

UNIVERSAL TECHNICAL INSTITUTE INC
Form 10-Q
May 04, 2018

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 March 31, 2018

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

Commission File Number 1-31923

UNIVERSAL TECHNICAL INSTITUTE, INC.
(Exact name of registrant as specified in its charter)

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

16220 North Scottsdale Road, Suite 100
Scottsdale, Arizona 85254

(Address of principal executive offices)
(623) 445-9500

(Registrant's telephone number, including area code)

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

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

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

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

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

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

At April 26, 2018, there were 25,185,474 shares outstanding of the registrant's common stock.

UNIVERSAL TECHNICAL INSTITUTE, INC.
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FOR THE QUARTER ENDED MARCH 31, 2018

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Special Note Regarding Forward-Looking Statements

This Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), and Section 27A of the Securities Act of 1933, as amended (Securities Act), which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. From time to time, we also provide forward-looking statements in other materials we release to the public as well as verbal forward-looking statements. These forward-looking statements include, without limitation, statements regarding: proposed new programs; scheduled openings of new campuses and campus expansions; expectations that regulatory developments or agency interpretations of such regulatory developments or other matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity and anticipated timing for ongoing regulatory initiatives; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; and statements of management's goals and objectives and other similar expressions. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," and similar expressions, statements in future tense, identify forward-looking statements. However, not all forward-looking statements contain these identifying words.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Many events beyond our control may determine whether results we anticipate will be achieved. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements.

Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission (SEC). The Annual Report on Form 10-K that we filed with the SEC on December 1, 2017 listed various important factors that could cause actual results to differ materially from expected and historical results. We note these factors for investors within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Readers can find them under the heading "Risk Factors" in the Report on Form 10-K and in this Report on Form 10-Q, and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties. Our filings with the SEC may be accessed at the SEC's web site at www.sec.gov.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

| | March 31, 2018 | September 30, 2017 |
|--|-------------------|--------------------------|
| | (In thousands) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$82,245 | \$50,138 |
| Restricted cash | 13,081 | 14,822 |
| Trading securities | — | 40,020 |
| Held-to-maturity investments | 701 | 7,759 |
| Receivables, net | 12,284 | 15,197 |
| Notes receivable, current portion | 5,098 | — |
| Prepaid expenses and other current assets | 20,499 | 18,890 |
| Total current assets | 133,908 | 146,826 |
| Property and equipment, net | 109,163 | 106,664 |
| Goodwill | 9,005 | 9,005 |
| Notes receivable, less current portion | 33,702 | — |
| Other assets | 11,409 | 11,607 |
| Total assets | \$297,187 | \$274,102 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$44,300 | \$37,481 |
| Deferred revenue | 35,590 | 41,338 |
| Accrued tool sets | 2,774 | 2,764 |
| Financing obligation, current portion | 1,210 | 1,106 |
| Income tax payable | — | 490 |
| Other current liabilities | 3,418 | 3,210 |
| Total current liabilities | 87,292 | 86,389 |
| Deferred tax liabilities, net | 329 | 3,141 |
| Deferred rent liability | 6,587 | 6,887 |
| Financing obligation | 41,395 | 42,035 |
| Other liabilities | 10,096 | 9,874 |
| Total liabilities | 145,699 | 148,326 |
| Commitments and contingencies (Note 11) | | |
| Shareholders' equity: | | |
| Common stock, \$0.0001 par value, 100,000,000 shares authorized, 32,050,371 shares issued and 25,185,474 shares outstanding as of March 31, 2018 and 31,872,433 shares issued and 25,007,536 shares outstanding as of September 30, 2017 | 3 | 3 |
| Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; 700,000 shares of Series A Convertible Preferred Stock issued and outstanding as of March 31, 2018 and September 30, 2017, liquidation preference of \$100 per share | — | — |
| Paid-in capital - common | 186,229 | 185,140 |
| Paid-in capital - preferred | 68,853 | 68,853 |
| Treasury stock, at cost, 6,864,897 shares as of March 31, 2018 and September 30, 2017 | (97,388) | (97,388) |
| Retained earnings (deficit) | (6,209) | (30,832) |
| Total shareholders' equity | 151,488 | 125,776 |

Total liabilities and shareholders' equity \$297,187 \$274,102

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

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|--|------------|-------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands, except per share amounts) | | | |
| Revenues | \$80,663 | \$82,497 | \$161,819 | \$166,676 |
| Operating expenses: | | | | |
| Educational services and facilities | 45,817 | 44,834 | 89,898 | 91,988 |
| Selling, general and administrative | 43,666 | 36,976 | 84,345 | 72,614 |
| Total operating expenses | 89,483 | 81,810 | 174,243 | 164,602 |
| Income (loss) from operations | (8,820) | 687 | (12,424) | 2,074 |
| Other income (expense): | | | | |
| Interest expense, net | (500) | (712) | (931) | (1,461) |
| Equity in earnings of unconsolidated affiliate | 96 | 125 | 193 | 253 |
| Other income, net | 354 | 315 | 328 | 435 |
| Total other expense, net | (50) | (272) | (410) | (773) |
| Income (loss) before income taxes | (8,870) | 415 | (12,834) | 1,301 |
| Income tax expense (benefit) | (37) | 2,145 | (2,866) | 4,755 |
| Net loss | \$(8,833) | \$(1,730) | \$(9,968) | \$(3,454) |
| Preferred stock dividends | 1,295 | 1,295 | 2,618 | 2,618 |
| Loss available for distribution | \$(10,128) | \$(3,025) | \$(12,586) | \$(6,072) |
| Loss per share: | | | | |
| Net loss per share - basic | \$(0.40) | \$(0.12) | \$(0.50) | \$(0.25) |
| Net loss per share - diluted | \$(0.40) | \$(0.12) | \$(0.50) | \$(0.25) |
| Weighted average number of shares outstanding: | | | | |
| Basic | 25,057 | 24,666 | 25,032 | 24,645 |
| Diluted | 25,057 | 24,666 | 25,032 | 24,645 |

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

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

| | Three Months | | Six Months | |
|--|-----------------|------------|-----------------|------------|
| | Ended March 31, | | Ended March 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Net loss | \$ (8,833) | \$ (1,730) | \$ (9,968) | \$ (3,454) |
| Other comprehensive loss (net of tax): | | | | |
| Equity interest in investee's unrealized losses on hedging derivatives, net of taxes | — | (6) | — | (9) |
| (1) | | | | |
| Comprehensive loss | \$ (8,833) | \$ (1,736) | \$ (9,968) | \$ (3,463) |

(1)The tax effect during the three and six months ended March 31, 2018 and 2017 was not significant.

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

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

| | Common Stock | | Preferred Stock | | Paid-in Capital - Common | Paid-in Capital - Preferred | Treasury Stock | | Retained Earnings (Deficit) | Total Shareholders' Equity |
|--|-----------------|--------|--------------------|--------|--------------------------------|-----------------------------------|----------------|------------|-----------------------------------|----------------------------------|
| | Shares | Amount | Shares | Amount | | | Shares | Amount | | |
| | (In thousands) | | | | | | | | | |
| Balance as of September 30, 2017 | 31,872 | \$ 3 | 700 | \$ — | \$185,140 | \$ 68,853 | 6,865 | \$(97,388) | \$(30,832) | \$ 125,776 |
| Cumulative-effect adjustment (see Note 3) | — | — | — | — | — | — | — | — | 37,209 | 37,209 |
| Net loss | — | — | — | — | — | — | — | — | (9,968) | (9,968) |
| Issuance of common stock under employee plans | 182 | — | — | — | — | — | — | — | — | — |
| Shares withheld for payroll taxes | (4) | — | — | — | (11) | — | — | — | — | (11) |
| Stock-based compensation | — | — | — | — | 1,100 | — | — | — | — | 1,100 |
| Preferred stock dividends | — | — | — | — | — | — | — | — | (2,618) | (2,618) |
| Balance as of March 31, 2018 | 32,050 | \$ 3 | 700 | \$ — | \$186,229 | \$ 68,853 | 6,865 | \$(97,388) | \$(6,209) | \$ 151,488 |

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

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

| | Six Months Ended March 31, | |
|--|-------------------------------|------------|
| | 2018 | 2017 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net loss | \$(9,968) | \$(3,454) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 6,713 | 7,172 |
| Amortization of assets subject to financing obligation | 1,341 | 1,341 |
| Bad debt expense | 738 | 327 |
| Stock-based compensation | 1,100 | 1,435 |
| Deferred income taxes | (2,812) | — |
| Equity in earnings of unconsolidated affiliates | (193) | (253) |
| Training equipment credits earned, net | 2 | (409) |
| Other gains, net | 91 | 6 |
| Changes in assets and liabilities: | | |
| Restricted cash | 121 | (11,102) |
| Receivables | 3,552 | 2,748 |
| Prepaid expenses and other assets | (2,117) | (426) |
| Notes receivable | (1,591) | — |
| Accounts payable and accrued expenses | 4,539 | (7,881) |
| Deferred revenue | (5,748) | (9,144) |
| Income tax payable/receivable | (1,866) | 2,634 |
| Accrued tool sets and other current liabilities | 438 | 574 |
| Deferred rent liability | (300) | (973) |
| Other liabilities | 9 | (229) |
| Net cash used in operating activities | (5,951) | (17,634) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (7,613) | (3,929) |
| Proceeds from disposal of property and equipment | 1 | 1 |
| Purchase of investments | — | (9,671) |
| Proceeds received upon maturity of investments | 7,043 | 1,642 |
| Purchase of trading securities | (894) | — |
| Proceeds from sales of trading securities | 40,902 | — |
| Return of capital contribution from unconsolidated affiliate | 165 | 241 |
| Restricted cash: other | 1,619 | 2,355 |
| Net cash provided by (used in) investing activities | 41,223 | (9,361) |
| Cash flows from financing activities: | | |
| Payment of preferred stock cash dividend | (2,618) | (2,618) |
| Payment of financing obligation | (536) | (441) |
| Payment of payroll taxes on stock-based compensation through shares withheld | (11) | (7) |
| Net cash used in financing activities | (3,165) | (3,066) |
| Net increase (decrease) in cash and cash equivalents | 32,107 | (30,061) |
| Cash and cash equivalents, beginning of period | 50,138 | 119,045 |
| Cash and cash equivalents, end of period | \$82,245 | \$88,984 |

