

UNIVERSAL TECHNICAL INSTITUTE INC

Form 10-Q

February 03, 2009

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**U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2008

**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.)

**20410 North 19th Avenue, Suite 200
Phoenix, Arizona 85027**

(Address of principal executive offices)

(623) 445-9500

(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

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

At January 29, 2009, there were 25,100,711 shares outstanding of the registrant's common stock.

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FOR THE QUARTER ENDED DECEMBER 31, 2008**

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	December 31, 2008	September 30, 2008
	(\$ s in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 87,531	\$ 80,878
Restricted cash	2,000	2,000
Receivables, net	15,654	20,222
Deferred tax assets	5,995	5,951
Prepaid expenses and other current assets	9,366	8,568
Total current assets	120,546	117,619
Property and equipment, net	67,588	68,258
Goodwill	20,579	20,579
Other assets	2,881	2,919
Total assets	\$ 211,594	\$ 209,375
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 34,372	\$ 37,995
Deferred revenue	45,605	44,695
Accrued tool sets	3,889	3,870
Income tax payable	2,500	
Other current liabilities	40	44
Total current liabilities	86,406	86,604
Deferred tax liabilities	1,491	2,908
Deferred rent liability	5,426	5,354
Other liabilities	6,418	6,322
Total liabilities	99,741	101,188
Commitments and contingencies (Note 9)		
Shareholders equity:		
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 28,408,555 shares issued and 25,091,310 shares outstanding at December 31, 2008 and 28,406,762 shares issued and 25,089,517 shares outstanding at September 30, 2008	3	3
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding		

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Paid-in capital	138,462	137,100
Treasury stock, at cost, 3,317,245 shares at December 31, 2008 and September 30, 2008	(59,571)	(59,571)
Retained earnings	32,959	30,655
Total shareholders' equity	111,853	108,187
Total liabilities and shareholders' equity	\$ 211,594	\$ 209,375

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)

	Three Months Ended December 31, 2008 2007	
	(In thousands, except per share amounts)	
Net revenues	\$ 90,121	\$ 90,035
Operating expenses:		
Educational services and facilities	47,742	46,186
Selling, general and administrative	38,790	34,545
Total operating expenses	86,532	80,731
Income from operations	3,589	9,304
Other income (expense):		
Interest income	79	1,371
Interest expense	(12)	(10)
Other income	71	
Total other income	138	1,361
Income before income taxes	3,727	10,665
Income tax expense	1,423	4,182
Net income	\$ 2,304	\$ 6,483
Basic net income per share	\$ 0.09	\$ 0.24
Diluted net income per share	\$ 0.09	\$ 0.24
Weighted average number of common shares outstanding:		
Basic	25,090	26,788
Diluted	25,462	27,423

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 STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)

	Common Stock		Paid-in	Treasury Stock		Retained	Total
	Shares	Amount	Capital	Shares	Amount	Earnings	Shareholders
	(In thousands)						
Balance at September 30, 2008	28,407	\$ 3	\$ 137,100	3,317	\$(59,571)	\$ 30,655	\$ 108,187
Net income						2,304	2,304
Issuance of common stock under employee plans	2		(17)				(17)
Tax charge from employee stock plans			(11)				(11)
Stock compensation			1,390				1,390
Balance at December 31, 2008	28,409	\$ 3	\$ 138,462	3,317	\$(59,571)	\$ 32,959	\$ 111,853

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 STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended December 31,	
	2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 2,304	\$ 6,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,371	4,381
Bad debt expense	2,084	928
Stock-based compensation	1,390	1,545
Deferred income taxes	(1,473)	(731)
Loss on sale of property and equipment	121	407
Changes in assets and liabilities:		
Receivables	2,336	(3,925)
Prepaid expenses and other current assets	(807)	55
Other assets	8	453
Accounts payable and accrued expenses	(3,310)	(5,565)
Deferred revenue	910	(4,505)
Income tax payable	2,647	5,210
Accrued tool sets and other current liabilities	15	(263)
Other liabilities	83	58
Net cash provided by operating activities	10,679	4,531
Cash flows from investing activities:		
Purchase of property and equipment	(4,016)	(6,490)
Proceeds from sale of property and equipment	5	32,662
Net cash (used in) provided by investing activities	(4,011)	26,172
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee plans	(17)	158
Excess tax benefit from stock-based compensation	2	
Purchase of treasury stock		(6,810)
Net cash used in financing activities	(15)	(6,652)
Net increase in cash and cash equivalents	6,653	24,051
Cash and cash equivalents, beginning of period	80,878	75,594
Cash and cash equivalents, end of period	\$ 87,531	\$ 99,645
Supplemental disclosure of cash flow information:		
Taxes paid	\$ 250	\$ 5

