 30, 2017.

Our principal source of liquidity is operating cash flows and existing cash, cash equivalent and investment balances. A majority of our revenues are derived from Title IV Programs and various veterans benefits programs. Federal regulations dictate the timing of disbursements of funds under Title IV Programs. Students must apply for new funding for each academic year consisting of thirty-week periods. Loan funds are generally provided by

Table of Contents

lenders in two disbursements for each academic year. The first disbursement for first-time borrowers is usually received 30 days after 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. Under our proprietary loan program, 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 cash used in operating activities was \$29.8 million for the nine months ended June 30, 2017 compared to \$10.8 million for the nine months ended June 30, 2016. For the nine months ended June 30, 2017, changes in our operating assets and liabilities resulted in cash outflows of \$36.7 million and were primarily attributable to changes in deferred revenue, accounts payable and accrued expenses, restricted cash, income tax and receivables. The decrease in deferred revenue resulted in a cash outflow of \$19.5 million and 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 June 30, 2017 compared to September 30, 2016. The decrease in accounts payable and accrued expenses resulted in a cash outflow of \$11.4 million. This decrease was primarily attributable to the payment of bonuses and severance benefits, as well as the timing of invoices and payroll. The increase in restricted cash of \$11.1 million was primarily related to the collateralization of surety bonds, as discussed in Note 2 of the notes to our condensed consolidated financial statements within this Report on Form 10-Q. The change in income tax from a receivable position to a payable position resulted in a cash inflow of \$3.1 million and was primarily due to the increase in taxable income during the current period and the timing of tax payments and refunds. The decrease in receivables resulted in a cash inflow of \$2.5 million and was primarily due to the timing of Title IV disbursements and other cash receipts on behalf of our students.

For the nine months ended June 30, 2016, changes in our operating assets and liabilities resulted in cash outflows of \$17.0 million and were primarily attributable to changes in deferred revenue, receivables, income tax receivable and accounts payable and accrued expenses. The decrease in deferred revenue resulted in a cash outflow of \$17.4 million and 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 June 30, 2016 compared to September 30, 2015. The decrease in receivables resulted in a cash inflow of \$11.2 million and was primarily due to the timing of Title IV disbursements and other cash receipts on behalf of our students. The change in income tax from a payable position to a receivable position resulted in a cash outflow of \$6.0 million and was primarily due to loss carrybacks and the timing of tax payments and receipts. The decrease in accounts payable and accrued expenses resulted in a cash outflow of \$3.2 million. This decrease was primarily attributable to the timing of invoices.

Investing Activities

During the nine months ended June 30, 2017, cash used in investing activities was \$50.8 million. We had cash outflows for the purchase of trading securities and held to maturity investments of \$41.6 million and \$9.7 million, respectively. We had cash outflows of property and equipment of \$6.5 million, primarily related to purchases of new and replacement training equipment for our ongoing operations. We had cash inflows of \$1.8 million and \$1.7 million from proceeds received from sales of trading securities and proceeds received upon the maturity of investments, respectively. For the year ending September 30, 2017, we anticipate investing in capital expenditures in the range of \$10.5 million to \$11.5 million primarily related to maintenance of our educational facilities and tools, the expansion of programs at existing campuses and investments in software for internal use.

During the nine months ended June 30, 2016, cash provided by investing activities was \$17.4 million. We had cash inflows of \$24.6 million from proceeds received upon maturity of investments. We had cash outflows for the purchase

of property and equipment of \$6.7 million, primarily related to purchases of new and replacement

37

Table of Contents

training equipment for our ongoing operations. We had a cash outflow of \$1.5 million related to the acquisition of BrokenMyth Studios, LLC and a cash outflow of \$1.0 million related to an investment in Pro-MECH.

Financing Activities

During the nine months ended June 30, 2017, cash used in financing activities was \$3.3 million and related primarily to payment of a semi-annual preferred stock dividend on March 28, 2017, totaling approximately \$2.6 million.

