UNIVERSAL TECHNICAL INSTITUTE INC
Form 10-Q
May 10, 2006

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

o **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 þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

At May 8, 2006, there were 28,151,154 shares outstanding of the registrant s common stock.

UNIVERSAL TECHNICAL INSTITUTE, INC.
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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except per share amounts)

	September 30, 2005	March 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 52,045	$ 76,330
Restricted cash	200	200
Restricted investments	16,198	
Receivables, net	21,244	15,990
Income tax receivable		2,315
Deferred tax assets	7,053	8,591
Prepaid expenses and other assets	6,958	7,125
Total current assets	103,698	110,551
Property and equipment, net	74,417	88,822
Goodwill	20,579	20,579
Other assets	1,914	1,717
Total assets	$ 200,608	$ 221,669
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 39,130	$ 38,371
Deferred revenue	42,840	41,200
Income tax payable	2,140	
Accrued tool sets	3,401	3,756
Other current liabilities	2,370	2,210
Total current liabilities	89,881	85,537
Deferred tax liabilities	7,622	6,977
Other liabilities	7,372	8,969
Total liabilities	104,875	101,483
Commitments and contingencies (Note 9)		
Shareholders equity :		
Common stock, $.0001 par value, 100,000,000 shares authorized, 27,980,610 shares issued and outstanding at September 30, 2005 and 28,150,421 shares issued and outstanding at March 31, 2006	1	1

Preferred stock, $.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding				
Paid-in capital		114,994		120,865
Accumulated deficit		(19,262)		(680)
Total shareholders equity		95,733		120,186
Total liabilities and shareholders equity	$	200,608	$	221,669

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)
(In thousands, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	**2006**	**2005**	**2006**
Net revenues	$ 77,482	$ 88,686	$ 150,818	$ 174,198
Operating expenses:				
Educational services and facilities	34,958	42,971	68,311	83,073
Selling, general and administrative	28,095	33,193	52,602	62,351
Total operating expenses	63,053	76,164	120,913	145,424
Income from operations	14,429	12,522	29,905	28,774
Other expense (income):				
Interest income	(332)	(860)	(590)	(1,621)
Interest expense	16	11	57	27
Total other income	(316)	(849)	(533)	(1,594)
Income before income taxes	14,745	13,371	30,438	30,368
Income tax expense	5,590	5,054	11,455	11,786
Net income	$ 9,155	$ 8,317	$ 18,983	$ 18,582
Earnings per share:				
Net income per share basic	$ 0.33	$ 0.30	$ 0.68	$ 0.66
Net income per share diluted	$ 0.32	$ 0.29	$ 0.67	$ 0.65
Weighted average number of common shares outstanding:				
Basic	27,894	28,074	27,845	28,029
Diluted	28,566	28,561	28,523	28,516

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)
(In thousands, except per share amounts)

	Common Stock		Paid-in	Accumulated	Total Shareholders
	Shares	Amount	Capital	Deficit	Equity
Balance at September 30, 2005	27,980	$ 1	$ 114,994	$ (19,262)	$ 95,733
Net income				18,582	18,582
Issuance of common stock under employee plans	170		2,581		2,581
Tax benefit from employee stock plans			1,031		1,031
Stock compensation			2,259		2,259
Balance at March 31, 2006	28,150	$ 1	$ 120,865	$ (680)	$ 120,186

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)
(In thousands)

	For the Six Months Ended March 31,	
	2005	**2006**
Cash flows from operating activities:		
Net income	$ 18,983	$ 18,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,565	6,587
Bad debt expense	1,918	2,349
Tax benefits of stock options exercised	951	
Stock-based compensation	257	2,259
Deferred income taxes	29	(2,183)
Excess tax benefit from stock-based compensation		(1,031)
Loss on sale of property and equipment	57	46
Changes in assets and liabilities:		
Restricted cash	10,195	
Receivables	(1,124)	2,947
Prepaid expenses and other assets	(2,291)	(167)
Other assets	(38)	189
Accounts payable and accrued expenses	(1,284)	(5,528)
Deferred revenue	1,121	(1,640)
Income taxes	514	(3,424)
Accrued tool sets and other current liabilities	781	195
Other liabilities	185	108
Net cash provided by operating activities	34,819	19,289
Cash flows from investing activities:		
Purchase of securities with intent to hold to maturity	(15,989)	
Redemption of restricted investments		16,260
Purchase of property and equipment	(22,106)	(16,403)
Net cash used in investing activities	(38,095)	(143)
Cash flows from financing activities:		
Repayment of long-term debt borrowings	(30)	(5)
Payment of deferred finance fees	(14)	
Bank overdrafts	5,309	1,532
Excess tax benefit from stock-based compensation		1,031
Proceeds from issuance of common stock under employee plans	2,245	2,581
Net cash provided by financing activities	7,510	5,139