Interest paid	\$	12	\$	19
Training equipment obtained in exchange for services	\$	287	\$	396
Accrued capital expenditures	\$	313	\$	821

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

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

1. Nature of the Business

We are a leading 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 10 campuses and manufacturer specific advanced training (MSAT) programs that are sponsored by the manufacturer or dealer at 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.

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, 2008 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 26, 2008.

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.

3. Recent Accounting Pronouncements

Recent accounting pronouncements are disclosed in our 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 26, 2008. During the three months ended December 31, 2008 there have been no new accounting pronouncements which are expected to significantly impact our consolidated financial statements.

4. Fair Value Measurements

In accordance with Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, we measure our money market funds included in cash and cash equivalents at fair value, which was the same as cost at December 31, 2008. Our money market funds are classified within Level 1 and were valued primarily using real-time quotes for transactions in active exchange markets involving identical assets. At December 31, 2008, our cash and cash equivalents were invested in a mutual fund that invests in U.S. treasury notes, U.S. treasury bills and repurchase agreements collateralized by U.S. treasury notes and U.S. treasury bills.

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

5. Weighted Average Number of Common Shares Outstanding

Basic net income per share is calculated by dividing net income by the weighted average number of common 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, 2008, 1,812,041 shares, and for the three months ended December 31, 2007, 961,639 shares, which could be issued under outstanding options or unvested restricted stock, were not included in the determination of our diluted shares outstanding as they were anti-dilutive.

The table below reflects the calculation of the weighted average number of common shares outstanding used in computing basic and diluted net income per common share:

	Three Months Ended	
	December 31,	
	2008	2007
	(In thousands)	
Basic common shares outstanding	25,090	26,788
Dilutive effect related to employee stock plans	372	635
Diluted common shares outstanding	25,462	27,423

6. Property and Equipment, net

Property and equipment, net consist of the following:

	Depreciable		December	September
	Lives (in years)		31,	30,
			2008	2008
Training equipment	3 10	\$	61,005	\$ 62,184
Office and computer equipment	3 10		28,036	27,847
Software developed for internal use	3		7,430	6,962
Curriculum development	5		584	584
Vehicles	5		704	761
Leasehold improvements	1 28		34,169	33,675
Construction in progress			3,431	2,332
			135,359	134,345
Less accumulated depreciation and amortization			(67,771)	(66,087)
		\$	67,588	\$ 68,258

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

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	December 31, 2008	September 30, 2008
Accounts payable	\$ 3,590	\$ 5,126
Accrued compensation and benefits	22,110	24,675
Other accrued expenses	8,672	8,194
	\$ 34,372	\$ 37,995

8. Reduction in Workforce

In September 2007, we implemented a nationwide reduction in force of approximately 225 employees and recorded operating expenses of approximately \$4.5 million. The liability associated with this reduction in force is being paid over a period ending June 30, 2009. During the quarter ended December 31, 2008 we paid out approximately \$0.1 million, reducing the outstanding liability to approximately \$0.1 million.

9. Commitments and Contingencies***Legal***

In the ordinary conduct of our business, we are periodically subject to 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.

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 June 2008. Under terms of the related agreements, 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 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 agreements, we placed a \$2.0 million deposit with the bank in July 2008 in order to secure our related loan purchase obligation. This balance is classified as restricted cash in our consolidated balance sheet.

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UNIVERSAL TECHNICAL INSTITUTE, INC.
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(\$ s in thousands, except per share amounts)

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, collectibility is not reasonably assured. Accordingly, we will recognize tuition revenue 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. During the three months ended December 31, 2008, we expensed approximately \$0.2 million related to the fees incurred with the bank and other service providers. Since loan collectibility is not reasonably assured, the loans and related deferred tuition revenue will not be recognized in our consolidated balance sheet until sufficient collection history has been obtained.