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

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

| | Six Months | |
|---|-----------------|---------|
| | Ended March 31, | |
| | 2018 | 2017 |
| | (In thousands) | |
| Supplemental disclosure of cash flow information: | | |
| Taxes paid | \$1,812 | \$2,121 |
| Interest paid | \$1,665 | \$1,699 |
| Training equipment obtained in exchange for services | \$1,151 | \$716 |
| Depreciation of training equipment obtained in exchange for services | \$676 | \$648 |
| Change in accrued capital expenditures during the period | \$(2,280) | \$88 |
| The accompanying notes are an integral part of these unaudited condensed consolidated financial statements. | | |

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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 recently began offering undergraduate diploma programs for welding and computer numerical control (CNC) machining. We offer certificate, diploma or degree programs at 12 campuses across the United States under the banner of several well-known brands, including Universal Technical Institute, Motorcycle Mechanics Institute and Marine Mechanics Institute and NASCAR Technical Institute. We also offer manufacturer specific advanced training (MSAT) programs, including student-paid electives, at our campuses and manufacturer or dealer sponsored training at certain campuses and dedicated training centers.

We work closely with leading original equipment manufacturers (OEMs) in the automotive, diesel, motorcycle and marine industries to understand their needs for qualified service professionals. Revenues generated from our schools consist primarily of tuition and fees paid by students. To pay for a substantial portion of their tuition, the majority of students rely on funds received from federal financial aid programs under Title IV Programs of the Higher Education Act of 1965 (HEA), as amended, as well as from various veterans benefits programs. For further discussion, see Note 2 "Summary of Significant Accounting Policies - Concentration of Risk" and Note 18 "Government Regulation and Financial Aid" included in our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, our condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. Normal and recurring adjustments considered necessary for a fair statement of the results for the interim periods have been included. Operating results for the three months and six months ended March 31, 2018, are not necessarily indicative of the results that may be expected for the year ending September 30, 2018. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017.

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

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

Revenue Recognition

Post-secondary education. Revenues consist primarily of student tuition and fees derived from the programs we provide after reductions are made for discounts and scholarships that we sponsor and for refunds for students who

withdraw from our programs prior to specified dates. We apply the five-step model outlined in Accounting Standards Codification Topic 606, Revenue from Contracts from Customers (ASC 606). Tuition and fee revenue is recognized ratably over the term of the course or program offered. The majority of our undergraduate

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

programs are designed to be completed in 36 to 102 weeks, and our advanced training programs range from 12 to 23 weeks in duration. We supplement our revenues with sales of textbooks and program supplies and other revenues, which are recognized as the transfer of goods or services occurs. Deferred revenue represents the excess of tuition and fee payments received as compared to tuition and fees earned and is reflected as a current liability in our consolidated balance sheets because it is expected to be earned within the next 12 months.

Through our proprietary loan program, we, in substance, provide the students who participate in this program with extended payment terms for a portion of their tuition. Based on historical collection rates, we believe a portion of these loans are collectible, which results in a change in accounting due to our adoption of ASC 606 on October 1, 2017. Accordingly, we recognize tuition and loan origination fees financed by the loan and any related interest revenue under the effective interest method required under the loan based on this collection rate. For additional discussion of this adoption, see Note 3.

Other. We provide dealer technician training or instructor staffing services to manufacturers. Revenues are recognized as transfer of the services occurs.

Proprietary Loan Program

In order to provide funding for students who are not able to fully finance the cost of their education under traditional governmental financial aid programs, commercial loan programs or other alternative sources, we established a private loan program with a bank.

Under the terms of the proprietary loan program, the bank originates loans for our students who meet our specific credit criteria with the related proceeds used exclusively to fund a portion of their tuition. We then purchase all such loans from the bank at least monthly and assume all of the related credit risk. The loans bear interest at market rates ranging from approximately 7%-10%; 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 repayment term is up to ten years.

The bank provides these services in exchange for a fee at a percentage of the principal balance of each loan and related fees. Under the terms of the related agreement, we transfer funds for loan purchases to a deposit account with the bank in advance of the bank funding the loan, which secures our related loan purchase obligation. Such funds are classified as restricted cash in our condensed consolidated balance sheet.

All related expenses incurred with the bank or other service providers are expensed as incurred within educational services and facilities expense and were approximately \$0.3 million for the three months ended March 31, 2018 and 2017, and approximately \$0.6 million and \$0.7 million for the six months ended March 31, 2018 and 2017, respectively.

Under ASC 606, the portion of tuition revenue related to the proprietary loan program is considered a form of variable consideration. We estimate the amount we ultimately expect to collect from the portion of tuition that is funded by the proprietary loan program, resulting in a note receivable. Estimating the collection rate requires significant management judgment. The estimated amount is determined at the inception of the contract and we recognize the

related revenue as the student progresses through school. Each reporting period, we update our assessment of the variable consideration associated with the proprietary loan program.

Prior to adopting ASC 606, we recognized revenue related to the proprietary loan program as cash was received. For additional discussion of this adoption, see Note 3.

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

3. Recent Accounting Pronouncements
Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, which outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance, and requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted for periods beginning after December 15, 2016. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). In 2016, the FASB issued further guidance that offers narrow scope improvements and clarifies certain implementation issues related to revenue recognition, including principal versus agent considerations and the identification of performance obligations and licensing. These additional updates have the same effective date.

We adopted ASC 606 using the modified retrospective method as of October 1, 2017. This approach was applied to all contracts not completed as of October 1, 2017. In addition to the enhanced footnote disclosures related to customer contracts, the most significant impact of the new standard related to the timing of revenue recognition for our proprietary loan program and the accounting for student program changes. We do not incur significant costs to obtain or fulfill revenue contracts. There were no other significant changes to the accounting for tuition or other revenues.

Proprietary Loan Program Revenue Recognition

Prior to adopting the new revenue standard, we recognized revenue related to the proprietary loan program as cash was received. The adoption of the new standard resulted in a change in the timing of revenue recognition. Under ASC 606, the portion of tuition revenue related to the proprietary loan program is considered a form of variable consideration. Based on our historical collection rates, we estimate the amount we ultimately expect to collect from the portion of tuition that is funded by the proprietary loan program. Estimating the collection rate requires significant management judgment. The estimated amount is determined at the inception of the contract and reevaluated each reporting period, and we recognize the related revenue as the student progresses through school. The change in the timing of revenue recognition also resulted in the recognition of a note receivable.

The cumulative impact of changing the timing of revenue recognition for the proprietary loan program as of October 1, 2017 was an increase in stockholders' equity of approximately \$37.2 million and an increase in deferred revenue of \$2.9 million, and a corresponding increase in notes receivable and related interest.

Program Changes

From time to time, a student may elect to “upgrade” or “downgrade” their program, which will change the program length and price. When a student changes their program, a new enrollment agreement is signed and a new financial aid package is completed for the student since this modification will impact the length of the program and/or the transaction price.

Prior to adopting the standard, when a student changed their program, we recorded any changes to the tuition price or program length through a cumulative catch up adjustment from the inception of the contract through the date of the change. Under ASC 606, we must assess the contract modification to determine if there has been an increase in price or scope. For those program changes that result in either an increase in price or scope, we will

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

now record the change on a prospective basis. Based on our analysis, the cumulative change of accounting for program changes under ASC 606 was not material as of October 1, 2017.

Effective the First Quarter of Fiscal 2019:

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, then the acquisition is not a business. In addition, a business must include at least one substantive process. The standard is to be applied on a prospective basis to purchases or disposals of a business or an asset. The effect of this new standard on our consolidated financial statements will be dependent on any future acquisitions.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. We are currently evaluating the impact that the standard will have on our consolidated statements of cash flows. Further, in November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. This guidance requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. Based on the restricted cash balances on our consolidated balance sheets, we expect this standard to have an impact on the presentation of our consolidated statements of cash flows.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 primarily impacts the accounting for equity investments other than those accounted for using the equity method of accounting, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. Additionally, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The accounting for other financial instruments, such as loans, investments in debt securities and financial liabilities is largely unchanged. Based on our current portfolio of investments in debt securities accounted for as held-to-maturity securities and investments made in equity securities accounted for as trading securities, the adoption of these standards is not expected to have a material impact on our financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 amends ASC 220 to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the "Tax Cuts and Jobs Act" and requires entities to provide certain disclosures regarding stranded tax effects. Early adoption is permitted. We do not expect this standard to have a material impact on our consolidated statements of comprehensive income or our consolidated statements of shareholder's equity.

Effective the First Quarter of Fiscal 2020:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, with the exception of short-term leases. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of income. We are currently evaluating the impact that the update will have on our results of operations, financial condition and financial statement disclosures.

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Effective the First Quarter of Fiscal 2021:

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 includes an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses (ECL), which the FASB believes will result in more timely recognition of such losses. We are currently evaluating the impact that the update will have on our results of operations, financial condition and financial statement disclosures.

4. Revenue from Contracts with Customers

Adoption of ASC 606

We adopted ASC 606 effective October 1, 2017. As a result, we have changed our accounting for revenue recognition as detailed in Note 2. Except for the changes resulting from this adoption, we have consistently applied the accounting policies to all periods presented in these consolidated financial statements.

We applied ASC 606 using the modified retrospective method by recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of equity at October 1, 2017. Therefore, the comparative information has not been adjusted and continues to be reported under the prior guidance of ASC 605. The details of the significant changes and quantitative impact of the changes are disclosed in Note 3.

