

CERUS CORP
Form S-8
July 11, 2002

As filed with the Securities and Exchange Commission on July 11, 2002
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-8

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CERUS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

68-0262011
(I.R.S. Employer Identification No.)

2411 STANWELL DRIVE
CONCORD, CALIFORNIA 94520
(Address of principal executive offices)

1999 EQUITY INCENTIVE PLAN
(Full title of the plans)

STEPHEN T. ISAACS

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PRESIDENT AND CHIEF EXECUTIVE OFFICER

CERUS CORPORATION
2411 STANWELL DRIVE
CONCORD, CALIFORNIA 94520
(925) 288-6000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

ROBERT L. JONES, ESQ.
COOLEY GODWARD LLP
3175 HANOVER STREET
PALO ALTO, CALIFORNIA 94304
(650) 843-5000

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
Shares of Common Stock, par value \$.001 per share, reserved for future issuance under the 1999 Equity Incentive Plan	1,000,000	\$28.71	\$28,710,000.00	\$2,641.32

-
- (1) This Registration Statement shall cover any additional shares of Common Stock which become issuable under the 1999 Equity Incentive Plan (the Plan) set forth herein by reason of any stock dividend, stock split, recapitalization or any other similar transaction without receipt of consideration which results in an increase in the number of shares of the outstanding Common Stock of Cerus Corporation (the Company or Registrant).
- (2) Estimated solely for the purpose of calculating the amount of the registration fee. The offering price per share and aggregate offering price are based upon the average of the high and low prices of the Company's Common Stock as reported on the Nasdaq National Market on July 9, 2002 for shares available for future grant pursuant to the Plan (pursuant to Rule 457(c) under the Act).

INCORPORATION BY REFERENCE OF CONTENTS OF

REGISTRATION STATEMENTS ON FORM S-8

NOS. 333-74991, 333-84497, 333-42588 and 333-63132

The contents of Registration Statements on Form S-8 Nos. 333-74991, 333-84497, 333-42588 and 333-63132 filed with the Securities and Exchange Commission on March 24, 1999, August 4, 1999, July 28, 2000 and June 15, 2001, respectively, are incorporated by reference herein.

EXHIBITS

Exhibit

Number

- | | |
|------|---|
| 5.1 | Opinion of Cooley Godward LLP. |
| 23.1 | Consent of Ernst & Young LLP, Independent Auditors. |
| 23.2 | Consent of Cooley Godward LLP is contained in Exhibit 5.1 to this Registration Statement. |
| 24.1 | Power of Attorney is contained on the signature pages. |
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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Concord, State of California, on July 11, 2002.

CERUS CORPORATION

By: /s/ Gregory W. Schafer
Gregory W. Schafer
Title: Vice President, Finance and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Stephen T. Isaacs and Gregory W. Schafer, and each or any one of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Stephen T. Isaacs (Stephen T. Isaacs)	President, Chief Executive Officer and Director (Principal Executive Officer)	July 11, 2002

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/s/ Gregory W. Schafer (Gregory W. Schafer)	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	July 11, 2002
/s/ B.J. Cassin (B.J. Cassin)	Director	July 11, 2002
/s/ Bruce C. Cozadd (Bruce C. Cozadd)	Director	July 11, 2002
/s/ John E. Hearst (John E. Hearst)	Director	July 11, 2002
/s/ C. Raymond Larkin, Jr (C. Raymond Larkin, Jr.)	Director	July 11, 2002
/s/ William R. Rohn (William R. Rohn)	Director	July 10, 2002

EXHIBIT INDEX

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NT size="2">19,480 *

Paul Rodzevik⁽⁴⁾

23,913 * 10,926 12,987 *

James E. Jordan, Jr. Profit Sharing Plan⁽⁴⁾

5,977 * 2,731 3,246 *

JZ Equity Partners plc⁽⁶⁾

2,032,296 7.3 928,584 1,103,712 4.0

Phillip C. Christner⁽⁷⁾

117,815 * 14,783 103,032 *

Joseph Cutler⁽⁷⁾

151,813 * 19,674 132,139 *

Dennis L. Hendrix⁽⁷⁾

35,344 * 4,435 30,909 *

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Name of Beneficial Owner ⁽¹⁾	Before Offering		After Offering		
	Number of Shares of Common Stock Beneficially Owned	Percent of Common Stock Beneficially Owned	Number of Shares Offered in This Offering	Number of Shares of Common Stock Beneficially Owned	Percent of Common Stock Beneficially Owned
Jeffrey L. Muecke ⁽⁷⁾	408,999	1.5	52,174	356,825	1.3
Thomas J. Nelmark ⁽⁷⁾	70,143	*	9,152	60,991	*
Randall R. Smith ⁽⁷⁾	174,113	*	21,087	153,026	*
Sherrell Smith ⁽⁷⁾	116,662	*	14,891	101,771	*
Randal Whitman ⁽⁷⁾	81,782	*	3,478	78,304	*
Directors and Executive Officers:					
Robert D. Hartman ⁽⁸⁾⁽⁹⁾	2,583,185	9.2		2,583,185	9.2
John C. White ⁽⁸⁾⁽¹⁰⁾	2,654,425	9.5		2,654,425	9.5
Kimberly J. McWaters ⁽⁸⁾⁽¹¹⁾	262,533	*		262,533	*
Jennifer L. Haslip ⁽⁸⁾⁽¹²⁾	63,168	*		63,168	*
David K. Miller ⁽⁸⁾⁽¹³⁾	113,733	*		113,733	*
Roger L. Speer ⁽⁸⁾⁽¹⁴⁾	239,266	*		239,266	*
A. Richard Caputo, Jr. ⁽⁵⁾	348,782	1.2	140,000	208,782	*
Michael R. Eisenson ⁽¹⁵⁾	3,729,755	13.3	1,689,082	2,040,673	7.3
Roger S. Penske ⁽¹⁶⁾	3,324,145	11.9	1,504,941	1,819,204	6.5
Conrad A. Conrad ⁽⁸⁾	1,000	*		1,000	*
Kevin P. Knight ⁽⁸⁾	7,000	*		7,000	*
All executive officers and directors as a group (11 persons)	13,308,148	47.5%	3,334,023	9,974,125	35.6%

* Less than 1% of the outstanding common stock.

- (1) Beneficial ownership is a term broadly defined by the Securities and Exchange Commission in Rule 13d-3 under the Exchange Act, and includes more than the typical forms of stock ownership, that is, stock held in the person's name. The term also includes what is referred to as indirect ownership, meaning ownership of shares as to which a person has or shares investment or voting power. For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares as of a given date that such person or group has the right to acquire within 60 days after such date.
- (2) Shares beneficially owned prior to the offering consist of 3,323,145 shares held of record by Worldwide Training Group, LLC. Shares to be beneficially owned after this offering consist of 1,818,204 shares of common stock held of record by Worldwide Training Group. Roger S. Penske, a member of our board of directors and a managing member of Penske Capital Partners, L.L.C., which is the managing member of Worldwide Training Group, LLC, has shared voting and investment power over the shares held by Worldwide Training Group, LLC. The address of the principal business office of Worldwide Training Group, LLC is 2555 Telegraph Road, Bloomfield Hills, MI 48302.
- (3) Based on information provided in the Schedule 13G filed with the Securities and Exchange Commission on February 16, 2004 by Charlesbank Equity Fund V, Limited Partnership and certain of its affiliates. Other entities included in the Schedule 13G that are also selling stockholders in this offering are: CB Offshore Equity Fund V, L.P.; Charlesbank Equity Coinvestment Fund V, Limited Partnership; Charlesbank Coinvestment Partners, Limited Partnership; and Coyote Training Group, LLC (collectively, Charlesbank). Charlesbank Capital Partners, LLC is the general partner of Charlesbank Equity Fund V GP, Limited Partnership, which is the general partner of the Charlesbank Equity Fund V, Limited Partnership. Charlesbank Equity Fund V, Limited Partnership is the record holder of 2,413,555 shares of common stock and is the managing member of Coyote Training Group, LLC, and as such may be deemed to beneficially own the 939,162 shares of common stock held of record by Coyote Training Group, LLC, and disclaims beneficial ownership of the Coyote Training Group shares, other than its pecuniary interest therein. Shares beneficially owned prior to this offering by Charlesbank consist of 3,729,755 shares of our common stock held of record by Charlesbank. Shares to be beneficially owned

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by Charlesbank after the offering consist of 2,040,673 shares of our common stock held of record by Charlesbank. Mr. Michael Eisenson, a member of our board of directors, is a managing director and Chief Executive Officer of Charlesbank Capital Partners, LLC and has shared voting and investment power over all 2,040,673 shares of our common stock that will be held of record by Charlesbank after this offering. Mr. Eisenson disclaims his beneficial ownership of the shares held by Charlesbank, other than his pecuniary interest therein. The business address for Charlesbank is 600 Atlantic Avenue, 26th Floor, Boston, Massachusetts 02210.

- (4) Recipient of shares of our common stock that were distributed out of the former TJC Voting Trust that dissolved subsequent to the completion of our initial public offering on December 22, 2003.
- (5) A. Richard Caputo has served as a member of our board of directors since September 1997 and served as our vice president from September 1997 through February 2003. Mr. Caputo is a senior principal of The Jordan Company, LP. Mr. Caputo's business address is 767 Fifth Avenue, 48th Floor, New York, New York 10153.
- (6) JZ Equity Partners plc is an investment trust listed on the London Stock Exchange. Its business is to invest, primarily in the United States, in debt and equity securities recommended by Jordan/ Zalaznick Advisers, Inc., a Delaware corporation based in New York, that is its sole investment advisor. JZ Equity Partners plc is governed by a board of independent directors who have sole voting and investment power over the shares held by JZ Equity Partners plc. JZ Equity Partners plc purchased the shares in the ordinary course of business and, at the time of the purchase of the shares to be resold, had no agreements or understandings, directly or indirectly, with any person to distribute the shares. JZ Equity Partners plc has its business address at 17a Curzon Street, London, W1J 5HS England.
- (7) Current employee of UTI, except Phillip C. Christner, who is a former employee of UTI.
- (8) Unless otherwise noted, the business address for each of the executive officers and directors is 20410 N. 19th Avenue, Suite 200, Phoenix, Arizona 85027.
- (9) Includes 1,489,369 shares of common stock held by The Robert and Janice Hartman Family Trust, of which Robert D. Hartman is a trustee; 217,500 shares of our common stock held of record by the Robert D. Hartman and Janice W. Hartman 1998 Charitable Remainder UniTrust, of which Robert D. Hartman is a trustee; 857,472 shares of our common stock held of record by Hartman Investments Limited Partnership, of which Robert D. Hartman is a general partner; and 18,844 shares of common stock held of record in the UTI Tax-Deferred Trust, of which Mr. Hartman is a trustee. Mr. Hartman disclaims his shared beneficial ownership of the shares held of record by the UTI Tax-Deferred Trust other than his pecuniary interest therein. Mr. Hartman has shared voting and investment power as to 2,583,185 shares. Mr. Hartman is Chairman of our board of directors.
- (10) Includes 2,547,111 shares of common stock held of record by Whites Family Company, LLC and 107,314 shares held of record by John C. White and Cynthia L. White 1989 Family Trust, of which John C. White is a trustee. The White Descendants Trust u/a/d September 10, 1997 is the sole member and manager of Whites Family Company, LLC. John C. White is the trustee of the White Descendants Trust u/a/d September 10, 1997. Mr. White has sole voting and investment power over the 2,547,111 shares and has shared voting and investment power over 107,314 shares. Mr. White is not the trustee of the Whites Family Trust and does not have any direct or indirect voting or investment power over the shares held by the trust. Therefore, Mr. White disclaims his beneficial ownership with respect to the 185,005 shares held of record by the White Family Trust. Mr. White is our Chief Strategic Planning Officer and Vice Chairman of our board of directors.
- (11) Includes options to purchase 155,421 shares of our common stock exercisable by Kimberly J. McWaters within 60 days of March 31, 2004 and 18,844 shares of common stock held of record by the UTI Tax-Deferred Trust, of which Ms. McWaters is a trustee. Ms. McWaters disclaims her beneficial ownership of the shares held of record by the UTI Tax-Deferred Trust other than her pecuniary interest therein. Ms. McWaters has sole voting and investment power over 243,689 shares and shared voting and investment power over 18,844 shares. Ms. McWaters is our President and Chief Executive Officer.
- (12) Includes options to purchase 50,168 shares of our common stock exercisable by Jennifer L. Haslip within 60 days of March 31, 2004. Ms. Haslip has sole voting and investment power over 63,168 shares. Ms. Haslip is our Senior Vice President, Chief Financial Officer, Treasurer and Secretary.
- (13) Includes options to purchase 8,156 shares of our common stock exercisable by David K. Miller within 60 days of March 31, 2004. Mr. Miller has sole voting and investment power over 113,733 shares. Mr. Miller is our Senior Vice President of Admissions.

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- (14) Shares beneficially owned before the offering include options to purchase 62,168 shares of our common stock exercisable by Roger Speer within 60 days of March 31, 2004. Mr. Speer has sole voting and investment power over 239,266 shares of our common stock. Mr. Speer is our Senior Vice President of Operations.
- (15) Michael R. Eisenson has served as a member of our board of directors since April 2002, and is a managing director and Chief Executive Officer of Charlesbank Capital Partners, LLC. As previously disclosed in footnote 3 above, Mr. Eisenson has shared voting and investment power over all 2,040,673 shares of our common stock that will be held of record by Charlesbank Equity Fund V, Limited Partnership and the other entities identified in footnote 3 after this offering. Mr. Eisenson disclaims his beneficial ownership of the shares held of record by these entities, other than his pecuniary interest therein. The business address for Mr. Eisenson is 600 Atlantic Avenue, 26th Floor, Boston, Massachusetts 02210.
- (16) Roger S. Penske has served as a member of our board of directors since April 2002, and is a managing member of Penske Capital Partners, L.L.C., which is the managing member of Worldwide Training Group, LLC. As previously disclosed in footnote 2 above, Mr. Penske has shared voting and investment power as to all 1,818,204 shares that will be held of record by Worldwide Training Group, LLC after this offering and has sole voting and investment power with respect to 1,000 shares of common stock. Mr. Penske disclaims his beneficial ownership of the shares held of record by Worldwide Training Group, LLC other than his pecuniary interest therein. The business address for Mr. Penske is 2555 Telegraph Road, Bloomfield Hills, MI 48302.

