UNIVERSAL TECHNICAL INSTITUTE INC
Form 10-Q
February 03, 2012

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011

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

Commission File Number 1-31923

UNIVERSAL TECHNICAL INSTITUTE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**86-0226984**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

16220 North Scottsdale Road, Suite 100

Scottsdale, Arizona 85254

(Address of principal executive offices)

(623) 445-9500

(Registrant s telephone number, including area code)

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

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

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

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

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

At January 26, 2012, there were 29,901,703 shares outstanding of the registrant s common stock.

UNIVERSAL TECHNICAL INSTITUTE, INC.

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FOR THE QUARTER ENDED DECEMBER 31, 2011

Special Note Regarding Forward-Looking Statements

This report contains forward-looking information about our financial results, estimates and our business prospects that involve substantial risks and uncertainties. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Forward-looking statements are expressions of our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They often include words such as anticipate, estimate, expect, project, intend, plan, believe, will, and other words and terms of similar meaning in connection with any discussion of future operating or financi performance. In particular, these include statements relating to future actions, future regulatory initiatives, future performance or results, expenses, the outcome of contingencies, such as legal proceedings, and financial results.

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

Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission (SEC). The Form 10-K that we filed with the SEC on November 30, 2011 listed various important factors that could cause actual results to differ materially from expected and historical results. We note these factors for investors within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, as amended. Readers can find them under the heading Risk Factors in the Form 10-K and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties. Our filings with the SEC may be accessed at the SEC s web site at www.sec.gov.

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, December 31, 2011	September 30, September 30, 2011
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 51,067	$ 53,670
Investments, current portion	53,872	50,052
Receivables, net	10,644	11,205
Deferred tax assets	6,293	7,837
Prepaid expenses and other current assets	12,810	10,709
Total current assets	134,686	133,473
Investments, less current portion	8,095	5,830
Property and equipment, net	95,091	100,377
Goodwill	20,579	20,579
Other assets	5,660	5,328
Total assets	$ 264,111	$ 265,587
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 37,200	$ 35,905
Deferred revenue	54,092	61,394
Accrued tool sets	4,632	4,723
Income tax payable	1,887	2,032
Other current liabilities	635	642
Total current liabilities	98,446	104,696
Deferred tax liabilities	1,141	2,443
Deferred rent liability	12,162	11,799
Other liabilities	5,040	4,534
Total liabilities	116,789	123,472
Commitments and contingencies (Note 8)		
Shareholders equity:		
Common stock, $0.0001 par value, 100,000,000 shares authorized, 29,887,257 shares issued and 24,699,930 shares outstanding at December 31, 2011 and 29,560,276 shares issued and 24,690,050 shares outstanding at September 30, 2011	3	3
Preferred stock, $0.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding		
Paid-in capital	163,233	156,497
Treasury stock, at cost, 5,187,327 shares at December 31, 2011 and 4,870,226 at September 30, 2011 (Note 9)	(82,075)	(76,506)
Retained earnings	66,161	62,121

Total shareholders equity		147,322		142,115
Total liabilities and shareholders equity	$	264,111	$	265,587

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

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UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

	September 30, Three Months Ended December 31, 2011	September 30, 2010
	(In thousands, except per share amounts)	
Revenues	$ 106,427	$ 117,447
Operating expenses:		
Educational services and facilities	51,691	53,836
Selling, general and administrative	48,170	46,758
Total operating expenses	99,861	100,594
Income from operations	6,566	16,853
Other income (expense):		
Interest income, net	92	88
Other income	153	130
Total other income	245	218
Income before income taxes	6,811	17,071
Income tax expense	2,771	6,815
Net income	$ 4,040	$ 10,256
Basic net income per share	$ 0.16	$ 0.42
Diluted net income per share	$ 0.16	$ 0.42
Weighted average number of common shares outstanding:		
Basic	24,693	24,282
Diluted	24,802	24,585

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

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Common Stock		Paid-in	Treasury Stock		Retained	Total Shareholders
	Shares	Amount	Capital	Shares	Amount	Earnings	Equity
				(In thousands)			
Balance at September 30, 2011	29,560	$ 3	$ 156,497	4,870	$ (76,506)	$ 62,121	$ 142,115
Net income						4,040	4,040
Issuance of common stock under employee plans	14						
Shares withheld for payroll taxes	313		5,515	317	(5,569)		(54)
Tax charge from employee stock plans			(461)				(461)
Stock-based compensation			1,682				1,682
Balance at December 31, 2011	29,887	$ 3	$ 163,233	5,187	$ (82,075)	$ 66,161	$ 147,322