Nature of Goods and Services

See Note 2 for a description of the nature of revenues.

We provide post-secondary education and other services in the same geographical market, the U.S. The impact of economic factors on the nature, amount, timing and uncertainty of revenue and cash flows is consistent among our various post-secondary education programs. See Note 14 for disaggregated segment revenue information.

Contract Balances

Contract assets primarily relate to the Company's rights to consideration for work completed in relation to its services performed but not billed at the reporting date. The contract assets are transferred to the receivables when the rights become unconditional. Currently, the Company does not have any contract assets which have not transferred to a receivable. The contract liabilities primarily relate to service contracts where we received payments but we have not yet satisfied the related performance obligations. The advance consideration received from customers for the services is a contract liability until services are provided to the customer.

The following table provides information about receivables and contract liabilities from contracts with customers:

| | March 31, 2018 | September 30, 2017 |
|--|----------------------|-----------------------|
| Receivables, which includes Tuition and Notes Receivable | \$44,009 | \$ 10,268 |
| Contract liabilities | \$35,590 | \$ 41,338 |

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During the six months ended March 31, 2018, the contract liabilities balance included decreases for revenues recognized during the period and increases related to new students who started school during the period.

Transaction Price Allocated to the Remaining Performance Obligations

Tuition and fee revenue is recognized ratably over the term of the course or program offered. The majority of our undergraduate programs are designed to be completed in 36 to 102 weeks, and our advanced training programs range from 12 to 23 weeks in duration.

Impacts on Financial Statements

In accordance with Topic 606, the disclosure of the impact of adoption to our condensed consolidated statements of income and balance sheets was as follows:

| | March 31, 2018 | | |
|--|-----------------------------------|-------------|----------------------------------|
| | As Reported | Adjustments | Balance Without ASC 606 Adoption |
| Consolidated Balance Sheet Data: | | | |
| Notes receivable, current portion | \$5,098 | \$ (5,098) |) \$— |
| Total current assets | 133,908 | (5,098) |) 128,810 |
| Notes receivable, less current portion | 33,702 | (33,702) |) — |
| Total assets | 297,187 | (38,800) |) 258,387 |
| Deferred revenue | \$35,590 | \$ (1,977) |) \$33,613 |
| Total current liabilities | 87,292 | (1,977) |) 85,315 |
| Total liabilities | 145,699 | (1,977) |) 143,722 |
| Retained earnings (deficit) | (6,209) | (36,823) |) (43,032) |
| Total shareholders' equity | 151,488 | (36,823) |) 114,665 |
| Total liabilities and shareholders' equity | 297,187 | (38,800) |) 258,387 |
| | Three Months Ended March 31, 2018 | | |
| | As Reported | Adjustments | Balance Without ASC 606 Adoption |
| Consolidated Income Statement Data: | | | |
| Revenues | 80,663 | 533 | 81,196 |
| Loss from operations | (8,820) |)533 | (8,287) |
| Loss before income taxes | (8,870) |)533 | (8,337) |
| Net loss | (8,833) |)533 | (8,300) |

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| | Six Months Ended March 31, 2018 | | Balance Without ASC 606 Adoption |
|-------------------------------------|------------------------------------|-------------|---|
| | As Reported | Adjustments | |
| Consolidated Income Statement Data: | | | |
| Revenues | 161,819 | 387 | 162,206 |
| Loss from operations | (12,424) |)387 | (12,037) |
| Loss before income taxes | (12,834) |)387 | (12,447) |
| Net loss | (9,968) |)387 | (9,581) |

5. Investments

During 2017, we began investing in various bond funds. These investments are held principally for resale in the near term and are classified as trading securities. Trading securities are recorded at fair value based on the closing market price of the security. During the three months ended December 31, 2017, we liquidated our investment in trading securities; as a result, there was no unrealized gain on trading securities at March 31, 2018.

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

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

Amortized cost and fair value for investments classified as held-to-maturity at March 31, 2018 were as follows:

| | Amortized Cost | Gross Gains | Unrealized Losses | Estimated Fair Market Value |
|--------------------------|-------------------|----------------|----------------------|-----------------------------------|
| Due in less than 1 year: | | | | |
| Corporate bonds | \$ 701 | \$ — | \$ (2) | \$ 699 |
| | \$ 701 | \$ — | \$ (2) | \$ 699 |

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

| | Amortized Cost | Gross Gains | Unrealized Losses | Estimated Fair Market Value |
|--------------------------|-------------------|----------------|----------------------|-----------------------------------|
| Due in less than 1 year: | | | | |
| Corporate bonds | \$ 7,759 | \$ — | \$ (4) | \$ 7,755 |
| | \$ 7,759 | \$ — | \$ (4) | \$ 7,755 |

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

6. Fair Value Measurements

The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities and Level 3, defined as unobservable inputs that are not corroborated by market data. Any transfers of investments between levels occurs at the end of the reporting period.

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

| | Fair Value Measurements Using | | | |
|---|-------------------------------|---|---|---|
| | March 31, 2018 | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market funds | \$57,610 | \$57,610 | \$ — | \$ — |
| Notes receivable | 38,800 | — | — | 38,800 |
| Corporate bonds | 701 | 501 | 200 | — |
| Total assets at fair value on a recurring basis | \$97,111 | \$58,111 | \$ 200 | \$ 38,800 |

| | Fair Value Measurements Using | | | |
|--------------------|-------------------------------|---|---|---|
| | September 30, 2017 | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Trading securities | \$ 40,020 | \$ 40,020 | \$ — | \$ — |
| Money market funds | 39,569 | 39,569 | — | — |
| Corporate bonds | 7,755 | 7,755 | — | — |

Total assets at fair value on a recurring basis \$ 87,344 \$ 87,344 \$ —\$ —

Notes receivable relate to our proprietary loan program. See Notes 2 and 3 for additional discussion.

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7. Property and Equipment, net

Property and equipment, net consisted of the following:

| | Depreciable Lives (in years) | March 31, 2018 | September 30, 2017 |
|--|---------------------------------|-------------------|-----------------------|
| Land | — | \$3,189 | \$ 3,189 |
| Buildings and building improvements | 30-35 | 80,169 | 79,712 |
| Leasehold improvements | 1-28 | 42,522 | 41,825 |
| Training equipment | 3-10 | 96,035 | 94,817 |
| Office and computer equipment | 3-10 | 36,561 | 36,458 |
| Curriculum development | 5 | 19,668 | 19,713 |
| Software developed for internal use | 1-5 | 12,251 | 11,772 |
| Vehicles | 5 | 1,280 | 1,269 |
| Construction in progress | — | 7,071 | 1,599 |
| | | 298,746 | 290,354 |
| Less accumulated depreciation and amortization | | (189,583) | (183,690) |
| | | \$109,163 | \$ 106,664 |

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

| | March 31, 2018 | September 30, 2017 |
|---|-------------------|-----------------------|
| Assets financed by financing obligations, gross | \$45,816 | \$ 45,816 |
| Less accumulated depreciation and amortization | (10,185) | (8,844) |
| Assets financed by financing obligations, net | \$35,631 | \$ 36,972 |

8. Investment in Unconsolidated Affiliate

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

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

addition, we adjust our OCI for our share of the JV's currently reported OCI item. During

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the three months ended December 31, 2017, the JV refinanced the facility loan and discontinued its use of an interest rate cap.

Investment in unconsolidated affiliate consisted of the following:

| | March 31, 2018 | | September 30, 2017 | |
|------------------|----------------|----------------------|--------------------|----------------------|
| | Carrying Value | Ownership Percentage | Carrying Value | Ownership Percentage |
| Investment in JV | \$4,140 | 27.972 % | \$4,112 | 27.972 % |

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

| | Six Months Ended March 31, | |
|--|----------------------------|---------|
| | 2018 | 2017 |
| Balance at beginning of period | \$4,112 | \$4,036 |
| Equity in earnings of unconsolidated affiliates | 193 | 253 |
| Return of capital contribution from unconsolidated affiliates | (165) | (241) |
| Equity interest in investee's unrealized losses on hedging derivatives, net of taxes | — | (9) |
| Balance at end of period | \$4,140 | \$4,039 |

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

| | March 31, 2018 | September 30, 2017 |
|-----------------------------------|----------------|--------------------|
| Accounts payable | \$6,728 | \$ 9,515 |
| Accrued compensation and benefits | 20,850 | 16,612 |
| Other accrued expenses | 16,722 | 11,354 |
| | \$44,300 | \$ 37,481 |

10. Income Taxes

Each reporting period, we estimate the likelihood that we will be able to recover our deferred tax assets, which represent timing differences in the recognition of revenue and certain tax deductions for accounting and tax purposes. The realization of deferred tax assets is dependent, in part, upon future taxable income. In assessing the need for a valuation allowance, we consider all available evidence, including our historical profitability and projections of future taxable income. If, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, we record a valuation allowance. Such valuation allowance is maintained on our deferred tax assets until sufficient positive evidence exists to support its reversal in future periods. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. Significant judgment is required to determine if, and the extent to which, valuation allowances should be recorded against deferred tax assets.

During the three months ended March 31, 2016, there were several pieces of negative evidence that contributed to our conclusion that a valuation allowance was appropriate against all deferred tax assets that rely

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upon future taxable income for their realization. As a result of our assessment, we recorded a full valuation allowance during the three months ended March 31, 2016. The amount of the deferred tax assets considered realizable, however, could be adjusted in future periods if estimates of future taxable income during the carryforward period are increased, if objective negative evidence in the form of cumulative losses is no longer present and if additional weight may be given to subjective evidence such as our projections for growth. We continue to have a full valuation allowance as of March 31, 2018 and will continue to evaluate our valuation allowance in future periods for any change in circumstances that causes a change in judgment about the realizability of the deferred tax assets.