Our Board of Directors authorized the extension of up to \$10 million of credit under the proprietary loan program. As of December 31, 2008, we had committed to provide loans to our students for approximately \$7.4 million and of that amount there was approximately \$5.1 million in loans outstanding.

10. Stock Repurchase Program

On November 26, 2007, our Board of Directors authorized the repurchase of up to \$50.0 million of our common stock in the open market or through privately negotiated transactions. The timing and actual number of shares purchased will depend on a variety of factors such as price, corporate and regulatory requirements, and prevailing market conditions. We may terminate or limit the stock repurchase program at any time without prior notice. The 10b5-1 plan under which we were repurchasing our stock expired pursuant to its terms in February 2008 and we have not entered into another plan. No purchases were made during the three months ended December 31, 2008, however through December 31, 2008, we had purchased 1,886,300 shares at a total cost of approximately \$29.5 million under the current program.

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

11. Segment Reporting

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 reflected in the Other category. Corporate expenses are allocated to Post-Secondary Education and the Other category based on compensation expense.

	Three Months Ended	
	December 31,	
	2008	2007
Net revenues		
Post-secondary education	\$ 85,724	\$ 85,577
Other	4,397	4,458
Consolidated	\$ 90,121	\$ 90,035
Income (loss) from operations		
Post-secondary education	\$ 3,936	\$ 9,213
Other	(347)	91
Consolidated	\$ 3,589	\$ 9,304
Depreciation and amortization		
Post-secondary education	\$ 4,227	\$ 4,249
Other	144	132
Consolidated	\$ 4,371	\$ 4,381
Goodwill		
Post-secondary education	\$ 20,579	\$ 20,579
Other		
Consolidated	\$ 20,579	\$ 20,579
Total assets		
Post-secondary education	\$ 208,509	\$ 220,185
Other	3,085	3,730
Consolidated	\$ 211,594	\$ 223,915

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in this report and those in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 26, 2008. 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 included in Part II, Item IA of this report.

2009 Overview

Operations

Our net revenues for the three months ended December 31, 2008 were \$90.1 million, an increase of \$0.1 million, or 0.1% from the prior year. Our net income for the three months ended December 31, 2008 was \$2.3 million, a decrease of \$4.2 million, or 64.5% from the prior year. The increase in net revenues for the three months ended December 31, 2008 was primarily related to higher tuition prices, partially offset by a decline in average undergraduate student enrollment, a decrease in students retaking courses and an increase in need-based tuition scholarships, higher military and veteran discounts. Net income was impacted by higher compensation and related benefits expense, advertising costs, and bad debt expense and lower interest income. The higher costs were partially offset by lower contract services expense.

Average undergraduate full-time student enrollment decreased 1.5% to 16,323 for the three months ended December 31, 2008. Student starts for the three months ended December 31, 2008 were 3,319, an increase of 6.2% as compared to 3,126 for the three months ended December 31, 2007. The increase in starts is a result of the increased number of contracts written for future students during the period of January through September 2008. During the three months ended December 31, 2008, the number of contracts written with future students increased, continuing the trend we experienced during the last nine months of 2008. Although we are continuing to see positive trends from our national advertising campaign and our adult-focused representatives, positive results in terms of student populations and tuition revenue lag such trends. We continue to focus on improving customer service levels, simplifying the application process, and identifying funding alternatives for our students. Our ability to attract prospective students to fill our existing capacity continues to be impacted by external factors primarily related to the general economic conditions, rising tuition, access to affordable funding, and relocation costs. In response to both the external environment and internal operational issues, we have implemented a plan that focuses on stabilizing and improving key operating efforts. We are uncertain when we will realize the benefits of these efforts.

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 June 2008. For a detailed discussion, see Proprietary Loan Program in Note 9 to our unaudited condensed consolidated financial statements within Part I, Item 1 of this report.

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Our Board of Directors authorized the extension of up to \$10 million of credit under the proprietary loan program. As of December 31, 2008, we had committed to provide loans to our students for approximately \$7.4 million and of that amount there was approximately \$5.1 million in loans outstanding. During the three months ended December 31, 2008, we expensed approximately \$0.2 million related to the fees incurred with the bank and other service providers.

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.