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

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	September 30, Three Months Ended December 31, 2011	September 30, 2010
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 4,040	$ 10,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,293	6,082
Amortization of held-to-maturity investments	537	217
Bad debt expense	2,533	2,283
Stock-based compensation	1,682	1,710
Excess tax benefit from stock-based compensation		(4)
Deferred income taxes	(219)	1,507
Loss on disposal of property and equipment	23	139
Changes in assets and liabilities:		
Receivables	(1,972)	2,548
Prepaid expenses and other current assets	(2,121)	(991)
Other assets	(333)	(549)
Accounts payable and accrued expenses	2,137	(11,895)
Deferred revenue	(7,302)	(5,486)
Income tax payable	(145)	5,035
Accrued tool sets and other current liabilities	(98)	106
Deferred rent liability	363	489
Other liabilities	153	297
Net cash provided by operating activities	5,571	11,744
Cash flows from investing activities:		
Purchase of property and equipment	(1,498)	(6,448)
Purchase of investments	(16,770)	(3,454)
Proceeds received upon maturity of investments	10,148	7,669
Net cash used in investing activities	(8,120)	(2,233)
Cash flows from financing activities:		
Payment of payroll taxes on stock-based compensation through shares withheld	(54)	(89)
Proceeds from issuance of common stock under employee plans		61
Excess tax benefit from stock-based compensation		4
Net cash used in financing activities	(54)	(24)
Net (decrease) increase in cash and cash equivalents	(2,603)	9,487
Cash and cash equivalents, beginning of period	53,670	48,974
Cash and cash equivalents, end of period	$ 51,067	$ 58,461
Supplemental disclosure of cash flow information:		
Taxes paid	$ 3,137	$ 272
Training equipment obtained in exchange for services	$ 602	$ 443

Change in accrued capital expenditures during the period	$	842	$	164
Capitalized stock-based compensation	$		$	20

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

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

1. Nature of the Business

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

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

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, our condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair statement of the results for the interim periods have been included. Operating results for the three months ended December 31, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2012. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2011 Annual Report on Form 10-K filed with the SEC on November 30, 2011.

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

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

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

3. Investments

We invest in pre-funded municipal bonds which are generally secured by escrowed-to-maturity U.S. Treasury notes. Municipal bonds represent debt obligations issued by states, cities, counties and other governmental entities, which earn interest that is exempt from federal income taxes. Additionally, we invest in

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

certificates of deposit issued by financial institutions and corporate bonds from large cap industrial and selected financial companies with a minimum credit rating of A. We have the ability and intent to hold our investments until maturity and therefore classify these investments as held-to-maturity and report them at amortized cost.

The amortized cost and estimated fair market value for investments classified as held-to-maturity at December 31, 2011 are as follows:

	September 30, Amortized Cost	September 30, Gross Unrealized Gains	September 30, Gross Unrealized Losses	September 30, Estimated Fair Market Value
Municipal bonds due in less than 1 year	$ 32,526	$ 2	$ (12)	$ 32,516
Corporate bonds due in less than 1 year	12,853		(16)	12,837
Certificates of deposit due in less than 1 year	8,493	1		8,494
Certificates of deposit due in 1- 2 years	8,095			8,095
	$ 61,967	$ 3	$ (28)	$ 61,942

The amortized cost and estimated fair market value for investments classified as held-to-maturity at September 30, 2011 are as follows:

	September 30, Amortized Cost	September 30, Gross Unrealized Gains	September 30, Gross Unrealized Losses	September 30, Estimated Fair Market Value
Municipal bonds due in less than 1 year	$ 26,227	$ 1	$ (19)	$ 26,209
Corporate bonds due in less than 1 year	15,722		(37)	15,685
Certificates of deposit due in less than 1 year	8,103	1		8,104
Certificates of deposit due in 1- 2 years	5,830			5,830
	$ 55,882	$ 2	$ (56)	$ 55,828

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

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The valuation techniques used to determine fair value are consistent with either the market approach, income approach and/or cost approach. The following three-tier fair value hierarchy prioritizes the inputs used in the valuation techniques to measure fair value:

Level 1 Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;

Level 2 Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

Level 3 Unobservable inputs that are supported by little or no market activity that are significant to the fair value of assets or liabilities.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. We use prices and inputs that are current as of the measurement date, including during periods of market volatility. Therefore, classification of inputs within the hierarchy may change from period to period depending upon the ability to observe those prices and inputs. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value for certain assets and liabilities and their placement within the fair value hierarchy.

