UNIVERSAL TECHNICAL INSTITUTE INC
Form 10-Q
January 31, 2014

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

Form 10-Q
(Mark One)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2013

£ 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 (State or other jurisdiction of incorporation or organization)	86-0226984 (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 þ 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 þ No ¨

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

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

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

At January 23, 2014, there were 24,650,066 shares outstanding of the registrant's common stock.

UNIVERSAL TECHNICAL INSTITUTE, INC.
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 31, 2013

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, as amended, 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,” “ and similar expressions, as well as statements in future tense, identify forward-looking statements.

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 Form 10-K that we filed with the SEC on December 4, 2013 listed various important factors that could cause actual results to differ materially from expected and historical results. We note these factors for investors within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, as amended. Readers can find them under the heading “Risk Factors” in the Form 10-K and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties. Our filings with the SEC may be accessed at the SEC’s web site at www.sec.gov.

PART I – FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	December 31, 2013	September 30, 2013
Assets	(In thousands)	
Current assets:		
Cash and cash equivalents	$36,934	$35,657
Restricted cash	5,902	5,748
Investments, current	55,688	57,531
Receivables, net	10,078	11,406
Deferred tax assets, net	5,908	7,452
Prepaid expenses and other current assets	16,857	15,553
Total current assets	131,367	133,347
Investments, less current	8,023	4,188
Property and equipment, net	107,182	103,070
Goodwill	20,579	20,579
Deferred tax assets, net	7,885	8,835
Other assets	9,839	9,444
Total assets	$284,875	$279,463
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$38,672	$39,229
Deferred revenue	47,091	46,890
Accrued tool sets	3,910	3,971
Lease financing obligation, current	519	—
Other current liabilities	2,245	2,271
Total current liabilities	92,437	92,361
Deferred rent liability	11,455	11,932
Lease financing obligation, less current	32,940	—
Construction liability	—	27,632
Other liabilities	9,704	8,768
Total liabilities	146,536	140,693
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Common stock, $0.0001 par value, 100,000,000 shares authorized, 30,542,393 shares issued and 24,650,066 shares outstanding at December 31, 2013 and 30,535,847 shares issued and 24,643,520 shares outstanding as of September 30, 2013	3	3
Preferred stock, $0.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding	—	—
Paid-in capital	171,461	171,087
Treasury stock, at cost, 5,892,327 shares at December 31 and September 30, 2013	(89,346)	(89,346)
Retained earnings	56,221	57,026
Total shareholders' equity	138,339	138,770
Total liabilities and shareholders' equity	$284,875	$279,463

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

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UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

	Three Months Ended December 31,	
	2013	2012
	(In thousands, except per share amounts)	
Revenues	$97,029	$98,441
Operating expenses:		
Educational services and facilities	51,111	49,692
Selling, general and administrative	42,915	42,743
Total operating expenses	94,026	92,435
Income from operations	3,003	6,006
Other income:		
Interest (expense) income, net	(132)	47
Equity in earnings of unconsolidated affiliate	81	—
Other income	275	119
Total other income	224	166
Income before income taxes	3,227	6,172
Income tax expense	1,567	2,610
Net income	$1,660	$3,562
Earnings per share:		
Net income per share - basic	$0.07	$0.14
Net income per share - diluted	$0.07	$0.14
Weighted average number of shares outstanding:		
Basic	24,645	24,761
Diluted	24,839	24,814
Cash dividend declared per common share	$0.10	$0.10

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

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

	Common Stock		Paid-in	Treasury Stock		Retained	Total Shareholders'
	Shares	Amount	Capital	Shares	Amount	Earnings	Equity
	(In thousands)						
Balance at September 30, 2013	30,536	$3	$171,087	5,892	$(89,346)	$57,026	$138,770
Net income	—	—	—	—	—	1,660	1,660
Issuance of common stock under employee plans	8	—	—	—	—	—	—
Shares withheld for payroll taxes	(2)	—	(21)	—	—	—	(21)
Tax charge from employee stock plans	—	—	(945)	—	—	—	(945)
Stock-based compensation	—	—	1,340	—	—	—	1,340
Cash dividend declared	—	—	—	—	—	(2,465)	(2,465)
Balance at December 31, 2013	30,542	$3	$171,461	5,892	$(89,346)	$56,221	$138,339