Net increase in cash and cash equivalents	4,234	24,285
Cash and cash equivalents, beginning of period	42,602	52,045
Cash and cash equivalents, end of period	$ 46,836	$ 76,330

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 CASH FLOWS (UNAUDITED), continued
(In thousands)

	For the Six Months Ended March 31, 2005	For the Six Months Ended March 31, 2006
Supplemental Disclosure of Cash Flow Information:		
Taxes paid	$ 9,881	$ 17,181
Interest paid	$ 48	$ 24
Training equipment obtained in exchange for services	$ 307	$ 895
Accrued capital expenditures	$	$ 2,504
Construction in progress financed by construction liability	$	$ 1,121

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)
(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, as measured by total undergraduate enrollment and number of graduates. We offer undergraduate degree, diploma and certificate programs at ten campuses across the United States. We also offer manufacturer specific advanced training (MSAT) programs, that are sponsored by the manufacturer or dealer, at 20 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 and six months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2006. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission on December 14, 2005.

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.

Certain reclassifications have been made to the prior period condensed consolidated financial statements to conform to the current period presentation. These reclassifications have no impact on previously reported net income.

3. Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 154 (SFAS No. 154), Accounting Changes and Error Corrections. This statement replaces Accounting Principles Board Opinion No. 20 (APB No. 20), Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Our adoption of SFAS No. 154 did not have a material impact on our consolidated financial statements or disclosures.

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

Effective October 1, 2005, we adopted SFAS No. 123(R) Share-Based Payment , which is a revision of SFAS No. 123 (SFAS No. 123), Accounting for Stock-Based Compensation . We have adopted SFAS No. 123(R) using the modified prospective application transition method. SFAS No. 123(R) supersedes APB No. 25, Accounting for Stock Issued to Employees , and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their estimated fair values.

In November 2005, the FASB issued FASB Staff Position (FSP) FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP requires an entity to follow either the transition guidance for the additional paid-in-capital pool as prescribed in SFAS No. 123(R), or the alternative method as described in the FSP. An entity that adopts SFAS No. 123(R) using the modified prospective application transition method may make a one-time election to adopt the transition method described in this FSP. An entity may take up to one year from the later of its adoption of SFAS No. 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. This FSP became effective in November 2005. We are evaluating the alternatives allowed under FSP FAS 123(R)-3 and believe our adoption will not have a material impact on our consolidated financial statements or disclosures.

In February 2006, the FASB issued FSP FAS 123(R)-4, Classification of Options and Similar Instruments as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event. This FSP requires that an option or similar instrument that is classified as equity, but subsequently becomes a liability because the contingent cash settlement event is probable of occurring, shall be accounted for similar to a modification from an equity to liability award. The guidance in this FSP shall be applied upon initial adoption of SFAS No. 123(R), or if an entity adopted SFAS No. 123(R) prior to February 3, 2006, the entity shall apply the guidance in the first reporting period beginning after February 3, 2006. The adoption of FSP FAS 123(R)-4 will not have a material impact on our consolidated financial statements or disclosures.

In February 2006, the FASB issued Statement of Financial Accounting Standard No. 155 (SFAS No. 155), Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 resolves issues provided by interim guidance in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We believe our adoption of SFAS No. 155 will not have a material impact on our consolidated financial statements or disclosures.

In March 2006, the FASB issued Statement of Financial Accounting Standard No. 156 (SFAS No. 156), Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. This statement amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 is effective at the beginning of the first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. We believe our adoption of SFAS No. 156 will not have a material impact on our consolidated financial statements or disclosures.

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations. FIN 47 clarifies the manner in which uncertainties concerning the timing and

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

method of settlement of an asset retirement obligation should be accounted for and when the fair value of an asset retirement obligation is deemed to be estimable on a reasonable basis. FIN 47 is effective for fiscal years ending after December 15, 2005. Our adoption of FIN 47 did not have a material impact on our consolidated financial statements or disclosures.

4. Stock-Based Compensation

For the three and six months ended March 31, 2006, our consolidated financial statements reflect the impact of SFAS No. 123(R). In accordance with the modified prospective transition method, which results in recognition of compensation expense for all stock option and other equity-based awards that vest or become exercisable after the effective date of adoption, our consolidated financial statements for prior periods have not been restated to reflect, and do not include the impact of, SFAS No. 123(R).

SFAS No. 123(R) requires us to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the period during which an employee is required to provide service in exchange for the award. Prior to the adoption of SFAS No. 123(R), we accounted for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25 as allowed under SFAS No. 123.