The fair value of our money market mutual funds, municipal bonds and certificates of deposit which are classified within cash and cash equivalents and investments in our consolidated balance sheet as of December 31, 2011 was:

	September 30,	September 30,	September 30,	September 30,
		Fair Value Measurements at Reporting Date Using		
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 38,049	$ 38,049	$	$
Certificates of deposit	16,589	16,589		
Corporate bonds	12,837	12,837		
Municipal bonds	32,516		32,516	
Total assets at fair value on a recurring basis	$ 99,991	$ 67,475	$ 32,516	$

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

The fair value of our money market mutual funds, municipal bonds and certificates of deposit which are classified within cash and cash equivalents and investments in our consolidated balance sheet as of September 30, 2011 was:

	September 30,	September 30,	September 30,	September 30,
		Fair Value Measurements at Reporting Date Using		
	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 39,811	$ 39,811	$	$
Certificates of deposit	13,934	13,934		
Corporate bonds	15,685	15,685		
Municipal bonds	26,209		26,209	
Total assets at fair value on a recurring basis	$ 95,639	$ 69,430	$ 26,209	$

5. Earnings per Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares outstanding for the period. Diluted net income per share reflects the assumed conversion of all dilutive securities. For the three months ended December 31, 2011 and 2010, 1,528,326 shares and 1,043,918 shares, respectively, which could be issued under outstanding stock-based grants, were not included in the determination of our diluted shares outstanding as they were anti-dilutive.

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

	September 30,	September 30,
	Three Months Ended December 31,	
	2011	2010
	(In thousands)	
Weighted average number of shares		
Basic shares outstanding	24,693	24,282
Dilutive effect related to employee stock plans	109	303
Diluted shares outstanding	24,802	24,585

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

6. Property and Equipment, net

Property and equipment, net consist of the following:

	September 30, Depreciable Lives (in years)	September 30, December 31, 2011	September 30, September 30, 2011
Land		$ 1,456	$ 1,456
Building and building improvements	35	13,680	13,675
Leasehold improvements	1-28	45,368	45,066
Training equipment	3-10	79,864	79,178
Office and computer equipment	3-10	40,632	40,518
Software developed for internal use	3-5	10,931	10,931
Curriculum development	5	18,704	18,466
Vehicles	5	915	909
Construction in progress		732	1,081
		212,282	211,280
Less accumulated depreciation and amortization		(117,191)	(110,903)
		$ 95,091	$ 100,377

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	September 30, December 31, 2011	September 30, September 30, 2011
Accounts payable	$ 7,585	$ 10,186
Accrued compensation and benefits	19,798	18,350
Other accrued expenses	9,817	7,369
	$ 37,200	$ 35,905

8. Commitments and Contingencies

Legal

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

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

Student Funding

We have recently received clarification from a non-Title IV federal funding agency regarding the rules and policies for its programs through which students receive educational funding. As a result, we have identified that we have received cash in excess of the funding for which our students are eligible. We believe it is probable that we will be required to return the excess funds to this funding agency. At December 31, 2011, we have estimated our obligation is $3.6 million which is included in current liabilities in our condensed consolidated balance sheet. Our results of operations for the three months ended December 31, 2011 include a pre-tax charge of $1.3 million ($0.8 million after tax); $0.3 million ($0.2 million after tax) as a reduction to revenue and $1.0 million ($0.6 million after tax) in bad debt expense. Of this charge, $0.8 million pre tax ($0.5 million after tax) arising from processing issues should have been recognized during prior periods. Our results of operations for the twelve months ended September 30, 2011 included a pre-tax charge of $1.1 million ($0.7 million after tax) in bad debt expense. Of this charge, $0.2 million pre-tax ($0.1 million after tax) arising from processing issues should have been recognized during prior periods. We determined that the impact of the adjustments that should have been recorded in prior periods was immaterial to our results of operations for the applicable interim and annual periods during the years ended September 30, 2010 and 2011. Management believes that the impact of adjustments recorded in the three months ended December 31, 2011 related to prior periods are not material to our expected results of operations for the twelve months ended September 30, 2012.

Proprietary Loan Program

In order to provide funding for students who are not able to fully finance the cost of their education under traditional governmental financial aid programs, commercial loan programs or other alternative sources, we established a private loan program with a national chartered bank in 2008. Under terms of the related agreement, the bank originates loans for our students who meet our specific credit criteria with the related proceeds used exclusively to fund a portion of their tuition. We then purchase all such loans from the bank on a monthly basis and assume all of the related credit risk. The loans bear interest at market rates; however, principal and interest payments are not required until six months after the student completes or withdraws from his or her program. After the deferral period, monthly principal and interest payments are required over the related term of the loan.

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

In substance, we provide the students who participate in this program with extended payment terms for a portion of their tuition and as a result, we account for the underlying transactions in accordance with our tuition revenue recognition policy. However, due to the nature of the program coupled with the extended payment terms required under the student loan agreements, collectability is not reasonably assured. Accordingly, we recognize tuition and loan origination fees financed by the loan and any related interest income required under the loan when such amounts are collected. We will reevaluate this policy on the basis of our historical collection experience under the program and will accelerate recognition of the related revenue if appropriate. All related expenses incurred with the bank or other service providers are expensed as incurred and were approximately $0.3 million and $0.2 million during the three months ended December 31, 2011 and 2010, respectively. Since loan collectability is not reasonably assured, the loans cannot be recorded as assets under GAAP, and therefore the loans and related deferred tuition revenue are not recognized in our condensed consolidated balance sheets. Our presentation will be reevaluated when sufficient collection history has been obtained.