	Three Months Ended December 31,	
	2008	2007
Net revenues	100.0%	100.0%
Operating expenses:		
Educational services and facilities	53.0%	51.3%
Selling, general and administrative	43.0%	38.4%
Total operating expenses	96.0%	89.7%
Income from operations	4.0%	10.3%
Interest income	0.1%	1.5%
Other income	0.1%	0.0%
Total other income	0.2%	1.5%
Income before income taxes	4.2%	11.8%
Income tax expense	1.6%	4.6%
Net income	2.6%	7.2%

Capacity utilization is the ratio of our average undergraduate full-time student enrollment to total seats available. The following table sets forth the calculation of our capacity utilization during the periods indicated:

	Three Months Ended December 31,	
	2008	2007
Average undergraduate full-time student enrollment	16,323	16,576
Total seats available	24,670	25,090
Average capacity utilization	66.2%	66.1%

During 2009, we plan to continue to seek alternative 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.

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Net revenues. Our net revenues for the three months ended December 31, 2008 were \$90.1 million, representing an increase of \$0.1 million, or 0.1%, as compared to net revenues of \$90.0 million for the three months ended December 31, 2007. This increase was due to tuition increases between 3% and 5%, depending on the program, partially offset by a 1.5% decrease in the average undergraduate full-time student enrollment, a decrease of approximately \$0.4 million related to students retaking courses and an increase of approximately \$0.6 million in need-based tuition scholarships, higher military and veteran discounts.

Educational services and facilities expenses. Our educational services and facilities expenses for the three months ended December 31, 2008 were \$47.7 million, an increase of \$1.6 million as compared to \$46.2 million for the three months ended December 31, 2007.

The following tables set forth the significant components of our educational services and facilities expenses:

	Three Months Ended		% of Net Revenues		Impact on Operating Margin
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007	
	(In thousands)				
Compensation and related costs	\$ 24,812	\$ 23,945	27.5%	26.6%	-0.9%
Occupancy costs	9,016	9,049	10.0%	10.0%	0.0%
Other educational services and facilities expenses	6,567	6,173	7.4%	6.9%	-0.5%
Depreciation expense	3,717	3,689	4.1%	4.1%	0.0%
Tools and training aids expense	2,384	2,286	2.6%	2.5%	-0.1%
Contract services expense	1,246	1,044	1.4%	1.2%	-0.2%
	\$ 47,742	\$ 46,186	53.0%	51.3%	-1.7%

Total compensation and related costs increased by approximately \$0.9 million for the three months ended December 31, 2008. The increase is attributable to higher support staff salaries and an increase in bonus and benefits expense. Salaries expense increased \$0.6 million for the three months ended December 31, 2008, as a result of an increase in the number of employees in our financial aid and other student support departments to assist our students with challenges presented by the general economic conditions and the changing student funding environment. Bonus expense increased \$0.1 million for the three months ended December 31, 2008, as a result of certain campuses meeting their quarterly bonus criteria for the fiscal year ending September 30, 2009. Benefits expense increased \$0.1 million for the three months ended December 31, 2008, due to increased expenses under our self-insured employee benefit plans.

Contract services expense increased \$0.2 million for the three months ended December 31, 2008 primarily due to providing disability accommodations for hearing-impaired students.

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Selling, general and administrative expenses. Our selling, general and administrative expenses for the three months ended December 31, 2008 were \$38.8 million representing an increase of \$4.2 million as compared to \$34.5 million for the three months ended December 31, 2007.

The following tables set forth the significant components of our selling, general and administrative expenses:

	Three Months Ended		% of Net Revenues		Impact on Operating Margin
	December 31,		December 31,		
	2008	2007	2008	2007	
	(In thousands)				
Compensation and related costs	\$ 22,687	\$ 19,926	25.2%	22.1%	-3.1%
Other selling, general and administrative expenses	6,685	7,042	7.3%	7.9%	0.6%
Advertising expense	6,000	4,804	6.7%	5.3%	-1.4%
Bad debt expense	2,084	928	2.3%	1.0%	-1.3%
Contract services expense	1,334	1,845	1.5%	2.1%	0.6%
	\$ 38,790	\$ 34,545	43.0%	38.4%	-4.6%

Compensation and related costs increased due to increases in salaries, bonus and benefits expense partially offset by decreases in stock compensation expense. Salaries expense increased \$1.9 million for the three months ended December 31, 2008, primarily due to an increase in the sales force representatives in response to our increase in the number and quality of leads. Salaries expense also increased by approximately \$0.2 million for accrued severance related to terminations during the three months ended December 31, 2008. Bonus expense increased \$0.4 million for the three months ended December 31, 2008 as a result of certain campuses meeting their quarterly bonus criteria for the fiscal year ending September 30, 2009. Benefits expense increased \$0.6 million for the three months ended December 31, 2008, due to increased expenses under our self-insured employee benefit plans. Stock-based compensation expense decreased \$0.2 million for the three months ended December 31, 2008, primarily due to the timing of vesting of our stock options and the departure of executives who forfeited unvested options and restricted stock awards.