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DESCRIPTION OF CAPITAL STOCK

General

We are authorized to issue 100,000,000 shares of common stock, \$0.0001 par value per share, and 10,000,000 shares of preferred stock, \$0.0001 par value per share.

The following description of the material terms of our capital stock and our amended and restated certificate of incorporation and amended and restated bylaws is only a summary. You should refer to our amended and restated certificate of incorporation and amended and restated bylaws as in effect upon the closing of this offering, which are included as exhibits to the registration statement of which this prospectus is a part.

Common Stock

As of March 31, 2004, there were 27,710,576 shares of common stock outstanding, which were held of record by 50 stockholders, based on the stockholders list maintained by our transfer agent.

Voting rights. The holders of our common stock are entitled to one vote per share for each share held of record on any matter to be voted upon by stockholders. Our amended and restated certificate of incorporation does not provide for cumulative voting in connection with the election of directors and, accordingly, holders of more than 50% of the shares voting will be able to elect all of the directors standing for election.

Dividend rights. All shares of our common stock are entitled to share equally in any dividends our board of directors may declare from legally available sources. Our senior secured credit facilities currently impose restrictions on our ability to declare dividends with respect to our common stock.

Liquidation rights. Upon liquidation or dissolution of our company, whether voluntary or involuntary, all shares of our common stock are entitled to share equally in the assets available for distribution to stockholders after payment of all of our prior obligations, including our preferred stock.

Other matters. The holders of our common stock have no preemptive or conversion rights and our common stock is not subject to further calls or assessments by us. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of our common stock, including the common stock offered in this offering, are fully paid and non-assessable.

Preferred Stock

Our amended and restated certificate of incorporation provides for the authorization of 10,000,000 shares of preferred stock. The shares of preferred stock may be issued from time to time at the discretion of the board of directors without stockholder approval. The board of directors is authorized to issue these shares in different classes and series and, with respect to each class or series, to determine the dividend rate, the redemption provisions, conversion provisions, liquidation preference and other rights and privileges not in conflict with our amended and restated certificate of incorporation. No shares of our preferred stock are currently outstanding, and we have no immediate plans to issue any preferred stock. The issuance of any of our preferred stock could provide needed flexibility in connection with possible acquisitions and other corporate purposes, however, the issuance could also make it more difficult for a third party to acquire a majority of our outstanding voting stock or discourage an attempt to gain control of us. In addition, the board of directors, without stockholder approval, can issue shares of preferred stock with voting and conversion rights which could adversely affect the voting power and other rights of the holders of common stock. The listing requirements of the New York Stock Exchange, which would apply so long as the common stock is listed on the New York Stock Exchange, require stockholder approval of certain issuances equal to or exceeding 20% of the then outstanding voting power of then outstanding number of shares of common stock. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

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Directors Exculpation and Indemnification

Our amended and restated certificate of incorporation provides that none of our directors shall be liable to us or our stockholders for monetary damages for any breach of fiduciary duty as a director, except to the extent otherwise required by the Delaware General Corporation Law, or the DGCL. The effect of this provision is to eliminate our rights, and our stockholders' rights, to recover monetary damages against a director for breach of a fiduciary duty of care as a director, except to the extent otherwise required by the DGCL. This provision does not limit or eliminate our right, or the right of any stockholder, to seek non-monetary relief, such as an injunction or rescission in the event of a breach of a director's duty of care. In addition, our amended and restated certificate of incorporation provides that, if the DGCL is amended to authorize the further elimination or limitation of the liability of a director, then the liability of the directors shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. These provisions will not alter the liability of directors under federal or state securities laws.

We have entered into indemnification agreements with each of our directors and key officers. These indemnification agreements provide that we will indemnify our directors and officers to the fullest extent permitted by law for liabilities they may incur because of their status as directors and officers. These agreements also provide that we will advance expenses to our directors and officers relating to claims for which they may be entitled to indemnification. Upon a potential change of control of our company, our directors and officers may request that we create a trust for their benefit in an amount sufficient to satisfy any expenses that they may reasonably expect to incur in connection with a claim against them. These indemnification agreements also provide that we will maintain directors' and officers' liability insurance.

Registration Rights

We are a party to a registration rights agreement with the following stockholders: (i) JZ Equity Partners plc and the permitted transferees of The Jordan Company, LLC (collectively, the TJC Shareholders); (ii) Charlesbank Voting Trust, Charlesbank Equity Fund V, Limited Partnership, CB Offshore Equity Fund V, L.P., CB Equity Co-investment Fund V, Limited Partnership and Coyote Training Group, LLC (collectively, the Charlesbank Shareholders), (iii) Worldwide Training Group, LLC; (iv) Whites Family Company, LLC; and (v) Robert D. Hartman. See *Certain Relationships And Related Transactions* for a more detailed summary of the registration rights agreement.

Certain Provisions of Our Certificate of Incorporation and Bylaws

Provisions with anti-takeover implications. We have opted not to be governed by the provisions of Section 203 of the Delaware General Corporation Law. In general, the statute prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved by the corporation's board of directors and/or stockholders in a prescribed manner. The term business combination includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years of the proposed business combination did own, 15% or more of the corporation's voting stock. Rather than being governed by Section 203, we have chosen to adopt a fair market value provision to govern business combinations with an interested stockholder. For the purposes of this provision, the definitions of business combination and interested stockholder generally correspond to those in Section 203 except that, with regard to the definition of interested stockholder, our provision contains only a two-year look-back period for stock ownership and the ownership threshold is only 10%. We believe that the fair market value provision not only captures the statutory benefits of Section 203, but also provides the desired certainty concerning transactions involving a business combination with an interested stockholder.

Election and removal of directors. Our amended and restated certificate of incorporation and amended and restated bylaws provide for the division of our board of directors into three classes as nearly

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equal in size as possible and with staggered three-year terms. Any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may be filled only by the vote of a majority of the directors then in office. The classification of our board of directors and the limitation on filling of vacancies could make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of our company.

Board meetings. Our amended and restated bylaws provide that special meetings of the board of directors may be called by the chairman of our board of directors, our chief executive officer or by a majority of the directors in office.

Stockholder meetings. Our amended and restated bylaws provide that any action required or permitted to be taken by our stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by written action in lieu of a meeting. Our bylaws further provide that special meetings of the stockholders may only be called by the chairman of our board of directors, by a committee that is duly designated by the board or by resolution adopted by the affirmative vote of the majority of the board of directors.

Requirements for advance notification of stockholder nominations and proposals. Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee of the board of directors. In order for any matter to be considered properly brought before a meeting, a stockholder must comply with requirements regarding advance notice and provide certain information to us. These provisions could have the effect of delaying until the next stockholders meeting stockholder actions that are favored by the holders of a majority of our outstanding voting securities. These provisions could also discourage a third party from making a tender offer for our common stock, because even if it acquired a majority of our outstanding voting securities, it would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders meeting and not by written consent.

Stockholder action by written consent. Our amended and restated certificate of incorporation and amended and restated bylaws provide that stockholder action may be taken only at a duly called annual or special meeting of stockholders of our common stock.

Cumulative voting. Our amended and restated certificate of incorporation provides that our stockholders shall have no cumulative voting rights.

Amendment of certificate of incorporation and bylaws. Amendment of the provisions described above in our amended and restated certificate of incorporation generally will require the affirmative vote of a majority of our directors, as well as the affirmative vote of the holders of at least 66 2/3% of our then outstanding voting stock. Our amended and restated bylaws may be amended (i) by the affirmative vote of the majority of our board of directors, (ii) in the case of certain provisions concerning takeovers or changes of control, by the affirmative vote of three-fourths of the directors in office or (iii) on the recommendation of our board of directors, by the affirmative vote of holders of a majority of our then outstanding voting stock.

NYSE Trading

Our common stock is listed on the New York Stock Exchange under the symbol UTI.

Transfer Agent and Registrar

The transfer agent and registrar issues stock certificates and keeps track of the registered holders of our stock. Our transfer agent and registrar is The Bank of New York.

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SHARES ELIGIBLE FOR FUTURE SALE

We cannot predict what effect, if any, market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock. Future sales of substantial amounts of our common stock in the public market, or the possibility of these sales, could adversely affect the trading price of our common stock and could impair our future ability to raise capital through the sale of our equity at a time and price we deem appropriate.

Upon completion of this offering, we will have outstanding 27,710,576 shares of common stock. Of these shares, 14,125,000 shares, including the 5,500,000 shares sold in this offering assuming the underwriters' over-allotment option is not exercised, will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our affiliates, as defined in Rule 144 under the Securities Act, which would be subject to the limitations and restrictions described below.

Assuming the underwriters' over-allotment option is not exercised, the remaining 13,585,576 shares of common stock that will be held by existing stockholders will be restricted securities, as defined in Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 promulgated under the Securities Act, which rules are summarized below. Among these restricted securities are 11,694,883 shares of common stock owned by a limited number of our stockholders that are parties to a registration rights agreement with us. That agreement provides certain of the stockholders that are parties to it with the right, after June 13, 2004, to require us to effect the registration of their shares. In addition, if we propose to register, or are required to register following the exercise of a demand registration right as described in the previous sentence, any of our shares of common stock under the Securities Act, all of our stockholders that are parties to the registration rights agreement will be entitled to include their shares of common stock in that registration. For a description of the registration rights agreement see **Certain Relationships and Related Transactions** - **Registration Rights Agreement**.

In connection with this offering, our directors and executive officers, as well as the selling stockholders in this offering, have entered into 90-day lock-up agreements at the request of the underwriters. On the day that is 91 days after the date of this prospectus, those parties will be able to sell on the public market an aggregate of 13,283,805 shares of our common stock that they will hold after this offering, provided that the requirements of Rule 144 under the Securities Act of 1933 are met. In addition, the lock-up agreements of our executive officers, other than John White, allow them, after June 22, 2004, to sell shares of our common stock beneficially owned by them pursuant to a plan that meets the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, provided that the requirements of Rule 144 are met. As of March 31, 2004, 2,967,128 shares of our common stock were owned by these executive officers.

In connection with our initial public offering in December 2003, our directors and executive officers, and all of our pre-initial public offering stockholders, entered into 180-day lock-up agreements. The 180-day lock-up agreements of those parties who were stockholders prior to our initial public offering, but who have not entered into 90-day lock-up agreements as described above, will remain in effect after this offering and are scheduled to expire, pursuant to their terms, on June 13, 2004. Beginning June 14, 2004, these stockholders will be entitled to sell in the public market an aggregate of approximately 331,071 shares of our common stock that they will hold after this offering provided that the requirements of Rule 144 are met. Taking into account the 180-day lock-up agreements and the 90-day lock-up

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agreements described in Underwriting, the restricted securities will be available for sale in the public market pursuant to Rule 144 as follows:

Number of Shares	Date
331,071	After the date of this prospectus.
13,283,805(1)	After June 13, 2004.
	After 90 days from the date of this prospectus.

(1) After June 22, 2004, our executive officers, other than John White, will be able to sell shares of our common stock beneficially owned by them pursuant to a plan that meets the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, provided that the requirements of Rule 144 are met. As of March 31, 2004, 2,967,128 shares of our common stock were held by these executive officers.

The numbers of shares of common stock listed above do not include shares of common stock issuable upon exercise of stock options granted under our stock plans that were unexercised as of March 31, 2004. As of March 31, 2004, there were outstanding options to purchase a total of 2,232,433 shares of common stock, 165,044 of which were vested. Shares of common stock issuable upon the exercise of options granted or to be granted under our stock option plans will be freely tradable without restriction under the Securities Act, unless such shares are held by an affiliate of ours.

Rule 144

In general, under Rule 144 as currently in effect, a person (or persons whose shares are required to be aggregated), including an affiliate, who has beneficially owned shares of our common stock for at least one year is entitled to sell in any three-month period a number of shares that does not exceed the greater of:

1% of then-outstanding shares of common stock, or 277,105 shares; and

the average weekly trading volume in the common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which notice of sale is filed, subject to restrictions.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

In addition, a person who is not deemed to have been an affiliate of ours at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years, would be entitled to sell those shares under Rule 144(k) without regard to the manner of sale, public information, volume limitation or notice requirements of Rule 144. To the extent that our affiliates sell their shares, other than pursuant to Rule 144 or a registration statement, the purchaser's holding period for the purpose of effecting a sale under Rule 144 commences on the date of transfer from the affiliate.

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MATERIAL U.S. FEDERAL TAX CONSEQUENCES

TO NON-U.S. HOLDERS OF COMMON STOCK

The following is a general discussion of certain material U.S. federal income and estate tax consequences to non-U.S. Holders with respect to the acquisition, ownership and disposition of our common stock. In general, a Non-U.S. Holder is any holder of our common stock other than the following:

a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence test under section 7701(b)(1)(A)(3) of the Code;

a corporation (or an entity treated as a corporation) created or organized in the United States or under the laws of the United States, any state thereof, or the District of Columbia;

an estate, the income of which is subject to U.S. federal income tax regardless of its source; or

a trust, if a U.S. court can exercise primary supervision over the administration of the trust and one or more U.S. persons can control all substantial decisions of the trust, or certain other trusts that have a valid election in effect.