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

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

	September 30, Three Months Ended December 31, 2011	September 30, Three Months Ended December 31, 2010	September 30, Inception to date
Tuition and interest income excluded	$ 3,232	$ 2,360	$ 33,017
Amounts collected and recognized	(321)	(142)	(1,492)
Amounts written-off	(2,799)	(1,748)	(11,147)
Aggregate amount excluded during the period	$ 112	$ 470	$ 20,378

Our Board of Directors authorized the extension of up to an aggregate of $40.0 million of credit under our proprietary loan program. At December 31, 2011, we had committed to provide loans to our students for approximately $38.7 million. We monitor the aggregate amount approved under this program and may make changes in future periods.

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

	September 30, Three Months Ended December 31, 2011	September 30, Three Months Ended December 31, 2010
Balance at beginning of period	$ 26,863	$ 23,301
Loans extended	4,822	2,114
Interest accrued	625	527
Amounts collected and recognized	(321)	(142)
Amounts written off	(2,799)	(1,748)
Balance at end of period	$ 29,190	$ 24,052

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

9. Common Shareholders Equity

Common Stock

Holders of our common stock are entitled to receive dividends when and as declared by the Board of Directors and have the right to one vote per share on all matters requiring shareholder approval.

Treasury Stock

Our Condensed Consolidated Balance Sheet as of December 31, 2011 and our Condensed Consolidated Statement of Shareholders Equity for the three months ended December 31, 2011 include a reclassification of $5.5 million and 313,015 shares from common stock and additional paid-in capital to treasury stock. The reclassification relates to the presentation of shares withheld for taxes upon the lapse of restrictions on certain stock-based compensation. Beginning in 2007, we accounted for such shares as if they were returned to the pool of issuable shares under our 2003 Incentive Compensation Plan. Based on further consideration, we concluded it was more appropriate to reflect such shares as treasury shares. We determined that the impact of the out-of-period adjustment was immaterial to our financial statements for the applicable interim and annual periods during the years ended September 30, 2007, 2008, 2009, 2010 and 2011. As a result, we have not restated any prior period amounts.

Share Repurchase Program

On December 20, 2011, our Board of Directors authorized the repurchase of up to $25.0 million of our common stock in the open market or through privately negotiated transactions. This share repurchase plan replaces the two existing share repurchase plans, of which there was an aggregate $23.7 million remaining. The timing and actual number of shares purchased will depend on a variety of factors such as price, corporate and regulatory requirements, and prevailing market conditions. We may terminate or limit the share repurchase program at any time without prior notice. We did not make any purchases during the three months ended December 31, 2011.

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

10. Segment Information

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

Summary information by reportable segment is as follows:

	September 30, Three Months Ended December 31, 2011	September 30, 2010
Revenues		
Postsecondary education	$ 104,153	$ 115,454
Other	2,274	1,993
Consolidated	$ 106,427	$ 117,447
Income (loss) from operations		
Postsecondary education	$ 7,051	$ 17,616
Other	(485)	(763)
Consolidated	$ 6,566	$ 16,853
Depreciation and amortization		
Postsecondary education	$ 6,172	$ 5,946
Other	121	136
Consolidated	$ 6,293	$ 6,082
Net income (loss)		
Postsecondary education	$ 4,311	$ 10,695
Other	(271)	(439)
Consolidated	$ 4,040	$ 10,256
Goodwill		
Postsecondary education	$ 20,579	$ 20,579
Other		
Consolidated	$ 20,579	$ 20,579

Total assets				
Postsecondary education	$	261,701	$	240,431
Other		2,410		2,348
Consolidated	$	264,111	$	242,779

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

($ s in thousands, except per share amounts)

11. Government Regulation and Financial Aid

In May 2011, the Department of Education (ED) announced its intention to establish additional negotiated rulemaking committees to prepare proposed regulations under the Higher Education Opportunity Act of 2008 (HEOA). In October 2011, ED requested nominations for individual negotiators for two negotiation teams to address teacher preparation and post-disbursement student loan issues. These negotiations began in January 2012 and are expected to conclude in April 2012. The initial meetings have been primarily concerned with setting the agenda items for the negotiated rulemaking and developing the process for the negotiations.

In December 2011, Congress passed the federal fiscal year 2012 budget, which included the nine remaining appropriations bills needed to fund the federal government for the remainder of the 2012 federal fiscal year. The Consolidated Appropriations Act of 2012 (Appropriations Act), which the President signed on December 23, 2011, includes award year 2012-2013 funding levels for Title IV Programs and maintains the maximum Federal Pell Grant for the 2012-2013 award year by cutting spending on the other student aid programs and placing new restrictions on eligibility. In addition, the Appropriations Act reduces the maximum income that makes an applicant for Title IV Program funds eligible for an automatic zero Expected Family Contribution, which will have the result of reducing the number of students eligible for the maximum Federal Pell Grant. Furthermore, the Appropriations Act eliminates the bump-up for students whose calculated award is at least 5% of the maximum Pell Grant but less than 10%. The Appropriations Act also makes several non-Pell Grant related changes to the Title IV Program requirements. Ability-to-benefit options for establishing general student eligibility for Title IV Program funds are eliminated for students who first enroll in a program of study on or after July 1, 2012, which will have the effect of requiring students to have a high school diploma or its recognized equivalent, or to have been home schooled, to be eligible to receive Title IV Program funds.