Our U.S. federal income tax return for fiscal year 2015 is no longer under review by the Internal Revenue Service.

Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted. The Act makes significant changes to U.S. tax laws, including the following that are expected to be impactful to us: lower corporate tax rates; limitations on the amount of net operating losses that can be used to offset income beginning with our fiscal year ending September 30, 2019; the elimination of net operating loss carrybacks and the allowance of indefinite loss carryforwards; and the immediate expensing of short-lived capital investment, such as machinery and equipment.

We have adjusted our deferred tax liabilities and deferred tax assets, and the corresponding valuation allowance, for the expected impact of the provisions of the Act. As our net operating losses can now be carried forward indefinitely, our related deferred tax asset can be offset with the deferred tax liability related to goodwill, before a full valuation allowance was applied to the deferred tax asset. As a result of the Tax Cuts and Jobs Act, which was enacted on December 22, 2017, we reversed approximately \$2.8 million of the valuation allowance on our deferred tax assets during the three months ended December 31, 2017, as such assets are now offset by the deferred tax liability related to our goodwill before the full valuation allowance was applied to the deferred tax asset.

Section 382 Change in Ownership

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

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The components of income tax expense are as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|----------------------------------|------------------------------------|---------|-------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Current expense (benefit) | | | | |
| Federal | \$(3) | \$1,708 | \$(6) | \$3,935 |
| State | (34) | 437 | (48) | 820 |
| Total current expense (benefit) | (37) | 2,145 | (54) | 4,755 |
| Deferred expense | | | | |
| Federal | — | — | (2,878) | — |
| State | — | — | 66 | — |
| Total deferred expense | — | — | (2,812) | — |
| Total provision for income taxes | \$(37) | \$2,145 | \$(2,866) | \$4,755 |

The income tax provision differs from the tax that would result from application of the statutory federal tax rate of 24.5% to pre-tax loss for the three and six months ended March 31, 2018 and 35% to pre-tax income for the three and six months ended March 31, 2017. The reasons for the differences are as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|---------|-------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Income tax expense (benefit) at statutory rate | \$(1,724) | \$145 | \$(2,695) | \$455 |
| State income taxes (benefits), net of federal tax benefit | (434) | 119 | (607) | 226 |
| Increase in valuation allowance | 2,205 | 1,874 | 369 | 4,013 |
| Other, net | (84) | 7 | 67 | 61 |
| Total income tax expense (benefit) | \$(37) | \$2,145 | \$(2,866) | \$4,755 |

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

| | March 31, 2018 | September 30, 2017 |
|---|----------------------|-----------------------|
| Gross deferred tax assets: | | |
| Deferred compensation | \$ 1,341 | \$ 1,976 |
| Reserves and accruals | 3,893 | 5,017 |
| Accrued tool sets | 731 | 1,111 |
| Deferred revenue | 7,888 | 27,056 |
| Deferred rent liability | 224 | 455 |
| Net operating losses and tax credit carryforwards | 3,131 | 416 |
| Depreciation and amortization of property and equipment | 2,739 | 3,151 |
| Charitable contribution carryovers | 620 | 665 |
| Deductions limited by Section 382 | 658 | 943 |
| Valuation allowance | (17,731) | (38,407) |
| Total gross deferred tax assets | 3,494 | 2,383 |
| Gross deferred tax liabilities: | | |
| Amortization of goodwill and intangibles | (2,056) | (3,141) |
| Prepaid and other expenses deductible for tax | (1,767) | (2,383) |
| Total gross deferred tax liabilities | (3,823) | (5,524) |
| Net deferred tax liabilities | \$(329) | \$(3,141) |

The following table summarizes the activity for the valuation allowance for the six months ended March 31, 2018:

| Balance at Beginning of Period | Additions (Reductions) to Income Tax Expense | Reassessment of Deferred Tax Assets ⁽¹⁾ | Balance at End of Period |
|--------------------------------------|---|--|--------------------------------|
| \$38,407 | \$ 369 | \$ (21,045) | \$ 17,731 |

⁽¹⁾ Of this total, approximately \$9.6 million relates to our adoption of ASC 606 as of October 1, 2017, and approximately \$11.4 million relates to the impact of the Tax Cuts and Jobs Act.

11. Commitments and Contingencies

Consulting Agreement

On March 16, 2018, we entered into a consulting agreement with a top-tier consulting firm to provide consulting services related to a strategic transformation plan. The consulting services cover marketing, admissions, future student processing, retention and cost savings initiatives. The agreement is effective through September 30, 2020 unless terminated earlier in accordance with contract terms. Under the terms of the agreement, we will pay an aggregate of \$9.3 million over a 16 month period beginning in March 2018. Additionally, the consulting firm is eligible to earn an additional fee of up to approximately \$4.7 million based on revenue sharing and cost savings sharing as defined in a

mutually-agreeable statement of work.

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Legal

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

In September 2012, we received a Civil Investigative Demand (CID) from the Attorney General of the Commonwealth of Massachusetts related to a pending investigation in connection with allegations that we caused false claims to be submitted to the Commonwealth relating to student loans, guarantees and grants provided to students at our Norwood, Massachusetts campus. The CID required us to produce documents and provide written testimony regarding a broad range of our business from September 2006 to September 2012. We responded timely to the request. The Attorney General made a follow-up request for documents, and we complied with this request in February 2013. In response to a status update request from us, the Attorney General requested and we provided in April 2015 additional documents and information related to graduate employment at our Norwood, Massachusetts campus and our policies and practices for determining graduate employment. We have not received any additional requests since April 2015. At this time, we cannot predict the eventual scope, duration, outcome or associated costs of this request, and accordingly we have not recorded any liability in the accompanying condensed consolidated financial statements.

Operating Leases

In October 2017, we entered into lease agreements for a new campus in Bloomfield, New Jersey, which is expected to open in fall 2018. The leases have an initial term of approximately 12 years. We determined the leases are operating leases. Future minimum lease payments as of March 31, 2018 are as follows:

| Years ending September 30, | |
|----------------------------|----------|
| 2018 | \$— |
| 2019 | 1,353 |
| 2020 | 1,826 |
| 2021 | 1,862 |
| 2022 | 1,900 |
| Thereafter | 17,204 |
| | \$24,145 |

Proprietary Loan Program

As discussed in Note 2, we have established a private loan program with a bank under which we ultimately purchase the loans originated by the bank. As of March 31, 2018, we had committed to provide loans to our students for approximately \$156.2 million since inception.

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12. Shareholders' Equity

Common Stock

Holders of our common stock are entitled to receive dividends when and as declared by our Board of Directors and have the right to one vote per share on all matters requiring shareholder approval. On June 9, 2016, our Board of Directors voted to eliminate the quarterly cash dividend on our common stock. Any future common stock dividends require the approval of a majority of the voting power of the Series A Preferred Stock.

Preferred Stock

Preferred Stock consists of 10,000,000 authorized preferred shares of \$0.0001 par value each. As of March 31, 2018 and September 30, 2017, 700,000 shares of Series A Convertible Preferred Stock (Series A Preferred Stock) were issued and outstanding. The liquidation preference associated with the Series A Preferred Stock was \$100 per share at March 31, 2018.

Pursuant to the terms of the Securities Purchase Agreement, we may pay a cash dividend on each share of the Series A Preferred Stock at a rate of 7.5% per year on the liquidation preference then in effect (Cash Dividend). If we do not pay a Cash Dividend, the liquidation preference shall be increased to an amount equal to the current liquidation preference in effect plus an amount reflecting that liquidation preference multiplied by the Cash Dividend rate then in effect plus 2.0% per year (Accrued Dividend). Cash Dividends are payable semi-annually in arrears on September 30 and March 31 of each year, and begin to accrue on the first day of the applicable dividend period. We paid Cash Dividends of \$2.6 million on March 28, 2018.

Share Repurchase Program

On December 20, 2011, our Board of Directors authorized the repurchase of up to \$25.0 million of our common stock in the open market or through privately negotiated transactions. The timing and actual number of shares purchased will depend on a variety of factors such as price, corporate and regulatory requirements and prevailing market conditions. We may terminate or limit the share repurchase program at any time without prior notice. We did not repurchase shares during the six months ended March 31, 2018. As of March 31, 2018, we have purchased 1,677,570 shares at an average price per share of \$9.09 and a total cost of approximately \$15.3 million under this program. Under the terms of the Securities Purchase Agreement, future stock purchases under this program require the approval of a majority of the voting power of the Series A Preferred Stock.

13. Earnings per Share

Basic net income (loss) per share has historically been calculated by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Our Series A Preferred Stock is considered a participating security because, in the event that we pay a dividend or make a distribution on the outstanding common stock, we shall also pay each holder of the Series A Preferred Stock a dividend on an as-converted basis. As such, for periods subsequent to the issuance of the Series A Preferred Stock, which occurred on June 24, 2016, we calculated basic earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividend and participation rights in undistributed earnings. Under this method, all earnings, distributed and undistributed, are allocated to common shares and participating securities based on their respective rights to

receive dividends. The Series A Preferred Stock is not included in the computation of basic income (loss) per share in periods in which we have a net loss, as the Series A Preferred Stock is not contractually obligated to share in our net losses. Accordingly, the two-class method was not applicable for the three and six months ended March 31, 2018 and 2017.