Advertising expense increased \$1.2 million for the three months ended December 31, 2008, primarily due to limiting our spending during our first quarter of fiscal 2008 in anticipation of the launch of our new advertising campaign during our second quarter of 2008.

Bad debt expense increased \$1.2 million for the three months ended December 31, 2008. We monitor the adequacy of our allowance for doubtful accounts on an ongoing basis. In light of our experience during the past year related to the general economic conditions, changes in the student funding environment, and our internal execution challenges, we have increased our allowance for doubtful accounts by \$0.6 million during the three months ended December 31, 2008. The remaining \$0.6 million increase in bad debt expense is primarily due to an increase in the number of accounts which were transferred to our collections agency.

The decrease in contract services expense is primarily due to a decrease in information technology consulting services, partially offset by an increase in creative services as we continue to invest in our national advertising campaign.

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Interest income. Our interest income for the three months ended December 31, 2008 was \$0.1 million, representing a decrease of \$1.3 million, as compared to \$1.4 million for the three months ended December 31, 2007. During September 2008, we changed the investments of our cash and cash equivalents from a mutual fund invested in commercial paper, variable rate bonds, repurchase agreements, certificates of deposit, time deposits, municipal bonds, short-term corporate bonds and federal agency issues to a mutual fund that invests in U.S. treasury notes, U.S. treasury bills and repurchase agreements collateralized by U.S. treasury notes and U.S. treasury bills. This change resulted in a decrease in interest income.

Income taxes. Our provision for income taxes for the three months ended December 31, 2008 was \$1.4 million or 38.2% of pretax income, as compared to \$4.2 million, or 39.2% of pretax income for the three months ended December 31, 2007. The effective income tax rate in each year differed from the federal statutory tax rate of 35% primarily as a result of state income taxes, net of related federal income tax benefits. The decrease in the tax rate as a percentage of pretax income was primarily attributable to an adjustment of the prior year federal and state income tax liabilities.

Liquidity and Capital Resources

We finance our operating activities and our internal growth through cash generated from operations. Our net cash provided by operating activities was \$10.7 million for the three months ended December 31, 2008, as compared to \$4.5 million for the three months ended December 31, 2007.

A majority of our net revenues are 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 30 days after the start of a student's academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. Five of our campuses and certain types of grants and other funding are not subject to a 30 day delay in receiving the first disbursement. Additionally, 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**Three months ended December 31, 2008**

For the three months ended December 31, 2008, our cash flows provided by operating activities were \$10.7 million resulting from net income of \$2.3 million with adjustments of \$6.5 million for non-cash and other items and \$1.9 million related to the change in our operating assets and liabilities.

For the three months ended December 31, 2008, the primary adjustments to our net income for non-cash and other items were depreciation and amortization of \$4.4 million, substantially all of which was depreciation, bad debt expense of \$2.1 million, stock-based compensation of \$1.4 million and loss on sale of property and equipment of \$0.1 million, partially offset by a \$1.5 million change in deferred tax benefit.

Three months ended December 31, 2007

For the three months ended December 31, 2007, our cash flows provided by operating activities were \$4.5 million resulting from net income of \$6.5 million, adjustments of \$6.5 million for non-cash and other items, partially offset by \$8.5 million related to the change in our operating assets and liabilities.

For the three months ended December 31, 2007, the primary adjustments to our net income for non-cash and other items were depreciation and amortization of \$4.4 million, substantially all of which was depreciation, stock-based compensation of \$1.5 million and bad debt expense of \$0.9 million.