On December 12, 2011, we received a request from the Ranking Member of the U.S. House of Representatives Committee on Oversight and Government Reform, requesting copies of compensation agreements for our senior executives. We believe that a substantial portion of the information requested is included in our annual reports on Form 10-K and in our definitive information statements on Schedule 14A, all of which are publicly available. We have submitted any necessary additional information.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established the Consumer Financial Protection Bureau (CFPB). In January 2012, President Obama appointed the first director of the CFPB and we anticipate that CFPB activity will increase in the coming months as a result. The CFPB is tasked with supervising large banks and certain other types of nonbank financial companies, including alternative loan providers, for compliance with federal consumer financial protection laws.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in this report and those in our 2011 Annual Report on Form 10-K filed with the SEC on November 30, 2011. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in such forward-looking statements as a result of certain factors, including but not limited to those described under Risk Factors in our Form 10-K and included in Part II, Item IA of this report.

2012 Overview

Operations

Our average undergraduate full-time student enrollment declined 10.7% to approximately 18,300 students for the three months ended December 31, 2011, resulting in a decline in revenues of 9.4% when compared to the three months ended December 31, 2010. Our revenues for the three months ended December 31, 2011 were $106.4 million, a decrease of $11.0 million from the prior year, and excluded $2.6 million of tuition related to students participating in our proprietary loan program. Our net income for the three months ended December 31, 2011 was $4.0 million, a decrease of $6.2 million from the prior year. The decline is primarily related to lower revenues and an increase in advertising expense, partially offset by overall cost saving efforts in anticipation of lower average student populations in 2012. Our cost savings effort is meeting our expectations and we will continue to focus on efficiencies and managing costs throughout the remainder of the year.

Our operating results were impacted by an increase in advertising expenses of $2.5 million for the three months ended December 31, 2011. We increased our spending on a variety of media to improve the quality of inquiries during a historically challenging quarter for inquiry generation. For the three months ended December 31, 2011, the number of inquiries declined slightly as compared to the three months ended December 31, 2010, but the investment in advertising expense yielded higher quality inquiries in the current year. We anticipate advertising expense to continue to increase in the second and third quarters of 2012, as compared to the same periods in 2011, in order to meet both the quantity and quality inquiry needs to develop student starts for the remainder of the year.

We have recently received clarification from a non-Title IV federal funding agency regarding the rules and policies for its programs through which students receive educational funding. As a result, we have identified that we have received cash in excess of the funding for which our students are eligible. We believe it is probable that we will be required to return the excess funds to this funding agency. At December 31, 2011, we have estimated our obligation is $3.6 million which is included in current liabilities in our condensed consolidated balance sheet. Our results of operations for the three months ended December 31, 2011 include a pre-tax charge of $1.3 million ($0.8 million after tax); $0.3 million ($0.2 million after tax) as a reduction to revenue and $1.0 million ($0.6 million after tax) in bad debt expense. Of this charge, $0.8 million pre tax ($0.5 million after tax) arising from processing issues should have been recognized during prior periods. Our results of operations for the twelve months ended September 30, 2011 included a pre-tax charge of $1.1 million ($0.7 million after tax) in bad debt expense. Of this charge, $0.2 million pre-tax ($0.1 million after tax) arising from processing issues should have been recognized during prior periods. We determined that the impact of the adjustments that should have been recorded in prior periods was immaterial to our results of operations for the applicable interim and annual periods during the years ended September 30, 2010 and 2011. Management believes that the impact of adjustments recorded in the three months ended December 31, 2011 related to prior periods are not material to our expected results of operations for the twelve months ended September 30, 2012.

We started approximately 3,300 students during the three months ended December 31, 2011, which is consistent with the three months ended December 31, 2010. The rate of decline in applications and new student starts continued to slow during the three months ended December 31, 2011.

For the remainder of 2012, we expect to continue to be impacted by the macro-economic headwinds, continued pressure on program affordability and our lower student populations as we entered the year. The rate of decline improved for both applications and new student starts during the first quarter. We expect new student starts will decline year over year during our second quarter before they potentially turn positive in the second half of the year. We also expect to see variability in new student starts among quarters. Furthermore, we continue to expect average student populations for the full year to decline, resulting in a mid to high single digit decline in revenue in 2012 and an overall decline in operating margins compared to 2011. Given these trends and the higher fixed component in our admissions cost structure as a result of regulatory changes, we are focused on efficiencies and managing costs.