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 (\$'s in thousands, except per share amounts)

Diluted net income per share is calculated using the more dilutive of the as-converted or the two-class method. The two-class method assumes conversion of all potential shares other than the participating securities. Dilutive potential common shares include outstanding stock options, unvested restricted share awards and units and convertible preferred stock. The basic and diluted net loss amounts are the same for the three and six months ended March 31, 2018 and 2017 as a result of the net loss and anti-dilutive impact of the potentially dilutive securities. The following table summarizes the computation of basic and diluted loss per share under the as-converted method:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|-----------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Loss available for distribution | \$(10,128) | \$(3,025) | \$(12,586) | \$(6,072) |
| Weighted average number of shares | | | | |
| Basic shares outstanding | 25,057 | 24,666 | 25,032 | 24,645 |
| Dilutive effect related to employee stock plans | — | — | — | — |
| Diluted shares outstanding | 25,057 | 24,666 | 25,032 | 24,645 |
| Net loss per share - basic | \$(0.40) | \$(0.12) | \$(0.50) | \$(0.25) |
| Net loss per share - diluted | \$(0.40) | \$(0.12) | \$(0.50) | \$(0.25) |

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--------------------------------|------------------------------------|--------|----------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Outstanding stock-based grants | 502 | 645 | 427 | 705 |
| Convertible preferred stock | 21,021 | 21,021 | 21,021 | 21,021 |
| | 21,523 | 21,666 | 21,448 | 21,726 |

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 (\$'s in thousands, except per share amounts)

14. Segment Information

Our principal business is providing postsecondary education. We also provide manufacturer-specific training and these operations are managed separately from our campus operations. These operations do not currently meet the quantitative criteria for segments and therefore are reflected in the Other category. Our equity method investment and other non-Postsecondary Education operations are also included within the Other category. Corporate expenses are allocated to Postsecondary Education and the Other category based on compensation expense. Depreciation and amortization includes amortization of assets subject to a financing obligation.

Summary information by reportable segment is as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|-----------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | | | | |
| Postsecondary Education | \$76,253 | \$78,170 | \$153,597 | \$158,714 |
| Other | 4,410 | 4,327 | 8,223 | 7,962 |
| Intersegment eliminations | — | — | (1) | — |
| Consolidated | \$80,663 | \$82,497 | \$161,819 | \$166,676 |
| Income (loss) from operations | | | | |
| Postsecondary Education | \$(8,251) | \$1,125 | \$(11,031) | \$3,222 |
| Other | (569) | (438) | (1,393) | (1,148) |
| Consolidated | \$(8,820) | \$687 | \$(12,424) | \$2,074 |
| Depreciation and amortization ⁽¹⁾ | | | | |
| Postsecondary Education | \$3,925 | \$4,132 | \$7,863 | \$8,340 |
| Other | 96 | 72 | 191 | 173 |
| Consolidated | \$4,021 | \$4,204 | \$8,054 | \$8,513 |
| Net loss | | | | |
| Postsecondary Education | \$(8,433) | \$(1,868) | \$(8,873) | \$(3,414) |
| Other | (400) | 138 | (1,095) | (40) |
| Consolidated | \$(8,833) | \$(1,730) | \$(9,968) | \$(3,454) |

| | March 31, | September 30, |
|-------------------------|-----------|---------------|
| | 2018 | 2017 |
| Goodwill | | |
| Postsecondary Education | \$8,222 | \$8,222 |
| Other | 783 | 783 |
| Consolidated | \$9,005 | \$9,005 |
| Total assets | | |
| Postsecondary Education | \$289,137 | \$266,370 |
| Other | 8,050 | 7,732 |
| Consolidated | \$297,187 | \$274,102 |

⁽¹⁾ Excludes depreciation of training equipment obtained in exchange for services of \$0.3 million for each of the three months ended March 31, 2018 and 2017 and of \$0.7 million and \$0.6 million for each of the six months ended March 31, 2018 and 2017, respectively.

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(\$'s in thousands, except per share amounts)

15. Government Regulation and Financial Aid
Accreditation

In December 2017, we received formal notification from the Accrediting Commission of Career Schools and Colleges (ACCSC) granting continuing accreditation for our Sacramento, California campus.

In December 2017, we also received formal notification from ACCSC granting continuing accreditation with a stipulation for our Long Beach, California campus. As required by the stipulation, we submitted our response which included a new leave of absence policy reflecting feedback received from ACCSC on January 22, 2018. On February 23, 2018, we received formal notification from ACCSC that we had satisfied the requirements of the stipulation.

Regulation of Federal Student Financial Aid Programs

Gainful Employment. On January 19, 2018, ED announced the release of a new Gainful Employment Disclosure Template and provided institutions until April 6, 2018 to update disclosures for each of their gainful employment programs using the new template. ED made several modifications to the template, including, among other things, to provide that institutions: 1) are no longer required to disclose room and board charges in the template, 2) will not be required to disclose median earnings data in the template, and 3) may add more than one accreditor job placement rate. As noted in our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017, none of our programs are currently subject to any student warning requirements. We have updated our disclosures using the new template to comply with the April 6, 2018 deadline.

On March 16, 2018, ED announced that it intends to issue completer lists to schools in Spring 2018, which is the first step toward generating the data for calculating new gainful employment rates. ED indicated in the announcement that schools will have 45 days to submit corrections to the information included in the completer lists.

Program Participation Agreements. The HEA specifies the manner in which ED reviews institutions for eligibility and certification to participate in Title IV Programs. Every educational institution seeking Title IV Program funding for its students must be certified to participate and is required to periodically renew this certification. Each institution must apply to ED for continued certification to participate in Title IV Programs before its current term of certification expires, or if it undergoes a change of control. The Program Participation Agreement (PPA) document serves as ED's formal authorization of an institution and its associated additional locations to participate in Title IV Programs for a specified period of time. All of our institutions' PPAs expired on March 31, 2018. In accordance with ED guidance, we submitted materially complete applications for recertification prior to the December 31, 2017 deadline, which allows our schools to continue to participate without interruption beyond the ordinary expiration date as we await ED's determination of recertification. On April 25, 2018 ED notified us that they completed their review of our Houston, TX institution, which also includes our campuses in Dallas/Fort Worth, TX and Exton, PA, and granted a 4-year renewal of our PPA.

Negotiated Rulemaking on Borrower Defenses, Financial Responsibility & Gainful Employment. As noted in our 2017 Annual Report on Form 10-K, on June 16, 2017, the Department published a notice in the Federal Register announcing their intention to establish negotiated rulemaking committees to prepare proposed regulations for the Federal Student Aid programs authorized under the HEA. Specifically, one committee was convened to develop proposed regulations to revise the November 2016 regulations on borrower defenses to repayment of federal student loans and other matters, wherein a subcommittee was formed to review and revise the Financial Responsibility regulations. Another separate committee of negotiators convened to develop proposed regulations to revise the gainful

employment regulations published by the Department on October 31, 2014.

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UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
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Negotiated Rulemaking sessions on Borrower Defenses and Financial Responsibility commenced on November 13, 2017 and concluded on February 15, 2018 without consensus. The Gainful Employment negotiation sessions began on December 4, 2017 and concluded on March 15, 2018, also without committee consensus. Given the lack of committee consensus on these topics, ED may develop proposed regulations using language developed during the negotiations as the basis for the proposed regulations, or develop proposed regulations using language ED deems appropriate. ED is expected to issue proposed regulations during the first half of 2018 for public comment, but has not established a final schedule for publication of proposed or final regulations. Any regulations published in final form by November 1, 2018 typically would take effect in July 1, 2019.

Compliance with Regulatory Standards. As described in our 2017 Annual Report, in connection with the issuance of our Series A Preferred Stock, effective July 15, 2016 ED requested the submission of bi-weekly cash flow projection reports and a monthly student roster. On February 28, 2018, ED notified us that the cash flow projection reports would be required on a monthly basis instead of the previously requested bi-weekly basis. This special reporting will continue until we are otherwise notified by ED.

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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 on Form 10-Q and those in our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017. 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 2017 Annual Report on Form 10-K and included in Part II, Item 1A of this Report on Form 10-Q. See also "Special Note Regarding Forward-Looking Statements" on page ii of this Report on Form 10-Q.

Overview

We are the leading provider of postsecondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians as measured by total average undergraduate full-time enrollment and graduates. We recently began offering undergraduate diploma programs for welding and CNC machining. We offer certificate, diploma or undergraduate degree programs at 12 campuses across the United States. We also offer manufacturer specific advanced training programs, including student-paid electives, at our campuses and manufacturer or dealer sponsored training at certain campuses and dedicated training centers. We have provided technical education for 52 years.

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

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

2018 Overview

Operations

Lower student population levels as we began 2018 and fewer new student starts during the period resulted in a decline of 5.2% in our average undergraduate full-time student enrollment to 10,823 students for the six months ended March 31, 2018. We started 3,135 students during the six months ended March 31, 2018, which was a decrease of 3.5% from the prior year comparable period.

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

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

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

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

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

In March 2018, we announced a multi-year transformation plan that will be implemented over the next 12 to 18 months, with significant benefits to our financial performance expected beginning in the year ending September 30, 2019. This plan follows a comprehensive evaluation of our business by a top-tier consulting firm, which identified opportunities for growth with select investments in marketing, admissions and student services. In addition to the transformation plan, we continue to focus on existing key strategies, including:

- Expanding into new geographic markets either organically or through strategic acquisitions; we plan to open a new campus in Bloomfield, New Jersey in fall 2018;
- Offering new programs, such as opening our Welding program at our Avondale, Arizona campus in January 2018, and offering associate level degree programs at additional campus locations;
- Adding and renewing contracts with OEM partners and other employers to provide career opportunities and tuition reimbursement for our graduates;
- Identifying and executing on a variety of affordability initiatives, including employer financial support and institutional scholarships and grants; and
- Shifting perceptions and building advocacy with key policy makers and influencers.

ED published guidance in November 2015 that eliminated certain restrictions on incentive compensation for admissions representatives. Specifically, ED reconsidered its previous interpretation and stated that its regulations do not prohibit compensation for admissions representatives that is based upon students' graduation from, or completion of, educational programs. Compensation based on enrolling students, however, continues to be prohibited. Please see further discussion in "Business - Regulatory Environment - Regulation of Federal Student Financial Aid Programs - Incentive Compensation" included in our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017. We have made adjustments to the compensation practices for our admissions representatives, which we believe will be compliant with ED's November 2015 guidance. The transition period for the new compensation structure will continue through calendar year 2018. We will continue to evaluate other compensation options under these regulations and guidance.