This discussion is based on current provisions of the Internal Revenue Code, Treasury Regulations promulgated under the Internal Revenue Code, judicial opinions, published positions of the Internal Revenue Service (IRS), and all other applicable authorities, all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income and estate taxation or any aspects of state, local, or non-U.S. taxation, nor does it consider any specific facts or circumstances that may apply to particular Non-U.S. Holders that may be subject to special treatment under the U.S. federal income tax laws, such as insurance companies, tax-exempt organizations, financial institutions, brokers, dealers in securities, and U.S. expatriates. The discussion also does not address any tax considerations with respect to shares that are held by partnerships or other pass-through entities.

Prospective investors are urged to consult their tax advisors regarding the U.S. federal, state, local, and non-U.S. income and other tax considerations of acquiring, holding, and disposing of shares of common stock.

Dividends

In general, dividends paid to a Non-U.S. Holder will be subject to U.S. withholding tax at a rate equal to 30% of the gross amount of the dividend, or a lower rate prescribed by an applicable income tax treaty, unless the dividends are effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States. Under applicable Treasury Regulations, a Non-U.S. Holder will be required to satisfy certain certification requirements, generally on IRS Form W-8BEN, directly or through an intermediary, in order to claim a reduced rate of withholding under an applicable income tax treaty. If tax is withheld in an amount in excess of the amount applicable under an income tax treaty, a refund of the excess amount may generally be obtained by filing an appropriate claim for refund with the IRS.

Dividends that are effectively connected with a U.S. trade or business generally will not be subject to U.S. withholding tax if the Non-U.S. Holder files the required form, including IRS Form W-8ECI, or any successor form, with the payor of the dividend, but instead generally will be subject to U.S. federal income tax on a net income basis in the same manner as if the Non-U.S. Holder were a resident of the United States. A corporate Non-U.S. Holder that receives effectively connected dividends may be subject to an additional branch profits tax at a rate of 30%, or a lower rate prescribed by an applicable income tax treaty, on the repatriation from the United States of its effectively connected earnings and profits, subject to adjustments.

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Gain on Sale or Other Disposition of Common Stock

In general, a Non-U.S. Holder will not be subject to U.S. federal income tax on any gain realized upon the sale or other taxable disposition of the Non-U.S. Holder's shares of common stock unless:

the gain is effectively connected with a trade or business carried on by the Non-U.S. Holder within the United States, in which case the branch profits tax discussed above may also apply if the Non-U.S. Holder is a corporation;

the Non-U.S. Holder is an individual who holds shares of common stock as capital assets and is present in the United States for 183 days or more in the taxable year of disposition and various other conditions are met; or

we are or have been a U.S. real property holding corporation for U.S. federal income tax purposes and, assuming that our common stock is deemed to be regularly traded on an established securities market, the holder held, directly or indirectly at any time during the five-year period ending on the date of disposition or such shorter period that such shares were held, more than five percent of our common stock. We have not been, are not and do not anticipate becoming, a United States real property holding corporation for United States federal income tax purposes.

Information Reporting and Backup Withholding

Generally, we must report annually to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the recipient. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced by an applicable income tax treaty. Under tax treaties or other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

Payments made to a Non-U.S. Holder that is not an exempt recipient generally will be subject to backup withholding, currently at a rate of 28%, unless a Non-U.S. Holder certifies as to its foreign status, which certification may be made on IRS Form W-8BEN.

Proceeds from the disposition of common stock by a Non-U.S. Holder effected by or through a United States office of a broker will be subject to information reporting and backup withholding, currently at a rate of 28% of the gross proceeds, unless the Non-U.S. Holder certifies to the payor under penalties of perjury as to, among other things, its address and status as a Non-U.S. Holder or otherwise establishes an exemption. Generally, United States information reporting and backup withholding will not apply to a payment of disposition proceeds if the transaction is effected outside the United States by or through a non-U.S. office of a broker. However, if the broker is, for U.S. federal income tax purposes, a U.S. person, a controlled foreign corporation, a foreign person who derives 50% or more of its gross income for specified periods from the conduct of a U.S. trade or business, specified U.S. branches of foreign banks or insurance companies, or, a foreign partnership with various connections to the United States, information reporting but not backup withholding will apply unless:

the broker has documentary evidence in its files that the holder is a Non-U.S. Holder and other conditions are met; or

the holder otherwise establishes an exemption.

Backup withholding is not an additional tax. Rather, the amount of tax withheld is applied to the U.S. federal income tax liability of persons subject to backup withholding. If backup withholding results in an overpayment of U.S. federal income taxes, a refund may be obtained, provided the required documents are filed with the IRS.

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Estate Tax

Our common stock owned or treated as owned by an individual who is not a citizen or resident of the United States (as specifically defined for U.S. federal estate tax purposes) at the time of death will be includible in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Table of Contents**UNDERWRITING**

Under the terms and subject to the conditions contained in an underwriting agreement dated April 26, 2004, the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC is acting as the representative, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse First Boston LLC	2,171,400
Banc of America Securities LLC	930,600
Jefferies & Company, Inc.	930,600
Thomas Weisel Partners LLC	930,600
SunTrust Capital Markets, Inc.	206,800
Legg Mason Wood Walker, Incorporated	110,000
Piper Jaffray & Co.	110,000
ThinkEquity Partners LLC	110,000
Total	5,500,000

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The selling stockholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 825,000 additional outstanding shares from them at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$1.08 per share. The underwriters and selling group members may allow a discount of \$0.10 per share on sales to other broker/dealers. After the initial public offering, the representative may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we and the selling stockholders will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting Discounts and Commissions paid by the selling stockholders	\$ 1.80	\$ 1.80	\$ 9,900,000	\$ 11,385,000
Expenses payable by the selling stockholders	\$ 0.03	\$ 0.0261	\$ 165,000	\$ 165,000
Expenses payable by us	\$ 0.0727	\$ 0.0632	\$ 400,000	\$ 400,000

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 (the Securities Act), relating to any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus, except that we may issue shares of common stock pursuant to the exercise of warrants or options, in each case outstanding on the date of this prospectus, or grant employee stock options or purchases by employees pursuant to the terms of a plan in effect

on the date of this prospectus and described in this prospectus.

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Our directors and executive officers, as well as the selling stockholders in this offering, have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC for a period of 90 days after the date of this prospectus. The exercise of options granted to these persons will not be subject to or prohibited by these lock-up agreements. The lock-up agreements of our executive officers, other than John White, allow them, after June 22, 2004, to sell shares of our common stock beneficially owned by them pursuant to a plan that meets the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, provided that the requirements of Rule 144 are met. In addition, the lock-up agreement of John White, our Chief Strategic Planning Officer and Vice Chairman of our board of directors, contains a provision that allows him to pledge up to 1,800,000 shares of our common stock held by him to Pershing LLC as collateral for a personal loan.

We and the selling stockholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Certain of the underwriters and their respective affiliates have from time to time performed, and may in the future perform, various financial advisory, commercial banking and investment banking services for us and our affiliates in the ordinary course of business, for which they received, or will receive, customary fees and expenses.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase shares in the offering.

Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

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These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in the offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

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NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we and the selling stockholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

By purchasing common stock in Canada and accepting a purchase confirmation a purchaser is representing to us, the selling stockholders and the dealer from whom the purchase confirmation is received that

the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,

where required by law, that the purchaser is purchasing as principal and not as agent, and

the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action – Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares, for rescission against us and the selling stockholders in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us or the selling stockholders. In no case will the amount recoverable in any action exceed the price at which the shares were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we and the selling stockholders will have no liability. In the case of an action for damages, we and the selling stockholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein and the selling stockholders may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

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Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

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LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Bryan Cave LLP, Phoenix, Arizona. The underwriters have been represented by Cravath, Swaine & Moore LLP, New York, New York.

EXPERTS

The financial statements as of September 30, 2002 and 2003 and for each of the three years in the period ended September 30, 2003 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and file reports, proxy statements and other information with the Securities and Exchange Commission. We have also filed with the Securities and Exchange Commission a registration statement on Form S-1 to register our common stock. This prospectus, which forms part of the registration statement, does not contain all of the information included in the registration statement. For further information about us and our common stock offered in this prospectus, you should refer to the registration statement and its exhibits. You may read and copy the registration statement and any other document we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. In addition, the Securities and Exchange Commission maintains a web site that contains registration statements, reports, proxy statements and other information regarding registrants, such as us, that file electronically with the Securities and Exchange Commission. The address of the web site is www.sec.gov. Except for the registration statement and its exhibits, the information we file with the Securities and Exchange Commission is not included or incorporated in the registration statement and should not be relied upon by potential investors in determining whether to purchase shares of our common stock in this offering.

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UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of

Universal Technical Institute, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Universal Technical Institute, Inc. and its subsidiaries at September 30, 2002 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, effective October 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. In addition, as discussed in Note 3 to the consolidated financial statements, effective July 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 150 Accounting for Certain Financial Instruments with characteristics of both Liabilities and Equity.

PricewaterhouseCoopers LLP

Phoenix, Arizona
November 21, 2003, except
for paragraph 3 of Note 1 for which
the date is December 12, 2003,
and Note 22 for which the date
is April 14, 2004

Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

	September 30,		December 31,
	2002	2003	2003
			(unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 13,554	\$ 8,925	\$ 28,799
Receivables, net	12,527	19,856	13,489
Prepaid expenses and other assets	3,197	3,038	4,887
	<u>29,278</u>	<u>31,819</u>	<u>47,175</u>
Total current assets	29,278	31,819	47,175
Property and equipment, net	23,231	27,446	29,099
Investment in land	438	71	71
Goodwill	20,579	20,579	20,579
Deferred financing fees, net	2,248	1,300	451
Other assets	1,112	2,884	1,679
	<u>76,886</u>	<u>84,099</u>	<u>99,054</u>
Total assets	\$ 76,886	\$ 84,099	\$ 99,054
Liabilities, Redeemable Preferred Stock and Shareholders			
Deficit			
Current liabilities:			
Accounts payable and accrued expenses	\$ 16,474	\$ 25,005	\$ 23,581
Current portion of long-term debt and capital leases	3,016	3,860	233
Deferred revenue	20,427	25,692	30,066
Accrued tool sets	3,241	3,523	2,952
Other current liabilities	697	2,979	3,381
	<u>43,855</u>	<u>61,059</u>	<u>60,213</u>
Total current liabilities	43,855	61,059	60,213
Construction liability	2,064		
Long-term debt and capital leases	46,875	28,014	11
Subordinated long-term debt	7,011		
Subordinated long-term related party debt	4,000		
Mandatory redeemable preferred stock (redemption value of \$25,941 & \$0 at September 30, 2003 & December 31, 2003, respectively)		25,462	
Distributions payable to shareholders	438	71	71
Other liabilities	4,407	5,484	7,282
	<u>108,650</u>	<u>120,090</u>	<u>67,577</u>
Total liabilities	108,650	120,090	67,577
Commitments and contingencies (Note 13)			
Preferred stock, \$.0001 par value, 25,000 shares authorized:			
Redeemable preferred stock 19,445 shares issued and outstanding at September 30, 2002 and 2003 (redemption value of \$24,774 at September 30, 2002) and 0 shares issued and outstanding at December 31, 2003 (unaudited)	20,646		
	<u>20,646</u>		
Redeemable convertible preferred stock 2,357 shares issued and outstanding at September 30, 2002 and 2003 (redemption	43,749	47,161	

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value of \$47,206 and \$50,618 at September 30, 2002 and 2003) and 0 shares issued and outstanding at December 31, 2003 (unaudited)

Shareholders deficit:			
Common stock, \$.0001 par value, 36,975,000 shares authorized, 13,466,495 shares issued and outstanding at September 30, 2002, 13,936,295 shares issued and outstanding at September 30, 2003 and 27,705,576 shares issued and outstanding at December 31, 2003 (unaudited)	1	1	1
Paid-in capital			107,924
Accumulated deficit	(95,659)	(83,125)	(76,448)
Treasury stock 63,510 shares of common stock, \$.0001 par value	(15)		
Subscription receivable from officers and directors	(443)		
Subscriptions receivable	(43)	(28)	
	<u> </u>	<u> </u>	<u> </u>
Total shareholders deficit	(96,159)	(83,152)	31,477
	<u> </u>	<u> </u>	<u> </u>
Total liabilities, redeemable preferred stock and shareholders deficit	\$ 76,886	\$ 84,099	\$ 99,054
	<u> </u>	<u> </u>	<u> </u>

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

Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
				(unaudited)	
Net revenues	\$ 109,493	\$ 144,372	\$ 196,495	\$ 45,374	\$ 59,043
Operating expenses:					
Educational services and facilities	59,554	70,813	92,443	20,880	25,602
Selling, general and administrative	38,332	51,541	67,896	16,254	19,426
Total operating expenses	97,886	122,354	160,339	37,134	45,028
Income from operations	11,607	22,018	36,156	8,240	14,015
Other expense (income):					
Interest income	(446)	(508)	(475)	(119)	(25)
Interest expense	10,336	6,213	3,601	1,211	815
Interest expense related parties	784	549	532		
Other expense (income)		847	(234)		752
Total other expense	10,674	7,101	3,424	1,092	1,542
Income from continuing operations and before income taxes	933	14,917	32,732	7,148	12,473
Income tax expense	820	5,228	12,353	2,502	5,020
Income from continuing operations	113	9,689	20,379	4,646	7,453
Discontinued operations:					
Loss from operations, net of taxes	(8,536)				
Loss on sale, net of taxes	(1,316)				
Total discontinued operations	(9,852)				
Net income (loss)	(9,739)	9,689	20,379	4,646	7,453
Preferred stock dividends	(1,166)	(2,872)	(6,413)	(1,145)	(776)
Net income (loss) available to common shareholders	\$ (10,905)	\$ 6,817	\$ 13,966	\$ 3,501	\$ 6,677
Earnings per share basic:					
Income (loss) from continuing operations	\$ (0.08)	\$ 0.51	\$ 1.03	\$ 0.26	\$ 0.43
Discontinued operations:					
Loss from operations	(0.63)				
Loss on sale	(0.10)				
Net income (loss) available to common shareholders	\$ (0.81)	\$ 0.51	\$ 1.03	\$ 0.26	\$ 0.43
Earnings per share diluted:					
Income (loss) from continuing operations	\$ (0.08)	\$ 0.44	\$ 0.79	\$ 0.18	\$ 0.30
Discontinued operations:					