Share Repurchase Program

On December 20, 2011, our Board of Directors authorized the repurchase of up to $25.0 million of our common stock in the open market or through privately negotiated transactions. This share repurchase plan replaces the two existing share repurchase plans, of which there was an aggregate $23.7 million remaining. The timing and actual number of shares purchased will depend on a variety of factors such as price, corporate and regulatory requirements, and prevailing market conditions. We may terminate or limit the share repurchase program at any time without prior notice. We did not make any purchases during the three months ended December 31, 2011.

Graduate Employment

Our graduate employment rate continues to be under pressure in our marine, motorcycle and collision programs; however, we experienced slight improvement in the motorcycle rates as a result of our investment in this area. Our consolidated employment rate for 2011 graduates during the three months ended December 31, 2011 is consistent with the rate for the 2010 graduates during the three months ended December 31, 2010.

Regulatory Environment

In May 2011, ED announced its intention to establish additional negotiated rulemaking committees to prepare proposed regulations under the HEOA. In October 2011, ED requested nominations for individual negotiators for two negotiation teams to address teacher preparation and post-disbursement student loan issues. These negotiations began in January 2012 and are expected to conclude in April 2012. The initial meetings have been primarily concerned with setting the agenda items for the negotiated rulemaking and developing the process for the negotiations. Certain topics may impact our gainful employment metrics. While it is too early in the process to determine any potential changes to current rules or what, if any, new rules may be adopted, we will monitor the negotiated rulemaking and take actions we believe appropriate to respond to final rules.

In December 2011, Congress passed the federal fiscal year 2012 budget, which included the nine remaining appropriations bills needed to fund the federal government for the remainder of the federal fiscal year 2012. The Consolidated Appropriations Act of 2012 (Appropriations Act), which the President signed on December 23, 2011, includes award year 2012-13 funding levels for Title IV Programs and maintains a $5,550 maximum Federal Pell Grant for the 2012-2013 award year by cutting spending on the other student aid programs and placing new restrictions on eligibility. Additionally, the Appropriations Act reduces from $32,000 to $23,000 the maximum income that makes an applicant for Title IV Program funds eligible for an automatic zero Expected Family Contribution, which will have the result of reducing the number of students eligible for the maximum Federal Pell Grant. Furthermore, the Appropriations Act eliminates the bump-up for students whose calculated award is at least 5% of the maximum Pell Grant but less than 10%. The Appropriations Act also makes several non-Pell Grant related changes to the Title IV Program requirements. Ability-to-benefit (ATB) options for establishing general student eligibility for Title IV Program funds are eliminated for students who first enroll in a program of study on or after July 1, 2012, which will have the effect of requiring students to have a high school diploma or its recognized equivalent, or to have been home schooled, to be eligible to receive Title IV Program funds. We anticipate that certain of our students may be eligible for less Title IV funding, or may be ineligible for Title IV funding, as a result of the changes. This may increase demand for our proprietary loan program or other private alternative loans and our student population may decline if students cannot obtain sufficient funding or are unwilling to take on additional debt.

On December 12, 2011, we received a request from the Ranking Member of the U.S. House of Representatives Committee on Oversight and Government Reform, requesting copies of compensation agreements for our senior executives. Separately, the Ranking Member announced that similar letters were sent to 13 for-profit schools as part of an effort to determine if the compensation of senior executives is appropriately tied to the performance of the students educated by the schools. As a publicly-traded company, we report detailed information about executive compensation in our filings with the Securities and Exchange Commission, including in the exhibits to our annual reports on Form 10-K and in our definitive information statements on Schedule 14A, all of which are publicly available. We believe that a substantial portion of the information requested is included in these filings. We have submitted any necessary additional information.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established the Consumer Financial Protection Bureau (CFPB). In January 2012, President Obama appointed the first director of the CFPB and we anticipate that CFPB activity will begin to increase as a result. The CFPB is tasked with supervising large banks and certain other types of nonbank financial companies, including alternative loan providers, for compliance with federal consumer financial protection laws. It is possible that our proprietary loan program will be subject to such supervision. We will continue to monitor the activities of the CFPB for any impact on us.

Automotive Technology and Diesel Technology II

We began offering our Automotive Technology and Diesel Technology II curricula at the Dallas/Fort Worth, Texas campus in June 2010. We are currently on track to integrate the new curricula at our Avondale, Arizona campus this year.

Results of Operations

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

	September 30, Three Months Ended December 31, 2011	September 30, 2010
Revenues	100.0%	100.0%
Operating expenses:		
Educational services and facilities	48.6%	45.9%
Selling, general and administrative	45.2%	39.8%
Total operating expenses	93.8%	85.7%
Income from operations	6.2%	14.3%
Interest income, net	0.1%	0.1%
Other income	0.1%	0.1%
Total other income	0.2%	0.2%
Income before income taxes	6.4%	14.5%
Income tax expense	2.6%	5.8%
Net income	3.8%	8.7%

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the three months ended December 31, 2011 were $13.2 million, as compared to $23.3 million for the three months ended December 31, 2010.