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Changes in operating assets and liabilities

Three months ended December 31, 2008

For the three months ended December 31, 2008, changes in our operating assets and liabilities resulted in \$1.9 million of cash provided, primarily attributable to changes in receivables, deferred revenue and income taxes payable, partially offset by changes in accounts payable and accrued expenses.

The decrease in receivables resulted in cash provided of \$2.3 million. Receivables decreased primarily due to a lower number of students in school at December 31, 2008 when compared to September 30, 2008. In addition, our days sales outstanding (DSO) decreased by three days to approximately 18 days at December 31, 2008 compared to approximately 21 days at September 30, 2008. The decrease in DSO was primarily due to a focused effort to reduce the delay we were experiencing in receiving financial aid funding to settle in-school student receivables during 2008, and an increase in our allowance for doubtful accounts as discussed above.

The decrease in deferred revenue resulted in cash provided of \$0.9 million and was primarily attributable to the timing of student starts, the number of students in school and where they were at year end in relation to the completion of their program and an increase in need-based tuition scholarships.

The increase in income tax payable resulted in cash provided of \$2.6 million and was primarily due to income taxes incurred on income earned during the three months ended December 31, 2008.

Accounts payable and accrued expenses decreased \$3.3 million primarily due to the timing of our accounts payable and payroll cycles. The timing of our accounts payable cycle resulted in a decrease in accounts payable and accrued expenses of \$1.0 million. Due to the timing of the payroll cycle, fewer days of payroll were accrued at December 31, 2008, resulting in a decrease of \$2.3 million in accrued payroll and benefits.

Three months ended December 31, 2007

For the three months ended December 31, 2007, changes in our operating assets and liabilities resulted in cash outflows of \$8.5 million and were primarily attributable to changes in receivables, deferred revenue, income taxes and accounts payable and accrued expenses.

The change in receivables and deferred revenue resulted in a combined use of cash of \$8.4 million. The change was attributable to an increase in student receivables related to the timing of Title IV disbursements and a delay in the transition of outsourcing a portion of our student financial aid processes, an increase in need-based tuition scholarships and higher military and veteran discounts, and a lower number of student starts during the three months ended December 31, 2007 when compared to the three months ended December 31, 2006.

Accounts payable and accrued expenses decreased \$5.6 million and was primarily attributable to \$2.4 million related to timing of our payroll cycle, \$2.0 million in severance payments related to our reduction in force in September 2007, \$2.8 million in bonus payments related to the year ended September 30, 2007 and \$1.2 million in bonus payments related to our field sales representative bonus plan. These decreases were partially offset by an increase of \$3.3 million for the bonus accruals related to the year ending September 30, 2008.

We were in an income tax payable position at December 31, 2007, as compared to an income tax receivable position at September 30, 2007, due to the timing of income tax payments, which increased cash by \$5.2 million.

Our working capital increased by \$3.1 million to \$34.1 million at December 31, 2008, as compared to \$31.0 million at September 30, 2008. The increase was primarily attributable to the \$6.7 million increase in cash at December 31, 2008, partially offset by the decrease to receivables discussed above. Our current ratio was 1.40 at December 31, 2008 as compared to 1.36 at September 30, 2008.

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Investing Activities

For the three months ended December 31, 2008, cash used in investing activities was \$4.0 million and was primarily related to the purchase of property and equipment associated with information technology projects, existing campus expansions and ongoing replacement of equipment related to student training. For the three months ended December 31, 2007, cash flows provided by investing activities were \$26.2 million and were primarily related to proceeds received from the sale of the Norwood, Massachusetts campus facility offset by capital expenditures associated with existing campus expansions and ongoing replacement of equipment related to student training.

Financing Activities

For the three months ended December 31, 2008, cash flows used in financing activities were \$0.01 million and were attributable to shares withheld for taxes on the vesting of restricted common stock under employee stock option plans. For the three months ended December 31, 2007, cash flows used in financing activities were \$6.7 million and were attributable to the repurchase of our stock offset by proceeds received from issuance of common stock under employee stock option plans.

Debt Service

On October 26, 2007, we entered into a second modification agreement which extended our \$30.0 million revolving line of credit agreement with a bank through October 26, 2009. There was no amount outstanding on the line of credit at the date of the modification agreement or at December 31, 2008. We were in compliance with all covenants at December 31, 2008.