Awards which vested in fiscal year 2005 and earlier were accounted for under the intrinsic value method prescribed in APB No. 25. If we had elected to recognize compensation cost based on the fair value (estimated using the Black-Scholes option pricing model) of the awards at the grant date in accordance with SFAS No. 123, net earnings would have been the pro forma amounts shown as follows:

	Three Months Ending March 31, 2005	Six Months Ending March 31, 2005
Net income available to common shareholders as reported	$ 9,155	$ 18,983
Add stock-based compensation expense included in reported net income, net of taxes	8	16
Deduct total stock-based employee compensation expense determined using the fair value based method, net of taxes	(525)	(1,002)
Net income pro forma	$ 8,638	$ 17,997
Earnings per share basic as reported	$ 0.33	$ 0.68
Earnings per share diluted as reported	$ 0.32	$ 0.67
Earnings per share basic pro forma	$ 0.31	$ 0.64
Earnings per share diluted pro forma	$ 0.30	$ 0.64

Stock-based compensation expense recognized for the three and six months ended March 31, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of,

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(In thousands, except per share amounts)

September 30, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 123. There were no share-based payment awards granted during the six months ended March 31, 2006. We recognize compensation expense using the straight-line single-option method. Stock-based compensation expense, recognized for the three and six months ended March 31, 2006, is based on awards ultimately expected to vest, and accordingly it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant. Estimated forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In our pro forma information required under SFAS No. 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred.

For the three and six months ended March 31, 2005, there was no stock compensation expense under APB No. 25. The following table summarizes stock compensation expense under SFAS No. 123(R):

	Three Months Ended March 31, 2006		Six Months Ended March 31, 2006	
	Gross	**Net of tax**	**Gross**	**Net of tax**
Education services and facilities	$ 114	$ 69	$ 226	$ 137
Selling, general and administrative	1,103	667	2,033	1,234
Total stock-based compensation expense	$ 1,217	$ 736	$ 2,259	$ 1,371

The following table summarizes values for stock options exercised:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	**2006**	**2005**	**2006**
Intrinsic value	$ 1,139	$ 2,630	$ 2,764	$ 2,766
Cash received	$ 799	$ 1,779	$ 1,457	$ 2,027
Tax benefits	$ 445	$ 1,034	$ 1,080	$ 1,087

As of March 31, 2006, unrecognized stock compensation expense related to unvested options was $9.3 million, which is expected to be recognized over a weighted average period of 2.3 years. The total intrinsic value of options which vested during the six months ended March 31, 2006 was $2.9 million.

Our determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to our expected stock price volatility, the expected term of the awards and actual and projected employee stock exercise behaviors.

As of March 31, 2006, we have two stock option plans, which we refer to as the Management 2002 Stock Option Program (2002 Plan) and the 2003 Stock Incentive Plan (2003 Plan).

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

The 2002 Plan was approved and adopted on April 1, 2002 and authorized the issuance of options to purchase 746,022 shares of our common stock. On February 25, 2003, our Board of Directors authorized an additional 36,978 shares to be issued under options to purchase our common stock.

Options issued under the 2002 Plan vest ratably each year over a four-year period. The expiration date of options granted under the 2002 Plan is the earlier of the ten-year anniversary of the grant date; the one-year anniversary of the termination of the participant s employment by reason of death or disability; thirty days after the date of the participant s termination of employment if caused by reasons other than death, disability, cause, material breach or unsatisfactory performance or on the termination date if termination occurs for reasons of cause, material breach or unsatisfactory performance. We do not intend to grant any additional options under the 2002 Plan.

The 2003 Plan was approved and adopted effective December 22, 2003 upon consummation of our initial public offering. The 2003 Plan authorizes the issuance of options to purchase approximately 4.4 million shares of our common stock at the fair market value of our common stock as of the grant date. Under the 2003 Plan, options generally become exercisable over a four year period. The expiration date of options granted under the 2003 Plan is the earlier of the ten-year anniversary of the grant date; the one-year anniversary of the termination of the participant s employment by reason of death or disability; ninety days after the date of the participant s termination of employment if caused by reasons other than death, disability, cause, material breach or unsatisfactory performance; or on the termination date if termination occurs for reasons of cause, material breach or unsatisfactory performance. At March 31, 2006, 4.4 million shares of common stock were reserved for issuance under the 2003 Plan, of which 2.6 million shares are available for future grant.

The following table summarizes stock option activity under the 2002 and 2003 plans for the six months ended March 31, 2006:

	Shares	Weighted Average Exercise Price (Whole $)	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value ($)
Outstanding at September 30, 2005	2,428	$ 20.98		
Granted		$		
Exercised	(146)	$ 13.89		
Expired	(77)	$ 28.44		
Outstanding at March 31, 2006	2,205	$ 21.19	7.62	$ 27,465
Stock options exercisable at March 31, 2006	1,061	$ 17.31	7.28	$ 16,624