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

EBITDA reconciles to net income as follows:

	September 30, Three Months Ended December 31, 2011	September 30, 2010
	(In thousands)	
Net income	$ 4,040	$ 10,256
Interest income, net	(92)	(88)
Income tax expense	2,771	6,815
Depreciation and amortization	6,523	6,290
EBITDA	$ 13,242	$ 23,273

Return on equity for the trailing four quarters ended December 31, 2011 was 15.6% compared to 21.4% for the trailing four quarters ended September 30, 2011. Return on equity is calculated as the sum of net income for the last four quarters divided by the average of our total shareholders equity balances at the end of each of the last five quarters.

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

	September 30, Three Months Ended December 31, 2011	September 30, 2010
Average undergraduate full-time student enrollment	18,300	20,400
Total seats available	29,400	28,600
Average capacity utilization	62.2%	71.3%

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

Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010

Revenues. Our revenues for the three months ended December 31, 2011 were $106.4 million, representing a decrease of $11.0 million, or 9.4%, as compared to revenues of $117.4 million for the three months ended December 31, 2010. This decrease was a result of a decrease in the average undergraduate full-time student enrollment of 10.7% as well as one less earnings day in the current period which resulted in a decrease of $1.7 million, offset by tuition rate increases between 4% and 7%, depending on the program. Our revenues for the three months ended December 31, 2011 and 2010 excluded $2.6 million and $1.8 million, respectively, of tuition related to students participating in our proprietary loan program. In accordance with our accounting policy, we will recognize the related revenues as payments are received from the students participating in this program. We recognized $0.3 million and $0.1 million of revenues and interest under the program during the three months ended December 31, 2011 and 2010, respectively.

Educational services and facilities expenses. Our educational services and facilities expenses for the three months ended December 31, 2011 were $51.7 million, a decrease of $2.1 million as compared to $53.8 million for the three months ended December 31, 2010.

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

	September 30, Three Months Ended December 31, 2011	September 30, 2010
	(In thousands)	
Salaries expense	$ 22,208	$ 23,761
Employee benefits and tax	4,288	3,829
Bonus expense	1,093	609
Stock-based compensation	276	247
Compensation and related costs	27,865	28,446
Occupancy costs	9,181	9,089
Other educational services and facilities expense	5,002	5,588
Depreciation expense	4,839	4,547
Tools and training aids expense	2,416	3,329
Supplies and maintenance	2,388	2,837
	$ 51,691	$ 53,836

Tools and training aids expense and supplies and maintenance decreased a combined $1.4 million during the three months ended December 31, 2011. The decrease was primarily due to our lower average undergraduate full-time student enrollments during the current period as well as cost savings efforts in anticipation of lower average student populations for 2012.

Compensation and related costs decreased $0.6 million during the three months ended December 31, 2011. The decrease is primarily attributable to the reduction in workforce in June 2011 which was completed to align our cost structure with our projected future student population, partially offset by an increase in self-insurance claims. We anticipate our compensation and related costs will decrease for the year ending September 30, 2012 as compared to the year ended September 30, 2011.

***Selling, general and administrative expenses*.** Our selling, general and administrative expenses for the three months ended December 31, 2011 were $48.2 million, representing an increase of $1.4 million as compared to $46.8 million for the three months ended December 31, 2010.

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

	September 30, Three Months Ended December 31, 2011	September 30, 2010
	(In thousands)	
Salaries expense	$ 17,968	$ 16,480
Employee benefits and tax	4,052	3,284
Bonus expense	2,593	4,248
Stock-based compensation	1,406	1,463
Compensation and related costs	26,019	25,475
Advertising expense	10,499	8,029
Other selling, general and administrative expenses	5,626	6,830
Bad debt expense	2,533	2,283
Depreciation expense	1,682	1,740
Contract services expense	1,215	1,335
Occupancy costs	596	1,066
	$ 48,170	$ 46,758

Advertising expense increased $2.5 million for the three months ended December 31, 2011 primarily due to our spending on various media, including television, internet, magazine, and inquiry generation programs, our continued investment in local markets and an overall shift in strategy to generate higher quality inquiries.

Compensation and related costs increased $0.5 million during the three months ended December 31, 2011. The increase is primarily due to modifications made to our compensation plans in response to the new regulations that became effective July 1, 2011, which resulted in an additional $3.1 million in salary expense for our admissions teams, offset by a decrease in bonus expense. We anticipate our compensation and related costs will increase for the year ending September 30, 2012 as compared to the year ended September 30, 2011 as a result of the changes to our compensation plans.