Future Liquidity Sources

Based on past performance and current expectations, we believe that our cash flows from operations and other sources of liquidity, including borrowings available under our revolving credit facility, will satisfy our working capital needs, capital expenditures, commitments, and other liquidity requirements associated with our operations through the next 12 months.

We believe that the strategic use of our cash resources includes subsidizing funding alternatives for our students and we continue to evaluate repurchasing our common stock. In addition, our long term strategy includes the consideration of strategic acquisitions. To the extent that potential acquisitions are large enough to require financing beyond cash from operations and available borrowings under our credit facility, we may incur additional debt or issue debt resulting in increased interest expense.

Seasonality and Trends

Our net 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, which ends on June 30, than in the remainder of the year because fewer students are enrolled during the summer months. Our expenses, however, do not vary significantly with changes in our student population and net 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, increased investment in sales and marketing or acquisitions. In addition, our net revenues for the first quarter ending December 31 are adversely affected by the fact that we have fewer earning days when our campuses are closed during the calendar year end holiday break and accordingly do not recognize revenue during that period.

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Critical Accounting Policies and Estimates

Our critical accounting policies are disclosed in our 2008 Annual Report on Form 10-K. During the three months ended December 31, 2008 there have been no significant changes in our critical accounting policies.

Recent Accounting Pronouncements

Recent accounting pronouncements are disclosed in our 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 26, 2008. During the three months ended December 31, 2008 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

Historically, our principal exposure to market risk related to changes in interest rates. As of December 31, 2008, we held \$89.5 million in cash and cash equivalents and restricted cash. During the three months ended December 31, 2008, we earned interest income of \$0.1 million. In September 2008, we changed the investments of our cash and cash equivalents from a mutual fund invested in commercial paper, variable rate bonds, repurchase agreements, certificates of deposit, time deposits, municipal bonds, short-term corporate bonds and federal agency issues to a mutual fund that invests in U.S. treasury notes, U.S. treasury bills and repurchase agreements collateralized by U.S. treasury notes and U.S. treasury bills. Lower interest rates may reduce our interest income for fiscal year 2009.

As of December 31, 2008, we did not have significant short-term or long-term borrowings. Any future borrowings under our Revolving Credit Facility will be subject to interest rate risk. Please refer to the Form 10-K that we filed with the SEC on November 26, 2008 for additional information.

Cautionary Factors That May Affect Future Results

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 historic or current facts. They often include words such as anticipate, estimate, expect, project, intend, plan, will, and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, 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.

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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 26, 2008 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them under the heading Risk Factors in the Form 10-K. We incorporate that section of the Form 10-K in this filing and investors should refer to it. 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.

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, 2008 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, 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.

Item 1A. RISK FACTORS

Information regarding risk factors appears in Part I, Item 3 of this report under the heading Cautionary Factors That May Affect Future Results and in Part I, Item 1A of our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 26, 2008.

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

The following table summarizes the purchase of equity securities for the three months ended December 31, 2008:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans Or Programs (In thousands)⁽²⁾
October 2008		\$		\$ 20,534
November 2008	94	\$ 19.23		\$ 20,534
December 2008	808	\$ 18.22		\$ 20,534
Total	902			\$ 20,534

(1) Represents shares of common stock delivered to 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 November 26, 2007, our Board of Directors authorized the repurchase of up to \$50.0 million of our common

stock in the open market or through privately negotiated transactions. This program was announced in a press release filed as an exhibit to the company's Form 8-K filed on November 27, 2007. The 10b5-1 plan under which we were repurchasing our stock expired pursuant to its terms in February 2008 and we have not entered into another plan. No purchases were made during the three months ended December 31, 2008.

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Item 6. EXHIBITS

(a) Exhibits:

Number	Description
3.1	Amended and Restated Bylaws of Registrant. (Incorporated by reference to Exhibit 3.1 to a Form 8-K filed by the Registrant on December 15, 2008.)
10.1	Separation Agreement, Waiver and Release dated December 17, 2008, between Registrant and Larry H. Wolff. (Incorporated by reference to Exhibit 10.1 to a Form 8-K filed by the Registrant on December 18, 2008.)
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.)

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SIGNATURES

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

UNIVERSAL TECHNICAL INSTITUTE, INC.

Dated: February 3, 2009

By: /s/ Eugene S. Putnam, Jr.
Eugene S. Putnam, Jr.
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Duly Authorized
Officer)

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