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Loss from operations	(0.63)				
Loss on sale	(0.10)				
Net income (loss) available to common shareholders	\$ (0.81)	\$ 0.44	\$ 0.79	\$ 0.18	\$ 0.30
Weighted average number of common shares outstanding:					
Basic	13,402	13,402	13,543	13,402	15,439
Diluted	13,402	20,244	25,051	24,915	25,042

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

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Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS DEFICIT**

(In thousands, except per share amounts)

	Common Stock		Paid-in Capital	Treasury Stock	Accumulated Deficit	Subscriptions Receivable	Total Shareholders Deficit
	Shares	Amount					
Balance at September 30, 2000	13,466	\$ 1	\$ 101	\$(15)	\$ (91,672)	\$(486)	\$ (92,071)
Net loss					(9,739)		(9,739)
Dividends on preferred stock			(101)		(1,065)		(1,166)
Balance at September 30, 2001	13,466	1		(15)	(102,476)	(486)	(102,976)
Net income					9,689		9,689
Dividends on preferred stock					(2,872)		(2,872)
Balance at September 30, 2002	13,466	1		(15)	(95,659)	(486)	(96,159)
Net income					20,379		20,379
Exercise of stock options	470		108			(108)	
Proceeds received on subscription receivable						566	566
Tax benefit from employee stock option plan			1,287				1,287
Stock option compensation recorded			63				63
Dividends on preferred stock			(1,458)		(2,830)		(4,288)
Cash dividends:							
Preferred Series D @ \$901.495 per share					(2,125)		(2,125)
Common @ \$0.207 per share					(2,875)		(2,875)
Retirement of treasury stock	(63)			15	(15)		
Balance at September 30, 2003	13,873	\$ 1	\$	\$	\$ (83,125)	\$ (28)	\$ (83,152)
Net income (unaudited)					7,453		7,453
Issuance of common stock, net (unaudited)	3,250		59,184				59,184
Conversion of preferred stock (unaudited)	10,571		48,540				48,540
Proceeds received on subscription receivable (unaudited)						28	28
Exercise of stock options (unaudited)	12		53				53
Tax benefit from employee stock option plan (unaudited)			120				120
Stock option compensation recorded (unaudited)			27				27
Dividends on preferred stock (unaudited)					(776)		(776)
Balance at December 31, 2003 (unaudited)	27,706	\$ 1	\$107,924	\$	\$ (76,448)	\$	\$ 31,477

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

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

(In thousands)

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	(unaudited)	
				2002	2003
Cash flows from operating activities:					
Net income (loss)	\$ (9,739)	\$ 9,689	\$ 20,379	\$ 4,646	\$ 7,453
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	4,532	4,948	6,382	1,506	2,095
Bad debt expense	1,463	2,681	2,470	854	610
Goodwill impairment	3,074				
Tax benefit from option exercise			1,287		120
Stock option compensation			63		27
Deferred income taxes	214	2,045	484	(258)	1,184
Write-off of deferred financing fees		970	467		752
Loss on sale of property and equipment	27	232	122		19
Preferred stock interest expense			292		265
Gain on early retirement of debt			(701)		
Loss on sale of discontinued operation	1,316				
Changes in assets and liabilities:					
Receivables	(1,765)	(4,910)	(9,799)	682	5,757
Prepaid expenses and other assets	735	(278)	(108)	(142)	(2,325)
Other assets	(411)	1,120	(2,012)	(54)	1,277
Accounts payable and accrued expenses	3,540	619	8,184	779	(1,433)
Deferred revenue	3,808	5,350	5,265	2,269	4,374
Accrued tool sets and other current liabilities	1,862	(2,143)	2,564	2,759	932
Other liabilities	296	148	1,077	158	144
Discontinued operation	1,811				
Net cash provided by operating activities	10,763	20,471	36,416	13,199	21,251
Cash flows from investing activities:					
Purchase of property and equipment	(5,472)	(11,772)	(11,977)	(1,334)	(3,508)
Proceeds from sale of property and equipment		5,869	20		
Proceeds from the sale of land			303		
Proceeds from sale of securities		123			
Net cash used in investing activities	(5,472)	(5,780)	(11,654)	(1,334)	(3,508)
Cash flows from financing activities:					
Proceeds from issuance of common stock, net of issuance costs of \$7,441 for the three months ended December 31, 2003					59,184
Proceeds from issuance of preferred stock, net of issuance costs of \$3,457 for the year ended September 30, 2002		42,043			
Proceeds from long-term debt borrowings, net of issuance costs of \$2,462 for the year ended September 30, 2002		16,819			
Repayment of long-term debt borrowings	(5,264)	(39,952)	(18,017)	(629)	(31,630)
Repayment of subordinated debt		(23,400)	(10,310)		

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Distribution to stockholders			(303)		
Redemption of mandatory redeemable preferred stock				(12,946)	
Dividends paid			(5,000)	(12,558)	
Proceeds from exercise of stock options				53	
Proceeds received from subscriptions receivable			4,239	28	
Net cash provided by (used in) financing activities	(5,264)	(4,490)	(29,391)	(629)	2,131
Net increase (decrease) in cash and cash equivalents	27	10,201	(4,629)	11,236	19,874
Cash and cash equivalents, beginning of year	3,326	3,353	13,554	13,554	8,925
Cash and cash equivalents, end of year	\$ 3,353	\$ 13,554	\$ 8,925	\$ 24,790	\$ 28,799
Supplemental Disclosure of Cash Flow Information:					
Interest paid	\$ 10,195	\$ 6,831	\$ 4,744	\$ 744	\$ 743
Debt issued in lieu of interest	\$ 490	\$ 395	\$	\$	\$
Preferred dividends accrued but unpaid	\$ 1,166	\$ 2,872	\$ 4,288	\$ 1,145	\$
Taxes paid (received)	\$ 1,269	\$ (3,088)	\$ 8,177	\$ 100	\$ 1,885
Training equipment obtained in exchange for services	\$ 1,489	\$ 945	\$ 1,475	\$ 28	\$ 9
Construction in progress financed by construction liability	\$	\$ 2,064	\$ (2,064)	\$	\$
Equipment financed with capital lease	\$ 58	\$	\$	\$	\$
Exercise of stock options	\$	\$	\$ 108	\$	\$
Exchange of preferred stock for common stock	\$	\$	\$	\$	\$ 48,540

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

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UNIVERSAL TECHNICAL INSTITUTE, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

1. Nature of the Business

Business Description

We are a provider of post-secondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians. We offer undergraduate degree, diploma and certificate programs at seven campuses and manufacturer-sponsored advanced programs at 22 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.

The accompanying consolidated financial statements include all the accounts of Universal Technical Institute, Inc. (a Delaware corporation) and each of its wholly-owned subsidiaries (collectively we and our). All significant intercompany accounts and transactions have been eliminated.

On November 11, 2003 we approved a 4,350-to-1 stock split of our common shares to be effective immediately prior to the consummation of our initial public offering. All share and per share amounts in the financial statements have been adjusted to reflect the stock split.

2. Government Regulation and Financial Aid

Our schools and students participate in a variety of government-sponsored financial aid programs that assist students in paying the cost of their education. The largest source of such support is the federal programs of student financial assistance under Title IV of the Higher Education Act of 1965, as amended, commonly referred to as the Title IV Programs, which are administered by the U.S. Department of Education, or ED. During the years ended September 30, 2001, 2002 and 2003, approximately 67%, 65% and 68%, respectively, of our net revenues were indirectly derived from funds distributed under Title IV Programs.

To participate in Title IV Programs, a school must be authorized to offer its programs of instruction by relevant state education agencies, be accredited by an accrediting commission recognized by ED and be certified as an eligible institution by ED. For this reason, our schools are subject to extensive regulatory requirements imposed by all of these entities. After our schools receive the required certifications by the appropriate entities, our schools must demonstrate their compliance with the ED regulations of the Title IV Programs on an ongoing basis. Included in these regulations is the requirement that we must satisfy specific standards of financial responsibility. ED evaluates institutions for compliance with these standards each year, based upon the institutions' annual audited financial statements, as well as following a change in ownership of the institution. Under regulations which took effect July 1, 1998, ED calculates the institution's composite score for financial responsibility based on its (i) equity ratio, which measures the institution's capital resources, ability to borrow and financial viability; (ii) primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and (iii) net income ratio, which measures the institution's ability to operate at a profit.

An institution that does not meet ED's minimum composite score requirements may establish its financial responsibility as follows:

by posting a letter of credit in favor of ED in an amount up to 50% of the Title IV Program funds received by the institution during the institution's most recently completed fiscal year;

by posting a letter of credit in an amount equal to at least 10% of the Title IV Program funds received during the institution's most recent fiscal year, accepting provisional certification,

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

complying with additional ED monitoring requirements and agreeing to receive Title IV Program funds under an arrangement other than ED's standard advance funding arrangement; or

by complying with additional ED monitoring requirements and agreeing to receive Title IV Program funds under an arrangement other than ED's standard advance funding arrangement.

Based on its review of our financial statements for each of our fiscal years since the year ended September 30, 1999, ED found that we did not have a composite score of 1.5 or higher. Consequently, since November 2000, we have been required to post a letter of credit on behalf of our institutions in favor of ED and to accept provisional certification and additional ED reporting and monitoring procedures. At September 30, 2003, we have outstanding a letter of credit in the amount of \$7.6 million representing approximately 10% of the total Title IV Program funds received by our institutions in the year ended September 30, 2001, as calculated by ED. This letter of credit was increased to \$9.9 million in October 2003. The increase in our required letter of credit is attributable to increased funds received under Title IV Programs. Additionally, we are required to credit students' accounts before requesting and receiving Title IV Program funds and two of our institutions are required to file additional reports with ED regarding their receipt of Title IV Program funds.

In addition, based upon our year ended September 30, 2002 Title IV compliance audits of our institutions, it was determined that we exceeded ED's late refund threshold of 5% at two of our institutions. While ordinarily we would be required to post letters of credit for this reason, ED informed us that we were not required to post these additional letters of credit because we already posted a larger letter of credit as a result of our financial responsibility composite score. Based on our 2003 fiscal year Title IV compliance audits, none of our institutions made late returns of Title IV Program funds in excess of ED's prescribed threshold for our 2003 fiscal year.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Universal Technical Institute, Inc. and each of its wholly-owned subsidiaries (collectively "we" and "our"). All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

Net revenues consist primarily of student tuition and fees derived from the programs we provide after reductions for scholarships we sponsor. Tuition and fee revenue is recognized on a pro-rata (straight-line) basis over the term of the course or program offered. If a student withdraws from a program prior to a specified date, any paid but unearned tuition is refunded. Sales of textbooks and program supplies, revenue related to student housing and other revenue are each recognized as sales occur or services are performed. In aggregate, these additional revenues represented less than 10% of total net revenues in each year in the three-year period ended September 30, 2003. Deferred revenue represents the excess of tuition and fee payments received as compared to tuition and fees earned and is reflected as a current liability in the accompanying consolidated financial statements because it is expected to be earned within the twelve-month period immediately following the date on which such liability is reflected in our consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Deferred Financing Fees

Costs incurred in connection with obtaining financing are capitalized and amortized using the effective interest method over the term of the related debt. Amortization of deferred financing fees was \$0.6 million for the year ended September 30, 2001, \$1.1 million for the year ended September 30, 2002 and \$0.5 for the year ended September 30, 2003. During the fourth quarter of the year ended September 30, 2003, we wrote off an additional \$0.5 million related to a partial debt extinguishment.

Property and Equipment

Property, equipment and leasehold improvements are recorded at cost. Amortization of equipment under capital leases and leasehold improvements is calculated using the straight-line method over the remaining useful life of the asset or term of lease, whichever is shorter. Equipment under capital leases totaled \$1.8 million with accumulated amortization of \$1.2 million at September 30, 2002 and totaled \$1.8 million with accumulated amortization of \$1.5 million at September 30, 2003. Depreciation is calculated using the straight-line method over the estimated useful life. The estimated useful life of our training, office and computer equipment ranges from 3 years to 7 years. The estimated useful life of our vehicles is 5 years.

Depreciation and amortization related to our property and equipment was \$3.4 million for the year ended September 30, 2001, \$3.8 million for the year ended September 30, 2002 and \$5.9 million for the year ended September 30, 2003. Maintenance and repairs are expensed as incurred.

Software Development Costs

We capitalize certain internal software development costs which are amortized using the straight-line method over the estimated lives of the software (not to exceed 5 years). Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll and payroll related costs for employees who are directly associated with the internal software development project. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of the acquired businesses over the fair market value of the acquired net assets. We account for our goodwill in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, which we adopted effective October 1, 2001. Prior to our adoption of SFAS No. 142, we recorded amortization expense of \$0.6 million for the fiscal year ended September 30, 2001. In accordance with FAS 142, goodwill is no longer amortized and instead is tested for impairment on an annual basis. We completed our impairment test of goodwill during the fourth quarter of 2002 and 2003 and determined there was no impairment at that time.

Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

The following table presents a comparison of net income (loss) and earnings per share as if SFAS No. 142 had been adopted at the beginning of the earliest period presented:

	Year Ended Sept 30,		
	2001	2002	2003
Reported income (loss) from continuing operations	\$ 113	\$9,689	\$20,379
Add back goodwill amortization, net of taxes	69	—	—
Adjusted income (loss) from continuing operations	\$ 182	\$9,689	\$20,379
Reported net income (loss) available to common shareholders	\$(10,905)	\$6,817	\$13,966
Add back goodwill amortization, net of taxes	1,257	—	—
Adjusted net income (loss) available to common shareholders	\$ (9,648)	\$6,817	\$13,966
Earnings per share basic:			
Reported income (loss) from continuing operations	\$ (0.08)	\$ 0.51	\$ 1.03
Add back goodwill amortization	0.01	—	—
Adjusted income (loss) from continuing operations	\$ (0.07)	\$ 0.51	\$ 1.03
Reported net income (loss) available to common shareholders	\$ (0.81)	\$ 0.51	\$ 1.03
Add back goodwill amortization	0.09	—	—
Adjusted net income (loss) available to common shareholders	\$ (0.72)	\$ 0.51	\$ 1.03
Earnings per share diluted:			
Reported income (loss) from continuing operations	\$ (0.08)	\$ 0.44	\$ 0.79
Add back goodwill amortization	0.01	—	—
Adjusted income (loss) from continuing operations	\$ (0.07)	\$ 0.44	\$ 0.79
Reported net income (loss) available to common shareholders	\$ (0.81)	\$ 0.44	\$ 0.79
Add back goodwill amortization	0.09	—	—
Adjusted net income (loss) available to common shareholders	\$ (0.72)	\$ 0.44	\$ 0.79

Prior to adopting SFAS No. 142, we recorded an asset impairment relative to goodwill which was recorded in connection with the purchase of National Technology Transfer, Inc. (NTT). We assessed the recoverability of NTT goodwill utilizing its undiscounted projected cash flow. Based upon this analysis and due to a weak market response and lower student densities for our training products offered, as well as declining historical and forecasted operating income, we determined that an impairment of our goodwill existed. Accordingly, based upon the excess of the carrying value as compared to the assets, an estimated fair value impairment loss was recorded in the amount of \$3.1 million for the year

ended September 30, 2001.

Impairment of Long-Lived Assets

We review the carrying value of our long-lived assets and identifiable intangibles for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In accordance with FAS 144, the Company assesses the potential

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Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

impairment of property and equipment and identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We evaluate our long-lived assets for impairment by examining estimated future cash flows. These cash flows are evaluated by using weighted probability techniques as well as comparisons of past performance against projections. Assets may also be evaluated by identifying independent market values. If we determine that an asset's carrying value is impaired, we will record a write-down of the carrying value of the asset and charge the impairment as an operating expense in the period in which the determination is made.

Advertising Costs

Costs related to advertising are expensed as incurred and totaled approximately \$5.0 million for the year ended September 30, 2001, \$5.7 million for the year ended September 30, 2002 and \$7.9 million for the year ended September 30, 2003.

Start-up Costs

Costs related to the start-up of new campuses are expensed as incurred.

Stock-Based Compensation

We account for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, and comply with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure - An Amendment of SFAS No. 123, which defines a fair value based method and addresses common stock and options given to employees as well as those given to non-employees in exchange for products and services. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123:

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
					(unaudited)
Net income (loss) available to common shareholders as reported	\$(10,905)	\$6,817	\$13,966	\$3,501	\$6,677
Add stock-based compensation expense included in reported net income, net of taxes			39		16
Deduct total stock-based employee compensation expense determined using the fair value based method, net of taxes	(1)	(72)	(163)	(32)	(110)
Net income (loss) pro forma	\$(10,906)	\$6,745	\$13,842	\$3,469	\$6,583
Earnings per share basic as reported	\$ (0.81)	\$ 0.51	\$ 1.03	\$ 0.26	\$ 0.43
Earnings per share diluted as reported	\$ (0.81)	\$ 0.44	\$ 0.79	\$ 0.18	\$ 0.30
Earnings per shares basic pro forma	\$ (0.81)	\$ 0.50	\$ 1.02	\$ 0.26	\$ 0.42

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Earnings per share	diluted	pro forma	<u>\$ (0.81)</u>	<u>\$ 0.44</u>	<u>\$ 0.78</u>	<u>\$ 0.18</u>	<u>\$ 0.30</u>
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Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following table illustrates the assumptions used for grants made during each of the years ended September 30, 2001, 2002 and 2003, and three months ended December 31, 2002 and 2003.

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
				(unaudited)	
Expected lives		5 years	5 years	5 years	5 years
Risk-free interest rate		5.02%	3.25%	5.02%	3.25%
Dividend yield					
Expected volatility					34.48%

Income Taxes

We account for income taxes as prescribed by SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires recognition of deferred tax assets and liabilities for the estimated future tax consequences of events attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. Deferred tax assets are reduced through the establishment of a valuation allowance at the time, based upon available evidence, if it is more likely than not that the deferred tax assets will not be realized.

Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, requires that all items that meet the definition of components of comprehensive income be reported in a financial statement for the period in which they are recognized. Components of comprehensive income include revenues, expenses, gains, and losses that under accounting principles generally accepted in the United States of America are included in comprehensive income but excluded from net income. There are no differences between our net income, as reported, and comprehensive income, as defined for the periods presented.

Concentration of Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and receivables.

We place our cash and cash equivalents with high quality financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$0.1 million.

We extend credit for tuition and fees to the majority of our students that are in attendance at our campuses. Our credit risk with respect to these accounts receivable is mitigated through the students' participation in federally funded financial aid programs unless students withdraw prior to the receipt by us of Title IV funds for those students. In addition, our remaining tuition receivable is primarily comprised of smaller individual amounts due from students throughout the United States.

Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)*****Use of Estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, bad debts, fixed assets, long-lived assets including goodwill, income taxes and contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements.

Fair Value of Financial Instruments

The carrying value of cash equivalents, accounts receivable and payable, accrued liabilities and deferred tuition approximates their fair value at September 30, 2002 and 2003 due to the short-term nature of these instruments.

The carrying value of our long-term variable rate debt reflects its fair value as such long-term debt is subject to fees and interest rates, which adjust regularly to reflect current market rates.

The carrying value of the portion of our long-term debt with stated interest rates reflects its fair value based on current rates offered to us on debt with similar maturities and characteristics.

Earnings per Common Share

SFAS No 128, Earnings Per Share, requires the dual presentation of basic and diluted earnings per share on the face of the income statement and the disclosure of the reconciliation between the numerators and denominators of basic and diluted earnings per share calculations. The following schedule presents the calculation of basic and fully diluted earnings per share from continuing operations:

	<u>Year Ended September 30,</u>			<u>Three Months Ended December 31,</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
				(unaudited)	
Basic earnings per share:					
Income from continuing operations	\$ 113	\$ 9,689	\$20,379	\$ 4,646	\$ 7,453
Less preferred stock dividends:					
Mandatory redeemable preferred stock	1,166	1,166	876	292	
Redeemable convertible preferred stock		1,706	5,537	853	776
	<u>1,166</u>	<u>2,872</u>	<u>6,413</u>	<u>1,145</u>	<u>776</u>
Income from continuing operations available to common shareholders	\$ (1,053)	\$ 6,817	\$13,966	\$ 3,501	\$ 6,677

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Weighted average number of shares	13,402	13,402	13,543	13,402	15,439
Basic earnings per share	\$ (0.08)	\$ 0.51	\$ 1.03	\$ 0.26	\$ 0.43

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Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
	(unaudited)				
Diluted earnings per share:					
Income from continuing operations	\$ (1,053)	\$ 6,817	\$ 13,966	\$ 3,501	\$ 6,677
Add redeemable convertible preferred stock dividends		1,706	5,537	853	776
Add convertible promissory note interest expense, net of taxes		325	320	138	
Income from continuing operations available to common shareholders	\$ (1,053)	\$ 8,848	\$ 19,823	\$ 4,492	\$ 7,453
Weighted average number of shares:					
Basic shares outstanding	13,402	13,402	13,543	13,402	15,439
Dilutive effect of:					
Options related to the purchase of common stock		387	667	630	352
Convertible promissory note payable		1,314	587	629	
Convertible preferred stock		5,141	10,254	10,254	9,251
Diluted shares outstanding	13,402	20,244	25,051	24,915	25,042
Diluted earnings per share	\$ (0.08)	\$ 0.44	\$ 0.79	\$ 0.18	\$ 0.30

For the year ended September 30, 2001, the dilutive effect of 18,333 shares related to our convertible debt and 161 shares related to outstanding options was not considered, as the effect would be anti-dilutive.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and should be initially measured at fair value. Under EITF Issue No. 94-3, a liability for such costs is recognized as of the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that we initiated after December 31, 2002. Our adoption of SFAS No. 146 did not have a material effect on our financial condition or results of operations.

In November 2002, the FASB issued Financial Interpretation No. (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires certain guarantees to be recorded at fair value and also requires a guarantor to make certain disclosures regarding guarantees. FIN 45's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Our adoption of this Interpretation did not have a material impact on our consolidated financial statements or disclosures.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation An Amendment of SFAS No. 123. Although SFAS 148 does not require use of the fair value method of accounting for stock-based employee compensation, it does provide alternative methods of transition. It also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS 148's amendment of the transition and annual disclosure requirements is effective for fiscal years ending after December 15, 2002. The amendment of disclosure requirements of APB Opinion No. 28 is effective for interim periods beginning after December 15, 2002. Our adoption of SFAS No. 148 has resulted in expanded disclosure to include the effect of stock-based compensation in interim reporting.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 is effective prospectively for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. Our adoption of SFAS No. 149 did not have a material impact on our consolidated financial statements or disclosures.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 changes the accounting and disclosure requirements for certain financial instruments that, under previous guidance, could be classified as equity. The guidance in SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Upon adoption of SFAS No. 150, effective July 1, 2003, we classified as a liability the redeemable preferred stock series A, series B and series C with a combined carrying value of approximately \$25,462. Additionally, effective July 1, 2003 the dividends on these securities were included as a component of interest expense instead of preferred stock dividends in the consolidated statement of operations. SFAS No. 150 prohibits restatements of financial statements for periods prior to adoption, accordingly these changes were made prospectively.

Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

The following table presents a comparison of net income (loss) as if SFAS 150 had been adopted at the beginning of the earliest period presented:

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
				(unaudited)	
Reported income from continuing operations	\$ 113	\$ 9,689	\$ 20,379	\$ 4,646	\$ 7,453
Less preferred stock dividend for series A, series B and series C preferred stock	(1,166)	(1,166)	(876)	(292)	
Adjusted income (loss) from continuing operations	(1,053)	8,523	19,503	4,354	7,453
Less discontinued operations	(9,852)				
Adjusted net income (loss)	(10,905)	8,523	19,503	4,354	7,453
Less preferred stock dividend for series D preferred stock		(1,706)	(5,537)	(853)	(776)
Net income (loss) available for common shareholders	\$ (10,905)	\$ 6,817	\$ 13,966	\$ 3,501	\$ 6,677

In December 2003, the FASB issued FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB 51, replacing FIN 46, of the same title that was issued in January 2003. FIN 46R provides guidance on when certain entities should be consolidated or the interests in those entities should be disclosed by enterprises that do not control them through majority voting interest. Under FIN 46R, entities are required to be consolidated by enterprises that lack majority voting interest when equity investors of those entities have insignificant capital at risk or they lack voting rights, the obligation to absorb expected losses, or the right to receive expected returns. Entities identified with these characteristics are called variable interest entities, or VIEs, and the interests that enterprises have in these entities are called variable interests. These interests can derive from certain guarantees, leases, loans or other arrangements that result in risks and rewards that are disproportionate to the voting interests in the entities.

The provisions of FIN 46R must be applied for VIEs created after January 31, 2003 and for variable interests in entities commonly referred to as special purpose entities. For all other VIEs, implementation is required by March 31, 2004. Our adoption of FIN 46R did not have a material impact on our consolidated financial statements or disclosures.

4. Receivables

Receivables, net consist of the following:

September 30,

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	<u>2002</u>	<u>2003</u>
Tuition receivables	\$ 13,439	\$ 21,051
Other receivables	664	1,126
	<u> </u>	<u> </u>
Receivables	14,103	22,177
Less allowance for uncollectible accounts	(1,576)	(2,321)
	<u> </u>	<u> </u>
	<u>\$ 12,527</u>	<u>\$ 19,856</u>

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AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)****5. Property and Equipment**

Property and equipment, net consist of the following:

	September 30,	
	2002	2003
Leasehold improvements	\$ 12,485	\$ 14,084
Training equipment	14,571	20,189
Office and computer equipment	7,542	10,848
Internally developed software	1,531	2,369
Vehicles	515	571
Construction in progress	2,485	916
	<u>39,129</u>	<u>48,977</u>
Less accumulated depreciation and amortization	(15,898)	(21,531)
	<u>\$ 23,231</u>	<u>\$ 27,446</u>

At September 30, 2002, we recorded \$2.1 million in construction in progress and its corresponding construction liability related to a build-to-suit lease agreement for a new campus facility.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	September 30,		December 31,
	2002	2003	2003
			(Unaudited)
Accounts payable	\$ 4,031	\$ 5,059	\$ 2,686
Accrued compensation and benefits	9,543	13,507	14,322
Other accrued expenses	2,900	6,439	6,573
	<u>\$ 16,474</u>	<u>\$ 25,005</u>	<u>\$ 23,581</u>

7. Investment in Land

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We previously acquired land in Phoenix, Arizona for possible future expansion. We did not make formal plans for the development of the land and have placed the land for sale. The land parcels are valued at the lower of cost or market value less selling costs. In connection with our 1999 recapitalization where we issued additional common stock and our Series C preferred stock, we agreed to distribute any proceeds received from the sale of the land to the participating common shareholders. During the year ended September 30, 2003, we sold certain parcels of the remaining land held for sale. Total proceeds from the sale were \$0.3 million and were distributed to our common shareholders. The carrying value of the land was \$0.4 million at September 30, 2002 and \$0.1 million at September 30, 2003. We also have recorded a corresponding long-term liability in the accompanying Consolidated Balance Sheets to reflect the required distribution payable to shareholders.