***Income taxes*.** Our provision for income taxes for the three months ended December 30, 2011 was $2.8 million, or 40.7% of pre-tax income. Our provision for income taxes for the three months ended December 31, 2010 was $6.8 million, or 39.9% of pre-tax income. The effective income tax rate in each period differed from the federal statutory tax rate of 35% primarily as a result of state income taxes, net of related federal income tax benefits.

Liquidity and Capital Resources

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

We believe that the strategic use of our cash resources includes supporting the integration of our Automotive Technology and Diesel Technology II curricula to existing campuses, as well as subsidizing funding alternatives for our students. Additionally, we evaluate the repurchase of our common stock, payment of dividends, consideration of strategic acquisitions and other potential uses of cash. To the extent that potential acquisitions are large enough to require financing beyond cash from operations, we may issue debt resulting in increased interest expense. Our aggregate cash and cash equivalents and current investments were $104.9 million at December 31, 2011.

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

Operating Activities

Our net cash provided by operating activities was $5.6 million and $11.7 million for the three months ended December 31, 2011 and December 31, 2010, respectively. The decrease was primarily attributable to the decline in net income and changes in our operating assets and liabilities.

For the three months ended December 31, 2011, changes in our operating assets and liabilities resulted in cash outflows of $9.3 million and were primarily attributable to changes in deferred revenue, receivables, prepaid expenses and other current assets and accounts payable and other accrued expenses.

The decrease in deferred revenue resulted in cash used of $7.3 million. The decrease was primarily attributable to the timing of student starts, the number of students in school and where they were at period end in relation to the completion of their program at December 31, 2011 compared to September 30, 2011.

The increase in receivables and accounts payable and accrued expenses is primarily due to the increase in the estimated reserve related to the clarification from the non-Title IV funding agency discussed previously in this document.

The increase in prepaid expenses and other current assets resulted in cash used of $2.1 million. The increase is primarily related to our prepaid insurance plans.

During the three months ended December 31, 2010, the changes in our operating assets and liabilities resulted in cash outflows of $10.4 million. The outflows were a result of an $11.9 million decrease in accounts payable and accrued expenses primarily attributable to annual bonus payments. The outflows were also attributable to a decrease of $5.5 million in deferred revenue primarily due to the timing of student starts, the number of students in school and where they were at period end in relation to the completion of their program. We had a cash inflow of $5.0 million as a result of being in a payable position rather than a receivable position for income taxes.

Investing Activities

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

During the three months ended December 31, 2010, cash used in investing activities was $2.2 million and was primarily related to our investment in our Automotive Technology and Diesel Technology II program curricula as well as new and replacement training equipment for our ongoing operations and purchases of investments. We had cash inflows from proceeds received upon maturity of investments.

Financing Activities

During the three months ended December 31, 2011 and 2010, cash provided by financing activities was primarily attributable to activity in our stock-based compensation plans.

Seasonality and Trends

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

Critical Accounting Policies and Estimates

Our critical accounting policies are disclosed in our 2011 Annual Report on Form 10-K, filed with the SEC on November 30, 2011. During the three months ended December 31, 2011, there have been no significant changes in our critical accounting policies.

Recent Accounting Pronouncements

Recent accounting pronouncements are disclosed in our 2011 Annual Report on Form 10-K, filed with the SEC on November 30, 2011. During the three months ended December 31, 2011, there have been no new accounting pronouncements which are expected to significantly impact our consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes to our market risk since September 30, 2011. For a discussion of our exposure to market risk, refer to our 2011 Annual Report on Form 10-K, filed with the SEC on November 30, 2011.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that occurred during the three months ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, including the information contained in Part I, Item 3, you should carefully consider the factors discussed in Part I, Item IA of our Annual Report on Form 10-K filed with the SEC on November 30, 2011, which could materially affect our business, financial condition or operating results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table summarizes the purchase of equity securities for the three months ended December 31, 2011:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	September 30, (a) Total Number of Shares Purchased [1]	September 30, (b) Average Price Paid per Share	September 30, (c) Total Number of Shares Purchased as Part of Publicly Announced Plans	September 30, (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans Or Programs (In thousands) [2]
October 2011				$ 23,660
November 2011	1,156			$ 23,660
December 2011	2,930			$ 25,000
Total	4,086			$ 25,000

(1) Represents shares of common stock withheld by us as payment of taxes on the vesting of shares of our common stock which were granted subject to forfeiture restrictions under our 2003 Incentive Compensation Plan.

(2) On December 20, 2011, our Board of Directors authorized the repurchase of up to $25.0 million of our common stock in the open market or through privately negotiated transactions. This new share repurchase plan replaces the two existing share repurchase plans, of which there was an aggregate $23.7 million remaining.

Item 6. EXHIBITS

Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
101*	The following financial information from our Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Income Statements; (iii) Condensed Consolidated Statement of Shareholders Equity; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements.

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

SIGNATURES

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

UNIVERSAL TECHNICAL INSTITUTE, INC.

Dated: February 3, 2012

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

(Principal Financial Officer and Duly Authorized Officer)