Our revenues for the three months ended March 31, 2018 were \$80.7 million, a decline of \$1.8 million, or 2.2%, from the comparable period in the prior year. We had an operating loss of \$8.8 million compared to operating income of \$0.7 million for the same period in the prior year. The decline in our operating results was due primarily to the decrease in revenue and increases in compensation costs, contract services and advertising. We incurred a net loss of \$8.8 million compared to \$1.7 million for the comparable period in the prior year.

Our revenues for the six months ended March 31, 2018 were \$161.8 million, a decline of \$4.9 million, or 2.9%, from the comparable period in the prior year. We had an operating loss of \$12.4 million compared to operating income of \$2.1 million for the same period in the prior year. The decline in our operating results was due primarily to the decrease in revenue and increases in contract services, advertising, compensation costs, supplies and maintenance and professional accounting service expenses. We incurred a net loss of \$10.0 million compared to \$3.5 million for the comparable period in the prior year.

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Graduate Employment

Our consolidated graduate employment rate for our 2017 graduates during the six months ended March 31, 2018 is slightly higher than the rate at the same time in the prior year. The rate has improved for our Marine and Motorcycle programs and remained consistent for our Automotive and Diesel Technology program and for our Collision Repair program.

Regulatory Environment

Accreditation

In December 2017, we received formal notification from the Accrediting Commission of Career Schools and Colleges (ACCSC) granting continuing accreditation for our Sacramento, California campus.

In December 2017, we also received formal notification from ACCSC granting continuing accreditation with a stipulation for our Long Beach, California campus. As required by the stipulation, we submitted our response which included a new leave of absence policy reflecting feedback received from ACCSC on January 22, 2018. On February 23, 2018, we received formal notification from ACCSC that we had satisfied the requirements of the stipulation.

Regulation of Federal Student Financial Aid Programs

Gainful Employment. On January 19, 2018, ED announced the release of a new Gainful Employment Disclosure Template and provided institutions until April 6, 2018 to update disclosures for each of their gainful employment programs using the new template. ED made several modifications to the template, including, among other things, to provide that institutions: 1) are no longer required to disclose room and board charges in the template, 2) will not be required to disclose median earnings data in the template, and 3) may add more than one accreditor job placement rate. As noted in our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017, none of our programs are currently subject to any student warning requirements. We have updated our disclosures using the new template to comply with the April 6, 2018 deadline.

On March 16, 2018, ED announced that it intends to issue completer lists to schools in Spring 2018, which is the first step toward generating the data for calculating new gainful employment rates. ED indicated in the announcement that schools will have 45 days to submit corrections to the information included in the completer lists. We cannot predict the timeline under which any new gainful employment rates would be issued.

Program Participation Agreements. The HEA specifies the manner in which ED reviews institutions for eligibility and certification to participate in Title IV Programs. Every educational institution seeking Title IV Program funding for its students must be certified to participate and is required to periodically renew this certification. Each institution must apply to ED for continued certification to participate in Title IV Programs before its current term of certification expires, or if it undergoes a change of control. The Program Participation Agreement (PPA) document serves as ED's formal authorization of an institution and its associated additional locations to participate in Title IV Programs for a specified period of time. All of our institutions' PPAs expired on March 31, 2018. In accordance with ED guidance, we submitted materially complete applications for recertification prior to the December 31, 2017 deadline, which allows our schools to continue to participate without interruption beyond the ordinary expiration date as we await ED's determination of recertification. On April 25, 2018 ED notified us that they completed their review of our Houston, TX institution, which also includes our campuses in Dallas/Fort Worth, TX and Exton, PA, and granted a 4-year renewal of our PPA.

Negotiated Rulemaking on Borrower Defenses, Financial Responsibility & Gainful Employment. As noted in our 2017 Annual Report on Form 10-K, on June 16, 2017, the Department published a notice in the Federal

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Register announcing their intention to establish negotiated rulemaking committees to prepare proposed regulations for the Federal Student Aid programs authorized under the HEA. Specifically, one committee was convened to develop proposed regulations to revise the November 2016 regulations on borrower defenses to repayment of federal student loans and other matters, wherein a subcommittee was formed to review and revise the Financial Responsibility regulations. Another separate committee of negotiators convened to develop proposed regulations to revise the gainful employment regulations published by the Department on October 31, 2014.

Negotiated Rulemaking sessions on Borrower Defenses and Financial Responsibility commenced on November 13, 2017 and concluded on February 15, 2018 without consensus. The Gainful Employment negotiation sessions began on December 4, 2017 and concluded on March 15, 2018, also without committee consensus. Given the lack of committee consensus on these topics, ED may develop proposed regulations using language developed during the negotiations as the basis for the proposed regulations, or develop proposed regulations using language ED deems appropriate. ED is expected to issue proposed regulations during the first half of 2018 for public comment, but has not established a final schedule for publication of proposed or final regulations. Any regulations published in final form by November 1, 2018 typically would take effect in July 1, 2019, but we cannot provide any assurances as to the timing or content of any such regulations. Additionally, we are closely monitoring ED's activities concerning changes to GAAP accounting and the resulting impact to ED's financial responsibility standards.

Compliance with Regulatory Standards. As described in our 2017 Annual Report, in connection with the issuance of our Series A Preferred Stock, effective July 15, 2016 ED requested the submission of bi-weekly cash flow projection reports and a monthly student roster. On February 28, 2018, ED notified us that the cash flow projection reports would be required on a monthly basis instead of the previously requested bi-weekly basis. This special reporting will continue until we are otherwise notified by ED.

2018 Outlook

For the year ending September 30, 2018, we expect new student starts to grow in the low single-digits. New student start growth will be weighted toward the back half of the year. The average student population for the year ending September 30, 2018 is anticipated to be down in the mid single digits as a result of the lower beginning population and the timing of the anticipated start growth. We expect full-year revenue to range between \$310 million and \$320 million, as compared to \$324 million in 2017.

We expect our operating expenses will range between \$348 million and \$353 million, resulting in an operating loss of between \$28 million and \$33 million and negative EBITDA. This includes approximately \$4 million in consulting fees and \$4 million for incremental marketing and internal resources related to our transformation plan. The operating loss is a result of the lower total revenue expected in 2018 as compared to 2017, along with the financial impact of opening our Bloomfield, New Jersey campus that is expected to open in fall 2018, our planned investments in marketing and admissions to support start growth and the planned expansion of our welding program.

Capital expenditures are expected to be between \$24 million and \$25 million, including \$11 million for our Bloomfield, New Jersey campus that is expected to open in fall 2018; approximately \$4 million to expand our welding program to two additional campuses; \$7 million for new and replacement equipment for our existing campuses; and approximately \$2.5 million for real estate consolidation. We expect our efforts to rationalize our real estate footprint will provide net cost savings of \$2.5 million to \$3.0 million on an annualized basis starting in 2019.

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Results of Operations

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

| | Three Months | | Six Months Ended | |
|-------------------------------------|-----------------|---------|------------------|---------|
| | Ended March 31, | | March 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Operating expenses: | | | | |
| Educational services and facilities | 56.8 % | 54.3 % | 55.6 % | 55.2 % |
| Selling, general and administrative | 54.1 % | 44.8 % | 52.1 % | 43.6 % |
| Total operating expenses | 110.9 % | 99.1 % | 107.7 % | 98.8 % |
| Income (loss) from operations | (10.9)% | 0.9 % | (7.7)% | 1.2 % |
| Interest expense, net | (0.6)% | (0.9)% | (0.6)% | (0.9)% |
| Other income | 0.5 % | 0.5 % | 0.4 % | 0.5 % |
| Total other expense, net | (0.1)% | (0.4)% | (0.2)% | (0.4)% |
| Income (loss) before income taxes | (11.0)% | 0.5 % | (7.9)% | 0.8 % |
| Income tax expense (benefit) | — % | 2.6 % | (1.7)% | 2.9 % |
| Net loss | (11.0)% | (2.1)% | (6.2)% | (2.1)% |
| Preferred stock dividends | 1.6 % | 1.6 % | 1.6 % | 1.6 % |
| Loss available for distribution | (12.6)% | (3.7)% | (7.8)% | (3.7)% |

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017 and Six Months Ended March 31, 2018 Compared to Six Months Ended March 31, 2017

Revenues. Our revenues for the three months ended March 31, 2018 were \$80.7 million, a decrease of \$1.8 million, or 2.2%, as compared to revenues of \$82.5 million for the three months ended March 31, 2017. Our average undergraduate full-time student enrollment decreased 4.4%, which resulted in a decrease in revenues of approximately \$3.6 million. The decrease was partially offset by tuition rate increases of up to 2%, depending on the program. We recognized \$1.5 million on an accrual basis related to revenues and interest under our proprietary loan program for the three months ended March 31, 2018, as compared to \$2.1 million recognized on a cash basis for the three months ended March 31, 2017. For additional discussion of the program and the change in revenue recognition resulting from our adoption of ASC 606, see Note 3 of the notes to our condensed consolidated financial statements within this Report on Form 10-Q.

Our revenues for the six months ended March 31, 2018 were \$161.8 million, a decrease of \$4.9 million, or 2.9%, as compared to revenues of \$166.7 million for the six months ended March 31, 2017. Our average undergraduate full-time student enrollment decreased 5.2%, which resulted in a decrease in revenues of approximately \$8.5 million. Additionally, revenues were impacted by an increase in tuition discounts from \$5.4 million for the six months ended March 31, 2017 to \$6.9 million for the six months ended March 31, 2018. The increase is primarily attributable to our institutional grant program, which began in May 2017. The decreases were partially offset by tuition rate increases of up to 2%, depending on the program. We recognized \$3.3 million on an accrual basis related to revenues and interest under our proprietary loan program for the six months ended March 31, 2018, as compared to \$3.9 million recognized on a cash basis for the six months ended March 31, 2017. Revenues for our Long Beach, California campus, which opened in August 2015, were \$10.5 million for the six months ended March 31, 2018 as compared to \$8.7 million for the six months ended March 31, 2017.