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Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)****8. Revolving Credit Facility**

Effective March 29, 2002, we restructured our debt in conjunction with the issuance of series D preferred stock (Note 16) and entered into a Second Amendment and Restatement of Credit Agreement (Second Amendment). The Second Amendment increased the borrowing limit under the revolving credit facility from \$12.5 million to \$20.0 million and increased the limit on letters of credit that may be issued under the revolving credit facility to ED from \$5.0 million to the greater of \$10.0 million or 10% of Title IV funding not to exceed \$15.0 million. There were no outstanding borrowings under the revolving credit facility at September 30, 2002 or September 30, 2003. Total availability under the revolving credit facility was \$13.6 million at September 30, 2002 and \$14.4 million at September 30, 2003. Outstanding letters of credit to ED were \$6.4 million at September 30, 2002 and \$7.6 million at September 30, 2003. Outstanding letters of credit to others were \$0 at September 30, 2002 and \$8.0 million at September 30, 2003. In October 2003, we increased our letter of credit issued to ED to \$9.9 million.

The revolving credit facility matures on March 31, 2007 and is collateralized by a security interest in substantially all the assets of UTI Holdings, Inc., the borrower under our revolving credit facility. UTI Holdings, Inc. is an intermediate holding company that is holding the capital stock of all of our operating subsidiaries. Borrowings under the revolving credit facility bear interest based upon, at our option at the time of the borrowing, LIBOR or an alternative base rate, at the alternate base rate plus 1.50% to 2.25% or LIBOR plus 2.75% to 3.50%, in each case depending on our leverage ratio during the applicable interest period. In addition to paying interest on outstanding principal under the revolving credit facility, we were required to pay a commitment fee to the lenders under the revolving credit facility with respect to the unused commitments at a rate equal to 0.5% per year, and a risk participation fee equal to 2.75% per year to the issuers of letters of credit under our revolving credit facility with respect to the amount of such letters of credit. Interest is payable quarterly. The alternate base rate was 6.5% at September 30, 2002 and 5.25% at September 30, 2003. LIBOR was 4.813% at September 30, 2002 and 3.687% at September 30, 2003.

The Second Amendment contains certain restrictive covenants, including but not limited to maintenance of certain financial ratios and restrictions on capital expenditures, indebtedness, contingent obligations, investments and certain payments. At September 30, 2002, we were not in compliance with certain restrictive covenants related to permitted indebtedness for which we received a waiver of violation from our lender. At September 30, 2003, we were not in compliance with a non-financial covenant related to financial reporting for which we received a waiver of violation from our lender.

In July 2003, we further amended our credit agreements. The amendment increased our available borrowing under our revolving credit facility from \$20.0 million to \$30.0 million, increased the limit for letters of credit issued under the revolving credit facility from the greater of (a) \$10,000,000 and (b) an amount, not exceeding \$15,000,000, equal to 10% of Title IV funding received by us to the greater of (x) \$15,000,000 and (y) an amount, not exceeding \$22,500,000, equal to 10% of Title IV funding received by us. The amendment also increased the level of permitted capital expenditures, reduced the interest rate from the alternate base rate plus 1.50% to 2.25% or LIBOR plus 2.75% to 3.5% to the alternate base rate plus 1.25% to 2.25% or LIBOR plus 1.75% to 2.75%, in each case depending on our leverage ratio during the applicable interest period and approved certain restricted cash payments. The amendment changed the calculation of our commitment fee to the lenders with respect to the unused facility, ranging from 0.375% to 0.75% per annum based on the amount of the unused facility. In addition, we are required to pay a risk participation fee which was 2.5% per annum as of September 30, 2003. In connection with the amendment, we were required to repay \$15.0 million on our Term B loan facility discussed in Note 9.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

9. Long-Term Debt and Capital Leases

As discussed in Note 8, in March 2002 we executed the Second Amendment which restructured our revolving credit facility and term loan facilities. The amendment relative to our term loan facilities modified our payment schedules, interest rates and various financial and non-financial covenants. Borrowings under our Term A and Term B loan facilities are collateralized by a security interest in substantially all the assets of UTI Holdings, Inc., the borrower under our revolving credit facility. UTI Holdings, Inc., is an intermediate holding company that is holding the capital stock of all our operating subsidiaries.

The Term A loan facility requires interest to be paid quarterly at either the alternate base rate plus 1.75% or LIBOR plus 3.0%, at our election at the time of the borrowing, and expires March 31, 2007. The Term B loan facility requires interest to be paid quarterly at either the alternate base rate plus 2.25% or LIBOR plus 3.5%, at our election at the time of the borrowing, and expires March 31, 2009. The Term A and Term B loans required quarterly principal reductions totaling approximately \$0.8 million and an additional annual excess cash flow payment, as defined in the agreement, 120 days subsequent to the end of the fiscal year. There is no requirement to make an excess cash flow payment for the year ended September 30, 2003. We may prepay Term A and Term B loan facilities in whole or in part, without penalty.

As a result of our debt restructuring in April 2002, we incurred additional deferred financing fees of approximately \$2.0 million and recognized approximately \$1.0 million in other expense related to the write-off of previously recorded and unamortized deferred financing fees.

Our alternate base rate was 6.5% at September 30, 2002 and 5.25% at September 30, 2003. The LIBOR rate was 4.813% at September 30, 2002 and 3.687% at September 30, 2003. As discussed in Note 8, the Second Amendment contains certain restrictive covenants. At September 30, 2002, we were not in compliance with certain restrictive covenants related to permitted indebtedness for which we received a waiver of violation from our lender. At September 30, 2003, we were not in compliance with a non-financial covenant related to financial reporting for which we received a waiver of violation from our lender.

At September 30, 2002, we have recorded a construction liability of \$2.1 million in connection with a build to suit lease for a new campus facility. We also have various capital leases related to training equipment utilized in our campus classrooms and office equipment. These capital leases bear interest at rates from 6.0% to 14.2% and are collateralized by the underlying equipment.

As discussed in Note 8, in July 2003, we amended our Second Amendment. In addition to the modifications related to the revolving credit facility, we amended the interest rate applicable to the Term A loan facility and Term B loan facility. The interest rate on the Term A loan facility was amended from the alternate base rate plus 1.5% to 2.25% or LIBOR plus 2.75% to 3.5% to the alternate base rate plus 1.25% to 2.25% or LIBOR plus 2.5% to 3.5%, in each case depending on our leverage ratio during the applicable interest period. The interest rate on the Term B loan facility was amended from the alternate base rate plus 2.0% to 2.75% or LIBOR plus 3.25% to 4.0% to the alternate base rate plus 1.75% to 2.75% or LIBOR plus 3.0% to 4.0%, in each case depending on our leverage ratio during the applicable interest period. In connection with the amendment, we were required to repay \$15.0 million on our Term B loan facility.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

Long-term debt and capital leases consist of the following:

	September 30,	
	2002	2003
Term A loan facility payable to bank	\$ 19,150	\$ 16,950
Term B loan facility payable to bank	29,850	14,550
	49,000	31,500
Less current portion of long term debt	(2,500)	(3,500)
	46,500	28,000
Long-term debt	46,500	28,000
Capital leases	891	374
Less current portion of capital leases, net of interest	(516)	(360)
	375	14
Long-term capital leases	375	14
Long-term debt and capital leases	\$ 46,875	\$ 28,014

Maturities of long-term debt at September 30, 2003 are as follows:

2004	\$ 3,500
2005	4,750
2006	6,250
2007	9,750
2008	7,250
Thereafter	—
	\$ 31,500

Future minimum lease payments under our capital lease agreements at September 30, 2003 are as follows:

Year ending September 30, 2004	\$ 375
2005	11
2006	4
2007	—
2008	—
Thereafter	—
	390

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Less amount representing interest	16
	<hr/>
Present value of minimum lease payments	374
Less current portion, net of interest	(360)
	<hr/>
Capital lease obligation, less current portion	\$ 14
	<hr/>

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AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)****10. Subordinated Long-Term Debt**

Subordinated long-term debt at September 30 consists of the following:

	<u>2002</u>
Subordinated promissory note payable to shareholder and related party, bearing interest at approximately 6.6%. The note matures on September 30, 2023 and may be prepaid with no penalty	\$ 4,000
Subordinated convertible promissory note payable bearing interest at 8.0%. Payment of interest is due annually on June 30. The note matures on July 30, 2009, and may be prepaid with no penalty	7,011
	<u>\$ 11,011</u>

In August 2003, we negotiated terms for the early payment of the 8.0% subordinated convertible promissory note payable with a face value of \$7.0 million. Under the terms of the repayment agreement, we paid \$6.3 million with available cash and recognized a gain, included in other expense (income), in the amount of \$0.7 million, representing an early payment discount of approximately 10%.

In August 2003, we repaid, without penalty, the 6.6% subordinated promissory note payable to a shareholder and related party with a face value of \$4.0 million.

11. Income Taxes

The components of income tax expense (benefit) are as follows:

	<u>Year Ended September 30,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Current expense (benefit)	\$ (361)	\$ 1,964	\$ 10,582
Deferred expense (benefit)	1,181	3,264	484
Charge in lieu of taxes attributable to stock option exercise			1,287
	<u>\$ 820</u>	<u>\$ 5,228</u>	<u>\$ 12,353</u>
Income tax expense (benefit) from continuing operations	\$ 820	\$ 5,228	\$ 12,353
Income tax expense (benefit) from discontinued operations	(544)		
	<u>\$ 276</u>	<u>\$ 5,228</u>	<u>\$ 12,353</u>

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The income tax benefit for the loss on sale of the discontinued operation of \$16.4 million was recorded and fully reserved during the year ended September 30, 2001 resulting in an income tax benefit of zero for the period.

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**UNIVERSAL TECHNICAL INSTITUTE, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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. The reasons for the differences are as follows:

	Year Ended September 30,		
	2001	2002	2003
Income tax expense (benefit) at statutory rate	\$ 317	\$ 5,073	\$ 11,455
Non-deductible preferred stock dividend			102
Release of tax reserve			(721)
Nondeductible meals and entertainment	70	68	81
State income taxes, net of federal benefit	241	329	1,449
Other, net	192	(242)	(13)
	\$ 820	\$ 5,228	\$ 12,353
	\$ 820	\$ 5,228	\$ 12,353

The components of the deferred tax assets (liabilities) are recorded in the accompanying Consolidated Balance Sheets as follows:

	September 30,	
	2002	2003
Gross deferred tax assets:		
Compensation not yet deductible for tax	\$ 972	\$ 2,641
Receivable reserves	860	928
Loss reserves and accruals not yet deductible	3,675	2,464
Net operating loss and net capital loss carryovers	16,637	16,592
Valuation allowance	(16,416)	(16,416)
	5,728	6,209
Gross deferred tax liabilities:		
Amortization of goodwill and intangibles	(2,444)	(2,292)
Depreciation and amortization of property and equipment	(1,705)	(2,570)
Other	(65)	(317)
	(4,214)	(5,179)
Net deferred tax asset	\$ 1,514	\$ 1,030

The deferred tax assets are reflected in the accompanying Consolidated Balance Sheets as follows:

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	September 30,		December 31,
	2002	2003	2003
			(Unaudited)
Current deferred tax assets, net	\$ 1,142	\$ 875	\$ 399
Noncurrent deferred tax assets, net	372	155	
Noncurrent deferred tax liabilities			(553)
Net deferred tax asset (liability)	\$ 1,514	\$ 1,030	\$(154)

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AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

At September 30, 2002 and 2003, we had a valuation allowance of \$16.4 million to reduce our deferred tax assets to an amount that management believes is more likely than not to be realized. The valuation allowance primarily relates to a deferred tax asset arising from a capital loss carryforward from the sale of a discontinued business. The utilization of capital loss carryforwards may be subject to certain limitations under Section 382 of the Internal Revenue Code of 1996, as amended. Our capital loss carryforward expires in 2005.

12. Noncompete and Consulting Agreements

Effective September 30, 1997, we entered into a management consulting agreement with our largest outside shareholder. Effective April 1, 2002, the management consulting agreement was amended to include all outside shareholders as additional consultants. Under the amended consulting agreement, all outside shareholders render consulting services to us in connection with financial and business matters. The annual management consulting fee is equal to the greater of \$0.3 million or 2.5% of a defined earnings measure as described in the agreement. The agreement expires upon the earlier of 90 days prior written notice at anytime after (i) substantially all our stock or assets were sold or (ii) we merge or consolidate with another unaffiliated entity or September 30, 2007, and shall be automatically renewed for successive one-year terms unless a notice of termination is made 60 days prior to the renewal date. We have recorded and paid management consulting fees of \$0.4 million for the year ended September 30, 2001, \$0.5 million for the year ended September 30, 2002 and \$0.8 million in the year ended September 30, 2003. We expect that the management consulting agreement will be terminated upon the consummation of this offering and that no investment banking or financial consulting fees will be made pursuant to that agreement as a result of the offering or otherwise. However, prior to completion of the offering, we will pay a management fee, on a pro-rated basis, for the first quarter of our 2004 fiscal year.