During the nine months ended June 30, 2016, cash provided by financing activities was \$67.2 million and was primarily due to the net cash proceeds of \$69.2 million from the issuance of preferred stock. We had a cash outflow for payment of cash dividends on our common stock on October 5, 2015, December 18, 2015 and March 31, 2016 of \$0.02 per share, totaling approximately \$1.5 million. On June 9, 2016, our Board of Directors voted to eliminate the quarterly cash dividend on our common stock.

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, we 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, we 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. Furthermore, 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, during which time we do not earn revenue.

Critical Accounting Policies and Estimates

There were no significant changes in our critical accounting policies previously disclosed in Part II, Item 7 of our 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 3 to our condensed consolidated financial statements within Part I, Item 1 of this report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk since September 30, 2016. For a discussion of our exposure to market risk, refer to our 2016 Annual Report on Form 10-K, filed with the SEC on November 30, 2016.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design

Table of Contents

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 Chairman of the Board and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2017 were effective in ensuring that (i) information required to be disclosed by us in the reports that we file or submit 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 us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our 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) or 15d-15(d) that occurred during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, misstatements, errors and instances of fraud, if any, within our company have been or will be prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks that internal controls may become inadequate as a result of changes in conditions, or through the deterioration of the degree of compliance with policies or procedures.

Table of Contents

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. Because we cannot predict with certainty the ultimate resolution of the legal proceedings (including lawsuits, investigations, regulatory proceedings or claims) asserted against us, it is not currently possible to provide such an estimate. The ultimate outcome of 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.

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 from September 2006 to September 2012. We responded timely to the request. The Attorney General made a follow-up request for documents, and we complied with this request in February 2013. In response to a status update request from us, the Attorney General requested and we provided in April 2015 additional documents and information related to graduate employment at our Norwood, Massachusetts campus and our policies and practices for determining graduate employment. We have not received any additional requests since April 2015. 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 condensed consolidated 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 2016 Annual Report on Form 10-K filed with the SEC on November 30, 2016, which could materially affect our business, financial condition or operating results. The risks described in this report and in our 2016 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

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. As of June 30, 2017, we have purchased an aggregate of 1,677,570 shares of our common stock for an aggregate purchase price of \$15.3 million under this stock repurchase program. During the quarter ended June 30, 2017, we made no purchases under this stock repurchase program. Any future repurchases under this stock repurchase program require the approval of a majority of the voting power of the Series A Preferred Stock.

The following table summarizes our share repurchases to settle individual employee tax liabilities. These are not included in the repurchase plan totals as they were approved in conjunction with restricted share awards, during each period in the three months ended June 30, 2017. Shares from share repurchases in lieu of taxes are returned to the pool of shares issuable under our 2003 Incentive Compensation Plan.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans Or Programs (In thousands) |
|------------------|---|---------------------------------------|--|---|
| Tax Withholdings | | | | |
| April 1-30, 2017 | — | \$ — | — | \$ — |
| May 1-31, 2017 | — | \$ — | — | \$ — |
| June 1-30, 2017 | 904 | \$ 3.72 | — | \$ — |
| Total | 904 | \$ 3.72 | — | \$ — |

Any future common stock dividends require the approval of a majority of the voting power of the Series A Preferred Stock.

Item 6. EXHIBITS

The exhibits required by Item 601 of Regulation S-K which are filed or furnished with this report, as applicable, are set forth in the Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: August 4, 2017

UNIVERSAL TECHNICAL INSTITUTE, INC.

By: /s/ Kimberly J. Mcwaters
Kimberly J. McWaters
Chairman of the Board and Chief Executive Officer

EXHIBIT INDEX

Number Description

| | |
|-------------|--|
| <u>31.1</u> | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.) |
| <u>31.2</u> | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.) |
| <u>32.1</u> | 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.) |
| <u>32.2</u> | 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 | Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Income (Loss); (iii) Condensed Consolidated Statements of Comprehensive Income (Loss); (iv) Condensed Consolidated Statement of Shareholders' Equity; (v) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements. |