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Educational services and facilities expenses. Our educational services and facilities expenses for the three and six months ended March 31, 2018 were \$45.8 million and \$89.9 million, respectively. This represents an increase of \$1.0 million and a decrease of \$2.1 million, respectively, as compared to \$44.8 million and \$92.0 million, respectively, for the three and six months ended March 31, 2017.

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

| | Three Months | | Six Months | |
|---|-----------------|----------|-----------------|----------|
| | Ended March 31, | | Ended March 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Salaries expense | \$19,965 | \$20,194 | \$39,318 | \$41,526 |
| Employee benefits and tax | 4,364 | 4,083 | 8,349 | 8,458 |
| Bonus expense | 121 | 97 | 295 | 893 |
| Stock-based compensation | — | 45 | — | 89 |
| Compensation and related costs | 24,450 | 24,419 | 47,962 | 50,966 |
| Occupancy costs | 9,127 | 8,834 | 17,914 | 17,773 |
| Depreciation and amortization expense | 3,810 | 3,828 | 7,655 | 7,785 |
| Other educational services and facilities expense | 4,410 | 4,142 | 8,636 | 8,601 |
| Supplies and maintenance | 2,194 | 1,819 | 4,166 | 3,506 |
| Tools and training aids expense | 1,826 | 1,792 | 3,565 | 3,357 |
| | \$45,817 | \$44,834 | \$89,898 | \$91,988 |

Compensation and related costs increased \$0.1 million and decreased \$3.0 million for the three and six months ended March 31, 2018, respectively:

Salaries expense decreased \$0.2 million and \$2.2 million for the three and six months ended March 31, 2018, respectively. The decrease was largely attributable to a decrease in the number of employees needed to support our smaller average student population. Additionally, severance expense decreased by \$0.9 million due to expense in the prior year period related to the November 2016 reduction in workforce.

Bonus expense decreased \$0.6 million for the six months ended March 31, 2018. During the prior year period, we paid holiday bonuses to employees in lieu of annual merit increases.

Employee benefits and tax increased \$0.3 million for the three months ended March 31, 2018 due to an increase in self-insurance medical claims compared to the prior year.

Supplies and maintenance increased by \$0.4 million and \$0.7 million for the three and six months ended March 31, 2018, respectively, primarily due to real estate consolidation efforts at our Houston, Texas campus as well as other maintenance activities.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the three and six months ended March 31, 2018 were \$43.7 million and \$84.3 million, respectively. This represents increases of \$6.7 million and \$11.7 million, respectively, as compared to \$37.0 million and \$72.6 million for the three and six months ended March 31, 2017.

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

| | Three Months | | Six Months | |
|--|-----------------|----------|-----------------|----------|
| | Ended March 31, | | Ended March 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Salaries expense | \$14,899 | \$14,734 | \$29,582 | \$29,198 |
| Employee benefits and tax | 3,958 | 3,181 | 7,352 | 6,310 |
| Bonus expense | 2,831 | 198 | 4,419 | 1,188 |
| Stock-based compensation | 791 | 892 | 1,150 | 1,396 |
| Compensation and related costs | 22,479 | 19,005 | 42,503 | 38,092 |
| Advertising expense | 11,558 | 10,651 | 22,169 | 19,819 |
| Other selling, general and administrative expenses | 5,871 | 5,252 | 11,691 | 9,946 |
| Contract service expense | 2,219 | 972 | 4,885 | 2,419 |
| Professional accounting services expense | 594 | 324 | 1,283 | 635 |
| Depreciation and amortization expense | 545 | 694 | 1,076 | 1,376 |
| Bad debt expense | 400 | 78 | 738 | 327 |
| | \$43,666 | \$36,976 | \$84,345 | \$72,614 |

Compensation and related costs increased \$3.5 million and \$4.4 million for the three and six months ended March 31, 2018, respectively:

Bonus expense increased by \$2.6 million and \$3.2 million for the three and six months ended March 31, 2018, primarily as a result of increased expense related to our graduate-based incentive compensation program for our admissions representatives. The transition period for our admissions compensation structure will continue through calendar year 2018. Additionally, expense for our management bonus plan was higher in 2018; during the three months ended March 31, 2017, we recorded an adjustment to reflect anticipated minimal attainment on this plan. Partially offsetting this increase was a decrease related to holiday bonuses paid to employees during the prior year in lieu of annual merit increases.

Employee benefits and tax increased \$0.8 million and \$1.1 million for the three and six months ended March 31, 2018, respectively, as a result of an increase in self-insurance medical claims as compared to the prior year.

Advertising expense increased by \$0.9 million and \$2.4 million for the three and six months ended March 31, 2018, respectively. The increase is in line with our budgeted spending for the period and was attributable to new strategies to increase brand awareness and to target potential students at specific campus locations.

Contract services expense increased by \$1.2 million and \$2.5 million for the three and six months ended March 31, 2018, respectively. The increase is primarily attributable to our engagement of a top-tier consulting firm to advise on the optimization of our marketing and admissions processes. We have engaged this consulting firm to assist in the implementation of our transformation plan discussed above.

Professional accounting services expense increased by \$0.3 million and \$0.7 million for the three and six months ended March 31, 2018, respectively, due to our adoption of ASC 606 effective October 1, 2017.

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Income taxes. Our income tax benefit for the three months ended March 31, 2018 was less than \$0.1 million, or 0.4% of pre-tax loss, compared to an income tax expense of \$2.1 million, or 516.9% of pre-tax income, for the three months ended March 31, 2017. Our provision for income taxes for the six months ended March 31, 2018 was \$2.9 million, or 22.3% of pre-tax income, compared to \$4.8 million, or 365.5% of pre-tax loss, for the six months ended March 31, 2017. As a result of the Tax Cuts and Jobs Act, which was enacted on December 22, 2017, we reversed approximately \$2.8 million of the valuation allowance on our deferred tax assets during the three months ended December 31, 2017, as such assets are now offset by the deferred tax liability related to our goodwill before the full valuation allowance was applied to the deferred tax asset. See Note 10 of the notes to our condensed consolidated financial statements within this Report on Form 10-Q for further discussion. The effective income tax rate in each period also differed from the federal statutory tax rate as a result of state income taxes, net of related federal income tax benefits.

The Tax Cuts and Jobs Act eliminated the Net Operating Loss carrybacks. Therefore, we are not allowed to carryback the loss expected to be generated during our fiscal year ending September 30, 2018 to obtain a refund. Instead, we will now be able to carry forward the loss indefinitely and use the loss to offset taxable income generated in future years. We expect that the Tax Cuts and Jobs Act will have a significant positive impact to us in future years in which we have taxable income.

As discussed in our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017, certain deductions and losses are subject to an annual Section 382 limitation. The limitation will affect the timing of when these deductions and losses can be used and may cause us to make income tax payments even if a pre-tax loss is recorded in future periods.

Preferred stock dividends. On June 24, 2016, we sold 700,000 shares of Series A Preferred Stock for \$70.0 million in cash, less \$1.1 million in issuance costs. In accordance with the terms of the related purchase agreement, we recorded a preferred stock cash dividend of \$1.3 million and \$2.6 million during the three and six months ended March 31, 2018, respectively, as compared to \$1.3 million and \$2.6 million, during the three and six months ended March 31, 2017, respectively.

Loss available for distribution. Loss available for distribution refers to net loss reduced by dividends on our Series A Preferred Stock. As a result of the foregoing, we reported a loss available for distribution for the three and six months ended March 31, 2018 of \$10.1 million and \$12.6 million, respectively, as compared to \$3.0 million and \$6.1 million for the three and six months ended March 31, 2017, respectively.

Non-GAAP Financial Measures

Our earnings (loss) before interest, tax, depreciation and amortization (EBITDA) for the three and six months ended March 31, 2018 were \$(4.0) million and \$(3.2) million, respectively, as compared to \$5.6 million and \$11.9 million for the three and six months ended March 31, 2017, respectively.

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

may calculate EBITDA differently than we do, limiting its usefulness as a

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comparative measure across companies. Investors are encouraged to use GAAP measures when evaluating our financial performance.

EBITDA reconciles to net loss as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|-----------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | | |
| Net loss | \$(8,833) | \$(1,730) | \$(9,968) | \$(3,454) |
| Interest expense, net | 500 | 712 | 931 | 1,461 |
| Income tax expense (benefit) | (37) | 2,145 | (2,866) | 4,755 |
| Depreciation and amortization ⁽¹⁾ | 4,355 | 4,522 | 8,731 | 9,161 |
| EBITDA | \$(4,015) | \$5,649 | \$(3,172) | \$11,923 |

⁽¹⁾Includes depreciation of training equipment obtained in exchange for services of \$0.3 million for each of the three months ended March 31, 2018 and 2017 and of \$0.7 million and \$0.6 million for the six months ended March 31, 2018 and 2017, respectively.

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 commitments and other liquidity requirements associated with our existing operations as well as the expansion of programs at existing campuses through the next 12 months.

We believe that the strategic use of our cash resources includes subsidizing funding alternatives for our students. Additionally, we evaluate the repurchase of our common stock, consideration of strategic acquisitions, expansion of programs at existing campuses, opening additional campus locations and other potential uses of cash. We have selected a location for a new Bloomfield, New Jersey campus on a scale similar to our Long Beach, California and Dallas/Ft. Worth, Texas campuses, which we expect to open in fall 2018.