13. Commitments and Contingencies*Operating Leases*

We lease our facilities and certain equipment under non-cancelable operating leases, some of which contain renewal options, escalation clauses and requirements to pay other fees associated with the leases. We recognize rent expense on a straight line basis. Two of our campus facilities are leased from a related party. Future minimum rental commitments at September 30, 2003 for all non-cancelable operating leases for each of the years ending September 30 are as follows:

2004	\$ 11,431
2005	12,328
2006	12,271
2007	12,170
2008	12,182
Thereafter	114,004
	<hr/>
	\$ 174,386
	<hr/>

Rent expense for operating leases was approximately \$6.9 million, \$8.6 million and \$11.0 million for the years ended September 30, 2001, 2002 and 2003, respectively. Rent paid to related parties was approximately \$2.2 million, \$2.3 million and \$1.7 million for the years ended September 30, 2001, 2002 and 2003, respectively.

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**UNIVERSAL TECHNICAL INSTITUTE, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

Licensing Agreement

In 1997, we entered into a licensing agreement that gives us the right to use certain materials and trademarks in the development of our courses and delivery of services on our campuses. The agreement was amended in January 2002. Under the terms of the amended license agreement, we are committed to pay royalties based upon a flat per student fee for students who elect and attend the licensed program. Minimum payments of \$0.2 million are required for each of the calendar years 2002 through 2004 and minimum payments of \$0.3 million are required for the calendar year 2005. A license fee is also payable based upon a percentage of net sales related to the sale of any product which bears the licensed trademark. In addition, we are required to pay a minimum marketing and advertising fee for which in return we receive the right to utilize certain advertising space in the licensor's published periodicals. The minimum marketing and advertising fee is \$0.3 million for calendar years 2002 through 2004 and \$0.4 million for the calendar year 2005. The agreement expires December 31, 2005.

In 1999, we entered into a licensing agreement that gives us the right to use certain materials and trademarks in the development of our courses. Under the terms of the agreement, we are required to pay a flat per student fee for each three week phase a student completes of the total 3 phases offered in connection with this license agreement. There are no minimum license fees required to be paid. The agreement terminates upon the written notice of either party providing not less than six months notification of the intent to terminate. In addition, the agreement may be terminated by the licensor after notification to licensee of a contractual breach if such breach remains uncured for more than 30 days.

In 2001, we entered into a licensing agreement that gives us the right to use certain trademarks in connection with the development and operation of our campuses and courses. In accordance with the agreement, we have prepaid \$1.0 million to be used to satisfy future minimum annual royalties. We are committed to pay royalties based upon net revenue, as defined in the agreement, commencing in calendar year 2001 and ending upon the expiration of the agreement in calendar year 2006. The agreement requires minimum royalty payments of \$0.4 million in calendar year 2002 and \$0.5 million thereafter. In connection with the royalty agreement, we have recorded royalty expense totaling \$0.1 million for the year ended September 30, 2001, \$0.4 million for the year ended September 30, 2002 and \$1.3 million for the year ended September 30, 2003.

Vendor Relationship

In 1998, we entered into an agreement with Snap-on Tools. The agreement provides that we may purchase promotional tool kits for our students at a discount from their list price. In addition, we earn credits that are redeemable for equipment we use in our business. Credits are earned on our purchases as well as purchases made by students enrolled at our campuses. We have agreed to provide Snap-on Tools exclusive access to our campuses and display advertising as well as to use Snap-on tools to train our students. The credits earned under this agreement may be redeemed for Snap-on tools or equipment at the full retail list price, which is more than we would be required to pay using cash.

Students are each promised the receipt of a tool kit upon completing certain coursework. The cost of the tool kits (net of the credit) is accrued during the time period in which the students begin attending school until they have reached the phase in which the promotional tool kits are provided.

As we have opened new campuses, Snap-on has historically advanced us credits for the purchase of their tools or equipment that support our new campus growth. At September 30, 2002, our net Snap-on liability resulting from using credits in excess of credits earned was \$1.0 million, and at September 30, 2003 that liability was \$0.7 million.

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**UNIVERSAL TECHNICAL INSTITUTE, INC.
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(In thousands, except per share amounts)

Upon termination of the agreement, we continue to earn credits relative to promotional tool kits we purchase or additional tools our active students purchase. We continue to earn these credits until a tool kit is provided to the last student eligible under the agreement.

Executive Employee Agreement

We have entered into employment contracts with key executives. At September 30, 2003, the future employment contract commitments for such employees were approximately \$0.9 million for fiscal year ending September 30, 2004, \$0.8 million for fiscal year ending September 30, 2005 and \$0.6 million for fiscal year ending September 30, 2006.

Legal

In the ordinary conduct of our business, we are subject to periodic lawsuits, investigations and claims, including, but not limited to, claims involving students or graduates and routine employment matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, results of operations, cash flows or financial condition.

14. Employee Benefit Plans

401(k) Plan

We sponsor a defined contribution 401(k) plan, under which our employees elect to withhold specified amounts from their wages to contribute to the plan and we have a fiduciary responsibility with respect to the plan. The plan provides for matching a portion of employees contributions at management's discretion. All contributions and matches by us are invested at the direction of the employee in one or more mutual funds. We made contributions totaling approximately \$0.2 million for the year ended September 30, 2001, \$0.5 million for the year ended September 30, 2002 and \$0.7 million for the year ended September 30, 2003.

Deferred Compensation Plan

We have entered into deferred compensation agreements with seven of our employees, providing for the payment of deferred compensation to each employee in the event that the employee becomes no longer employed by us. Under each agreement, the employee shall receive an amount equal to the compensation the employee would have earned if the employee had repeated the employment performance of the prior twelve months. We will pay the deferred compensation in a lump sum or over the period in which the employee would typically have earned the compensation had the employee been actively employed, at our option. Our commitment under the deferred compensation agreements was approximately \$1.5 million as of September 30, 2002 and 2003.

Executive Benefit Plan

We sponsor the Universal Technical Institute Executive Benefit Plan. The plan provides for the annual deferral of all or part of certain executive bonuses into the plan as well as amounts withheld from executives' wages, where applicable. We may elect to match contributions on an annual basis. All amounts are fully vested when deferred and matched. The obligation for deferred compensation under the plan was approximately \$0.8 million at September 30, 2002 and \$0.9 million at September 30, 2003, and is included in Other liabilities in the accompanying Consolidated Balance Sheets. The plan assets held to fund the

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AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

deferred compensation liability are included in Other assets and represent the cash surrender value of life insurance of \$0.2 million at September 30, 2002 and 2003, and \$0.5 million of our Series C preferred stock at September 30, 2002 and 2003, respectively (Note 16).

15. Common Stock

Holders of our common stock shall be entitled to receive dividends when and as declared by the board of directors. The common stock is not redeemable. The holder of each share of common stock has the right to one vote per share owned. At September 30, 2002 and 2003, we had outstanding related party subscriptions receivable of \$0.6 million and \$27.6 thousand, respectively.

In September 2003, our board of directors declared, and we paid, a \$5.0 million cash dividend on the shares of our common stock payable to the record holders as of August 25, 2003. The record holders of our Series D preferred stock were entitled to receive, upon conversion, such cash dividend pro rata and on an as-converted basis, pursuant to certain provisions of the certificate of designation of the Series D preferred stock. Our certificate of incorporation was amended to permit the holders of Series D preferred stock to be paid the dividend prior to the conversion and simultaneously with holders of our common stock, and the holders of our series A, series B and series C preferred stock consented to such payment.

16. Preferred Stock

Preferred stock consists of the following:

September 30, 2002

	Liquidation Amount	Subscriptions Receivable	Accrued and Unpaid Dividends	Held by UTI Trust	Transaction Fees	Carrying Amount
Redeemable preferred stock:						
Series A	\$ 11,178	\$ (3,673)	\$ 3,353	\$	\$	\$ 10,858
Series B	4,067		1,220			5,287
Series C	4,200		756	(455)		4,501
	<u>19,445</u>	<u>(3,673)</u>	<u>5,329</u>	<u>(455)</u>		<u>20,646</u>
Redeemable convertible preferred stock:						
Series D	45,500		1,706		(3,457)	43,749
	<u>\$ 64,945</u>	<u>\$ (3,673)</u>	<u>\$ 7,035</u>	<u>\$ (455)</u>	<u>\$ (3,457)</u>	<u>\$ 64,395</u>

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Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)****September 30, 2003**

	Redemption Amount	Subscriptions Receivable	Accrued and Unpaid Dividends	Held by UTI Trust	Transaction Fees	Carrying Amount
Redeemable preferred stock:						
Series A	\$ 11,178	\$	\$ 4,024	\$	\$	\$ 15,202
Series B	4,067		1,464			5,531
Series C	4,200		1,008	(479)		4,729
	<u>19,445</u>	<u>—</u>	<u>6,496</u>	<u>(479)</u>	<u>—</u>	<u>25,462</u>
Redeemable convertible preferred stock:						
Series D	45,500		5,118		(3,457)	47,161
	<u>\$64,945</u>	<u>\$</u>	<u>\$11,614</u>	<u>\$(479)</u>	<u>\$(3,457)</u>	<u>\$72,623</u>

We have adopted the provisions of SFAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, effective July 1, 2003. Accordingly, we have classified as a liability the redeemable preferred stock series A, series B and series C with a combined carrying value of approximately \$25,462. Additionally, effective July 1, 2003, the dividends on these securities were included as a component of interest expense instead of preferred stock dividends in the consolidated statement of operations.

Series A and Series B Preferred Stock

In January 1998, we issued 11.178 shares of series A preferred stock (Series A) and 4.067 shares of series B preferred stock (Series B), each with a par value of \$.0001. The Series A and Series B provide for cumulative annual dividends of 6%, whether or not declared, payable on June 30 of each year. The Series A and Series B are subject to mandatory redemption on March 31, 2010 and October 15, 2017, respectively. The liquidation value is equal to one thousand dollars per share. The redemption value is equal to the liquidation value plus accrued and unpaid dividends.

In August 2003, we collected, in its entirety, the subscription receivable from a shareholder and related party with a face value of approximately \$3.7 million.

In November 2003, we offered to all holders of Series A and Series B preferred stock the ability to exchange their preferred stock for shares of our common stock pursuant to an exchange agreement. The number of shares of our common stock that will be issued in exchange for each share of the preferred stock is equal to the liquidation value of the preferred stock (\$1,000 per share) divided by the initial public offering price of our common stock in a completed common stock offering to the public.

Series C Preferred Stock

In September 1999, in conjunction with a recapitalization transaction, we issued 4.200 shares of series C preferred stock (Series C) with a par value of \$.0001. The stock was recorded at its fair value on the date of issuance. The Series C provides for cumulative annual dividends of 6%, whether or not declared, payable on September 30 of each year. The Series C is subject to mandatory redemption on

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

March 31, 2010. The liquidation value is equal to one thousand dollars per share. The redemption value is equal to the liquidation value plus accrued and unpaid dividends.

In November 2003, we offered to all holders of Series C preferred stock the ability to exchange their preferred stock for shares of our common stock pursuant to an exchange agreement. The number of shares of our common stock that will be issued in exchange for each share of the preferred stock is equal to the liquidation value of the preferred stock (\$1,000 per share) divided by the initial public offering price of our common stock in a completed common stock offering to the public.

We own the UTI Tax-Deferred Trust (UTI Trust), which was set up to facilitate the provision of deferred compensation to our executives (Note 14). The UTI Trust held .386 shares of Series C at September 30, 2002 and 2003. The carrying value of these shares, including accrued and unpaid dividends, was \$0.5 million at September 30, 2002 and 2003 and is reflected as a reduction of the total carrying value of Series C in the accompanying Consolidated Balance Sheets.

Series D Preferred Stock

In April 2002, in conjunction with a recapitalization transaction, we issued 2,357 shares of \$.0001 par value convertible Series D preferred stock (Series D) for aggregate gross proceeds of \$45.5 million. The Series D was recorded at \$42.0 million, net of its issuance costs of \$3.5 million. The Series D provides for annual dividends of 7.5% which shall be cumulative, whether or not declared, payable on September 30 of each year. Series D is convertible on a one for one basis and redeemable, at the holder's option, upon a change in control. Pursuant to the certificate of designation, a change of control occurs if, among other things, (i) we sell all or substantially all of our assets; (ii) we are not the surviving entity after a merger or consolidation with an unaffiliated party or our stockholders, immediately before a merger or consolidation, no longer own at least the majority of the common stock of the surviving entity; or (iii) any person or entity becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of our outstanding capital stock, as more particularly described in the certificate of designation. Series D converts automatically into shares of common stock upon a qualified initial public offering, as that term is defined in the certificate of designation.

In September 2003, we amended our Certificate of Incorporation to accelerate the payment to our Series D preferred stockholders of their proportional share of common stock dividends that they would receive upon the conversion of the Series D preferred stock into common stock. Accordingly, we distributed additional dividends totaling \$2.1 million to our Series D preferred shareholders in September 2003.

Ranking, Liquidation Preference and Voting Rights

The Series A, Series B and Series C (Senior Stock) rank senior to, and have preference and priority with respect to any payment of any dividend or distribution on, the Series D, the common stock or any other shares of our capital stock. The Series D ranks senior to, and has preference and priority with respect to any payment of any dividends or distribution on, the common stock or any other shares of our capital stock (other than the Senior Stock). All capital stock ranking junior to the Series D is referred to as Junior Stock.

Upon our liquidation, dissolution or winding up, whether voluntary or involuntary, the holders of shares of Series D then outstanding shall be entitled to be paid out of our assets available for distribution to our shareholders, after and subject to the payment in full of all amounts required to be distributed to the holders of any Senior Stock (liquidation value per share plus any accrued and unpaid dividends), but

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

before any payment shall be made to the holders of Junior Stock by reason of their ownership thereof, an amount equal to the liquidation value per share plus any accrued and unpaid dividends thereon.