On June 9, 2016, our Board of Directors voted to eliminate the quarterly cash dividend on our common stock. On June 24, 2016, we issued 700,000 shares of Series A Preferred Stock for a total purchase price of \$70.0 million. The proceeds from the offering are intended to be used to fund strategic long-term growth initiatives, including the expansion to new markets of campuses on a scale similar to our Long Beach, California and Dallas/Ft. Worth, Texas campuses and the creation of new programs in existing markets with under-utilized campus facilities. We may use the proceeds to fund strategic acquisitions that complement our core business. To the extent that potential acquisitions are large enough to require financing beyond cash from operations, cash and cash equivalents and investments on hand or we need capital to fund operations, new campus openings or expansion of programs at existing campuses, we may enter into a credit facility, issue debt or issue additional equity. We paid preferred stock cash dividends of \$5.3 million during the year ended September 30, 2017.

To the extent that we enter into leasing transactions that result in financing obligations or capital leases, our interest expense would increase. Our aggregate cash and cash equivalents and current investments were \$82.9 million as of March 31, 2018.

Our principal source of liquidity is operating cash flows and existing cash, cash equivalent and investment balances. A majority of our revenues are derived from Title IV Programs and various veterans benefits programs. Federal

regulations dictate the timing of disbursements of funds under Title IV Programs. Students must apply for new funding for each academic year consisting of thirty-week periods. Loan funds are generally provided by

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lenders in two disbursements for each academic year. The first disbursement for first-time borrowers is usually received 30 days after the start of a student's academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student's academic year. Under our proprietary loan program, we bear all credit and collection risk and students are not required to begin repayment until six months after the student completes or withdraws from his or her program. These factors, together with the timing of when our students begin their programs, affect our operating cash flow.

Operating Activities

Our cash used in operating activities was \$6.0 million for the six months ended March 31, 2018 compared to \$17.6 million for the six months ended March 31, 2017.

For the six months ended March 31, 2018, changes in our operating assets and liabilities resulted in cash outflows of \$3.0 million and were primarily attributable to changes in deferred revenue, accounts payable and accrued expenses, prepaid and other current assets and receivables. The decrease in deferred revenue resulted in a cash outflow of \$5.7 million and was primarily attributable to the timing of student starts, the number of students in school and where they were at period end in relation to completion of their program at March 31, 2018 compared to September 30, 2017. The increase in accounts payable and accrued expenses resulted in a cash inflow of \$4.5 million, and was primarily attributable to higher expected attainment for bonus compared to last year. The decrease in receivables resulted in a cash inflow of \$3.6 million, and was primarily attributable to the timing of Title IV disbursements. The increase in prepaid expenses and other current assets resulted in a cash outflow of \$2.1 million primarily related to the timing of payments for prepaid services. The change in income tax from a payable to a receivable position resulted in a cash outflow of \$1.9 million and was primarily due to the timing of tax payments and refunds. The increase in notes receivable resulted in a cash outflow of \$1.6 million and was related to the activity from our proprietary loan program, as discussed in Notes 2 and 3 of the notes to our condensed consolidated financial statements within this Report on Form 10-Q.

For the six months ended March 31, 2017, changes in our operating assets and liabilities resulted in cash outflows of \$23.8 million and were primarily attributable to changes in restricted cash, deferred revenue, accounts payable and accrued expenses, income tax and receivables. The increase in restricted cash resulted in a cash outflow of \$11.1 million and was primarily due to the collateralization of \$11.5 million in surety bonds. The decrease in deferred revenue resulted in a cash outflow of \$9.1 million and was primarily attributable to the timing of student starts, the number of students in school and where they were at period end in relation to the completion of their program at March 31, 2017 compared to September 30, 2016. The decrease in accounts payable and accrued expenses resulted in a cash outflow of \$7.9 million. This decrease was primarily attributable to the payment of bonuses and severance benefits, as well as the timing of invoices and payroll. The change in income tax from a receivable position to a payable position resulted in a cash inflow of \$2.6 million and was primarily due to the increase in taxable income during the current period and the timing of tax payments and refunds. The decrease in receivables resulted in a cash inflow of \$2.7 million and was primarily due to the timing of Title IV disbursements and other cash receipts on behalf of our students.

Investing Activities

During the six months ended March 31, 2018, cash provided by investing activities was \$41.2 million. We had cash inflows of \$40.9 from the proceeds of trading securities and of \$7.0 million from proceeds received upon the maturity of investments. We had cash outflows of \$7.6 million for property and equipment, primarily related to purchases of new and replacement training equipment for our ongoing operations. For the year ending September 30, 2018, we anticipate investing in capital expenditures in the range of \$24 million to \$25 million. Of this total, approximately \$11 million is attributable to the property and equipment required to begin teaching classes at our Bloomfield, New Jersey

campus, with an additional \$4 million related to the expansion of programs at existing campuses.

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During the six months ended March 31, 2017, cash used in investing activities was \$9.4 million. We had cash outflows for the purchase of investments of \$9.7 million. We had cash outflows for the purchase of property and equipment of \$3.9 million, primarily related to purchases of new and replacement training equipment for our ongoing operations. We had cash inflows of \$1.6 million from proceeds received upon the maturity of investments.

Financing Activities

During the six months ended March 31, 2018, cash used in financing activities was \$3.2 million and related primarily to the payment of a semi-annual preferred stock dividend on March 28, 2018, totaling approximately \$2.6 million.

During the six months ended March 31, 2017, cash used in financing activities was \$3.1 million and related primarily to the payment of a semi-annual preferred stock dividend on March 28, 2017, totaling approximately \$2.6 million.

Seasonality and Trends

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

Critical Accounting Policies and Estimates

Other than the accounting impacts resulting from our adoption of ASC 606, which are discussed in Notes 2 and 3 to our condensed consolidated financial statements within this Report on Form 10-Q, there were no significant changes in our critical accounting policies previously disclosed in Part II, Item 7 of our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 3 to our condensed consolidated financial statements within Part I, Item 1 of this Report on Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk since September 30, 2017. For a discussion of our exposure to market risk, refer to our 2017 Annual Report on Form 10-K, filed with the SEC on December 1, 2017.

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Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our 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 President and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of March 31, 2018 were effective in ensuring that (i) information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

We implemented the new revenue recognition standard as of October 1, 2017. As a result, we made the following significant modifications to our internal controls, including changes to accounting policies and procedures, operational processes, and documentation practices:

- Updated our policies and procedures related to recognizing revenue and added documentation processes related to meeting the new criteria for recognizing revenue.

- Added controls for reviewing constrained variable consideration and reevaluating our significant contract judgments and estimates on a quarterly basis.

- Added controls to address related required disclosures regarding revenue, including the disclosure of performance obligations and our significant judgments and estimates for determining the transaction price and when to recognize revenue.

Other than the items described above, there were no changes during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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

compliance with policies or procedures.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

In September 2012, we received a Civil Investigative Demand (CID) from the Attorney General of the Commonwealth of Massachusetts related to a pending investigation in connection with allegations that we caused false claims to be submitted to the Commonwealth relating to student loans, guarantees and grants provided to students at our Norwood, Massachusetts campus. The CID required us to produce documents and provide written testimony regarding a broad range of our business from September 2006 to September 2012. We responded timely to the request. The Attorney General made a follow-up request for documents, and we complied with this request in February 2013. In response to a status update request from us, the Attorney General requested and we provided in April 2015 additional documents and information related to graduate employment at our Norwood, Massachusetts campus and our policies and practices for determining graduate employment. We have not received any additional requests since April 2015. At this time, we cannot predict the eventual scope, duration, outcome or associated costs of this request, and accordingly we have not recorded any liability in the accompanying condensed consolidated financial statements.

Item 1A. RISK FACTORS

In addition to the other information set forth in this Report on Form 10-Q, including the information contained in Part I, Item 3, you should carefully consider the factors discussed in Part I, Item IA of our 2017 Annual Report on Form 10-K filed with the SEC on December 1, 2017, which could materially affect our business, financial condition or operating results. The risks described in this Report on Form 10-Q and in our 2017 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.

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

On December 20, 2011, our Board of Directors authorized the repurchase of up to \$25.0 million of our common stock in the open market or through privately negotiated transactions. As of March 31, 2018, we have purchased an aggregate of 1,677,570 shares of our common stock for an aggregate purchase price of \$15.3 million under this stock repurchase program. During the quarter ended March 31, 2018, we made no purchases under this stock repurchase program. Any future repurchases under this stock repurchase program require the approval of a majority of the voting power of the Series A Preferred Stock.

The following table summarizes our share repurchases to settle individual employee tax liabilities. These are not included in the repurchase plan totals as they were approved in conjunction with restricted share awards, during each period in the three months ended March 31, 2018. Shares from share repurchases in lieu of taxes are returned to the pool of shares issuable under our 2003 Incentive Compensation Plan.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans Or Programs (In thousands) |
|---------------------|---|---------------------------------------|--|---|
| Tax Withholdings | | | | |
| January 1-31, 2018 | — | \$ — | — | \$ — |
| February 1-28, 2018 | 1,532 | \$ 2.60 | — | \$ — |
| March 1-31, 2018 | 4,944 | \$ 2.69 | — | \$ — |
| Total | 6,476 | \$ — | — | \$ — |

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

Item 6. EXHIBITS

The following exhibits required by Item 601 of Regulation S-K are filed or furnished with this report, as applicable:

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| Number | Description |
|-------------|---|
| <u>10.1</u> | Consulting Agreement, dated as of March 16, 2018, by and between the Registrant and McKinsey & Company, Inc. (Incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Registrant on March 22, 2018.) |
| <u>31.1</u> | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.) |
| <u>31.2</u> | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.) |
| <u>32.1</u> | Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.) |
| <u>32.2</u> | Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.) |
| 101 | Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Income (Loss); (iii) Condensed Consolidated Statements of Comprehensive Income (Loss); (iv) Condensed Consolidated Statement of Shareholders' Equity; (v) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements. |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 4, 2018

UNIVERSAL TECHNICAL INSTITUTE, INC.

By: /s/ Kimberly J. Mcwaters
Kimberly J. McWaters
President and Chief Executive Officer