If upon such liquidation, our assets are not sufficient to permit payment in full of the liquidation value (plus any accrued and unpaid dividends) of the Series A, Series B, Series C and Series D, our entire assets are to then be distributed ratably among the holders of such stock.

The Series A, Series B and Series C do not carry voting rights. The holders of outstanding shares of Series D are entitled to vote together with the holders of shares of common stock, as a single class, on all matters on which holders of common stock are entitled to vote, with each share of Series D voting on an as-if-converted basis.

17. Shareholders Agreement

Our shareholders have entered into an agreement setting forth certain rights and restrictions relating to ownership of our securities. This agreement restricts the transfer of stock without our prior written consent. Further restrictions exist upon employee termination or retirement. In cases of involuntary termination for cause and voluntary termination, we may elect to repurchase (call) all of the stock owned by the shareholder. Upon retirement or involuntary termination other than for cause, the shareholder may elect to have us repurchase (put) all shares owned. In all instances, except involuntary termination other than for cause, the call or put price shall be an amount equal to the greater of (i) one-half of the fair market value or (ii) cost; however, upon execution by the selling shareholder of a non-competition agreement, the call or put price shall be an amount equal to the fair market value of the stock. Upon involuntary termination other than for cause, the put price will be equal to the fair market value of the stock. In all instances, the fair market value is to be determined by our board of directors.

The agreement also grants shareholders a right to purchase stock being offered by a selling shareholder, based upon their pro rata ownership basis. The selling shareholder must also require certain buyers to irrevocably offer to other shareholders the right to acquire additional shares of stock, subject to a specified formula.

These restrictions shall terminate upon the closing of a Public Offering (as defined in the stockholders agreement) or execution of a registration rights agreement.

18. Employee Stock Plans

Restricted Stock Plan

We adopted a Restricted Stock Plan (Stock Plan) pursuant to which eligible participants may receive an award of restricted common stock (Restricted Stock). In January 1998, 1,022 shares of Restricted Stock were issued to certain of our executives and managers in exchange for 6.25% subscription notes receivable due January 31, 2009. Effective September 30, 1999, we vested all shareholders. There were 984 shares outstanding under the Stock Plan at September 30, 2002 and 2003. Subscription notes receivable related to these shares totaled \$0.2 million for the years ended September 30, 2002 and \$27.6 thousand for the year ended September 30, 2003.

Management Stock Option Plans

We have two stock option plans, which we refer to as the Management 1999 Option Program (1999 Plan) and the Management 2002 Option Program (2002 Plan).

Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

On September 30, 1999, we granted non-qualified options to purchase 470 shares of common stock at an exercise price of \$0.23 per share, the fair market value of our common stock as of that date. All grants were immediately vested. In June 2003, all outstanding options issued under the 1999 Plan were exercised by tender of 6% subscription notes receivable which were repaid in August 2003. The exercise of the non-qualified options generated a tax savings of approximately \$1.3 million relative to the additional compensation expense we are required to report to the Internal Revenue Service.

The 2002 Plan was approved and adopted on April 1, 2002 and authorized the issuance of options to purchase 746 shares of our common stock. Options to acquire 609 shares were granted on April 1, 2002 at an exercise price of \$4.40 per share, the fair market value of our common stock as of that date. On February 25, 2003, our board of directors authorized an additional 37 shares to be issued under options to purchase our common stock and granted options on an additional 150 shares at an exercise price of \$7.31 per share, which is less than the fair market value at that date. Options vest ratably each year over a four-year period.

The expiration date of options granted under these plans is the earlier of the ten-year anniversary of the grant date; the one-year anniversary of the termination of the participant's employment by reason of death or disability; thirty days after the date of the participant's termination of employment if caused by reasons other than death, disability, cause, material breach or unsatisfying performance; or on the termination date if termination occurs for reasons of cause, material breach or unsatisfactory performance.

The weighted average remaining contractual life for the 1999 Plan was 7 years and 0 years as of September 30, 2002 and 2003, respectively. The remaining average contractual life for the 2002 Plan was 9.5 years and 9.0 years as of September 30, 2002 and 2003, respectively.

The following table summarizes stock option activity for 2002 and 2003:

	Year Ended September 30, 2002		Year Ended September 30, 2003	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding, beginning of year	470	\$0.23	1,079	\$2.48
Granted	609	4.40	150	7.31
Exercised			(470)	0.23
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding, end of year	1,079	\$2.58	759	\$4.97
Exercisable, end of year	470	\$0.23	152	\$4.40

19. Discontinued Operations

On September 29, 2001, our board of directors authorized a Stock Purchase Agreement between us and NTT Acquisition Corp. by which we sold NTT for nominal consideration of \$1.00, which was our estimate of NTT's fair market value. Certain of NTT Acquisition Corp. shareholders are also our shareholders. We reported the operating results of NTT and the loss on disposal as discontinued operations for all periods in the accompanying Consolidated Statements of Operations. At September 30, 2001, we recorded a loss on the sale of NTT of approximately \$1.3 million.

Table of Contents**UNIVERSAL TECHNICAL INSTITUTE, INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

Our historical Consolidated Statements of Operations have been adjusted to show the results of the discontinued operations separately. The results of the discontinued operations for the year ended September 30, 2001 consist of the following:

Net revenues	\$ 25,224
Program expenses	11,785
Selling, general and administrative	19,450
Goodwill impairment	3,074
	<hr/>
Loss from operations	(9,085)
Interest income	5
	<hr/>
Loss before taxes	(9,080)
Income tax benefit	544
	<hr/>
Loss from discontinued operations	\$ (8,536)
	<hr/>

We advanced funds to NTT Acquisition Corp. subsequent to the sale of NTT in exchange for a note receivable in the amount of \$0.6 million. This note has not been repaid. During the year ended September 30, 2002, we recorded a full valuation reserve because collection was uncertain.

20. Segment Information

We follow SFAS No. 131, Disclosures about segments of an Enterprise and Related Information. SFAS 131 establishes standards for the way that public business enterprises report certain information about operating segments in their financial reports. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in assessing performance of the segment and in deciding how to allocate resources to an individual segment. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers.

Our principal business is providing post-secondary 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 not deemed reportable under SFAS No. 131 and are reflected in the Other category. Corporate expenses are allocated to Post-Secondary Education and the Other category.

Summary information by reportable segment is as follows, as of and for the years ended September 30:

	2001		
	Post- Secondary Education	Other	Total
	<hr/>	<hr/>	<hr/>
Net revenues	\$99,852	\$ 9,641	\$ 109,493
Operating income (loss)	\$ 12,639	\$(1,032)	\$ 11,607

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Depreciation and amortization	\$ 4,291	\$ 241	\$ 4,532
Goodwill	\$20,579	\$	\$ 20,579
Assets	\$58,604	\$ 4,482	\$ 63,086

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AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)**

	2002		
	Post- Secondary Education	Other	Total
Net revenues	\$ 132,607	\$ 11,765	\$ 144,372
Operating income (loss)	\$ 23,329	\$ (1,311)	\$ 22,018
Depreciation and amortization	\$ 4,622	\$ 326	\$ 4,948
Goodwill	\$ 20,579	\$	\$ 20,579
Assets	\$ 73,227	\$ 3,659	\$ 76,886

	2003		
	Post- Secondary Education	Other	Total
Net revenues	\$ 182,610	\$ 13,885	\$ 196,495
Operating income (loss)	\$ 36,030	\$ 126	\$ 36,156
Depreciation and amortization	\$ 5,964	\$ 418	\$ 6,382
Goodwill	\$ 20,579	\$	\$ 20,579
Assets	\$ 80,195	\$ 3,904	\$ 84,099

Summary information by reportable segment is as follows, as of and for the three months ended December 31:

	Three Months Ended December 31, 2002		
	(unaudited)		
	Post- Secondary Education	Other	Total
Net revenues	\$ 42,120	\$ 3,254	\$ 45,374
Operating income (loss)	\$ 8,083	\$ 157	\$ 8,240
Depreciation and amortization	\$ 1,414	\$ 92	\$ 1,506
Goodwill	\$ 20,579	\$	\$ 20,579
Assets	\$ 81,561	\$ 3,265	\$ 84,826

	Three Months Ended December 31, 2003		
	(unaudited)		
	Post- Secondary Education	Other	Total

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Net revenues	\$55,311	\$3,732	\$59,043
Operating income (loss)	\$13,968	\$ 47	\$14,015
Depreciation and amortization	\$ 1,995	\$ 100	\$ 2,095
Goodwill	\$20,579	\$	\$20,579
Assets	\$96,370	\$2,684	\$99,054

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AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share amounts)****21. Unaudited Quarterly Financial Summary**

	2002				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Net revenue	\$ 34,405	\$ 35,483	\$ 35,540	\$ 38,944	\$ 144,372
Income from operations	\$ 6,249	\$ 6,096	\$ 4,766	\$ 4,907	\$ 22,018
Net income available to common shareholders	\$ 2,355	\$ 2,374	\$ 557	\$ 1,531	\$ 6,817
Income per share:					
Basic	\$ 0.18	\$ 0.18	\$ 0.04	\$ 0.11	\$ 0.51
Diluted	\$ 0.16	\$ 0.16	\$ 0.04	\$ 0.10	\$ 0.44

The summation of quarterly net income per share does not equate to the calculation for the full fiscal year as quarterly calculations are performed on a discrete basis where securities may have an anti-dilutive effect during individual quarters but not for the full year.

	2003				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Net revenue	\$ 45,374	\$ 47,358	\$ 48,910	\$ 54,853	\$ 196,495
Income from operations	\$ 8,240	\$ 9,482	\$ 9,171	\$ 9,263	\$ 36,156
Net income available to common shareholders	\$ 3,501	\$ 4,257	\$ 3,948	\$ 2,260	\$ 13,966
Income per share:					
Basic	\$ 0.26	\$ 0.32	\$ 0.29	\$ 0.16	\$ 1.03
Diluted	\$ 0.18	\$ 0.21	\$ 0.20	\$ 0.16	\$ 0.79

The summation of quarterly net income per share does not equate to the calculation for the full fiscal year as quarterly calculations are performed on a discrete basis where securities may have an anti-dilutive effect during individual quarters but not for the full year.

22. Subsequent Events***Initial Public Offering***

Effective December 22, 2003 and in conjunction with our initial public offering, we entered into an amendment to the Second Amendment and Restatement of Credit Agreement dated March 29, 2002. The amendment provided for application of a portion of the net proceeds we received from our initial public offering to be applied on a pro-rata basis against all remaining scheduled installments on the term notes then outstanding, and reaffirmed March 31, 2007 as the maturity of our revolving line of credit.

On December 17, 2003, we sold 3.25 million shares of our common stock in our initial public offering for approximately \$59.0 million in net cash proceeds, after deducting underwriting commission and offering expenses of approximately \$7.6 million. On December 22, 2003, we consummated an exchange offer pursuant to which we offered to exchange the outstanding shares of our series A, series B and series C preferred

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stock for shares of our common stock at an exchange price equal to our initial public offering price. An aggregate total of approximately 6.5 thousand shares of series A, series B and series C preferred stock having a liquidation value of approximately \$6.5 million, were tendered for exchange, and we issued an aggregate of approximately 0.3 million shares of our common stock in the exchange. In addition, our

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share amounts)

series D preferred stock automatically converted to common stock upon the consummation of our initial public offering. Accordingly, the approximately 2.4 thousand shares of series D preferred stock having a liquidation value of \$45.5 million were converted into approximately 10.3 million shares of common stock.

The \$59.0 million in net proceeds we received from the sale of our common stock in the initial public offering was used to: repay all of our outstanding term loan facilities totaling \$31.5 million, and redeem the remaining series A, series B and series C preferred stock, totaling \$12.9 million; and pay the accrued dividends related to the series A, series B, series C and series D preferred stock, totaling \$12.6 million. As a result of our early payment of our term loan facilities, we recognized a charge of approximately \$0.8 million related to the write off of unamortized deferred financing fees.

Upon the consummation of our initial public offering, our Amended and Restated Certificate of Incorporation became effective. The Amended and Restated Certificate of Incorporation increased the number of authorized common shares from approximately 37.0 million shares to 100.0 million shares and increased the number of authorized shares of preferred stock from 25 thousand shares to 10.0 million shares. In addition, our board of directors and stockholders approved the Universal Technical Institute, Inc. 2003 Employee Stock Purchase Plan (ESPP) and the Universal Technical Institute, Inc. 2003 Stock Incentive Plan (SIP), effective upon the consummation of our initial public offering. We have reserved 300,000 shares of common stock for issuance pursuant to the ESPP and approximately 4.4 million shares of common stock for issuance pursuant to the SIP.

Litigation

In April 2004, we received a letter on behalf of nine former employees of National Technology Transfer, Inc. (NTT), an entity that we purchased in 1998 and subsequently sold, making a demand for an aggregate payment of approximately \$284,900 and 19,756 shares of our common stock. The claim is based on the assertion that the former owner of NTT promised them such payments upon completion of a public offering of our common stock. We believe the demand for payment is without merit.

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
	(in thousands)			
Allowance accounts for the years ended:				
September 30, 2001				
Uncollectible accounts receivable	\$ 2,300	2,259	3,011	\$ 1,548
Deferred tax asset valuation	\$	16,416		\$ 16,416
September 30, 2002				
Uncollectible accounts receivable	\$ 1,548	2,465	2,437	\$ 1,576
Deferred tax asset valuation	\$ 16,416			\$ 16,416
September 30, 2003				
Uncollectible accounts receivable	\$ 1,576	2,470	1,725	\$ 2,321
Deferred tax asset valuation	\$ 16,416			\$ 16,416

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