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

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

	Three Months Ended December 31, 2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$1,660	$3,562
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,091	5,722
Amortization of assets subject to financing obligation	155	—
Amortization of held-to-maturity investments	627	412
Bad debt expense	1,341	1,544
Stock-based compensation	1,343	1,445
Excess tax benefit from stock-based compensation	(3)	—
Deferred income taxes	1,549	2,427
Equity in earnings of unconsolidated affiliate	(81)	—
Net training equipment credits earned	(244)	(445)
Loss on disposal of property and equipment	48	—
Changes in assets and liabilities:		
Receivables	(13)	2,587
Prepaid expenses and other current assets	(1,344)	(443)
Other assets	(316)	(520)
Accounts payable and accrued expenses	(745)	(8,361)
Deferred revenue	201	(9,315)
Income tax payable/receivable	(79)	(866)
Accrued tool sets and other current liabilities	163	586
Deferred rent liability	(477)	(348)
Other liabilities	534	422
Net cash provided by (used in) operating activities	9,410	(1,591)
Cash flows from investing activities:		
Purchase of property and equipment	(2,927)	(2,756)
Proceeds from disposal of property and equipment	77	24
Purchase of investments	(11,354)	(21,975)
Proceeds received upon maturity of investments	8,735	18,419
Increase in restricted cash	(140)	—
Net cash used in investing activities	(5,609)	(6,288)
Cash flows from financing activities:		
Payment of cash dividend	(2,465)	(2,470)
Repayment of long-term financing obligation	(41)	—
Payment of payroll taxes on stock-based compensation through shares withheld	(21)	(17)
Proceeds from issuance of common stock under employee plans	—	262
Excess tax benefit from stock-based compensation	3	—
Purchase of treasury stock	—	(5,364)
Net cash used in financing activities	(2,524)	(7,589)
Net increase (decrease) in cash and cash equivalents	1,277	(15,468)
Cash and cash equivalents, beginning of period	35,657	45,665
Cash and cash equivalents, end of period	$36,934	$30,197

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

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

	Three Months Ended December 31,	
	2013	2012
	(In thousands)	
Supplemental disclosure of cash flow information:		
Taxes paid	$1,223	$1,050
Training equipment obtained in exchange for services	$878	$158
Change in accrued capital expenditures during the period	$70	$(1,318)
Construction in progress financed by construction liability during the period	$5,868	$4,933
Construction liability recognized as financing obligation	$33,500	$—
Interest paid	$190	$1
Stock based compensation classified as liability instruments	$3	$—

The accompanying notes are an integral part of these 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 offer undergraduate degree and diploma programs at 11 campuses across the United States under the banner of several well-known brands, including Universal Technical Institute, Motorcycle Mechanics Institute and Marine Mechanics Institute and NASCAR Technical Institute. We also offer manufacturer specific training (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, as amended (HEA). For further discussion, see Concentration of Risk and Note 16 “Governmental Regulation and Financial Aid” included in our 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on December 4, 2013.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, our condensed consolidated financial statements do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair statement of the results for the interim periods have been included. Operating results for the three months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2013 Annual Report on Form 10-K filed with the SEC on December 4, 2013.

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

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

3. Investments

We invest in pre-funded municipal bonds which are generally secured by escrowed-to-maturity U.S. Treasury notes. Municipal bonds represent debt obligations issued by states, cities, counties and other governmental entities, which earn interest that is exempt from federal income taxes. Additionally, we invest in certificates of deposit issued by financial institutions and corporate bonds from large cap industrial and selected financial companies with a minimum credit rating of A. We have the ability and intent to hold our investments until maturity and therefore classify these investments as held-to-maturity and report them at amortized cost.

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

Amortized cost and fair value for investments classified as held-to-maturity as of December 31, 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Due in less than 1 year:				
Municipal bonds	$42,989	$23	$—	$43,012
Corporate bonds	10,074	4	(2)	10,076
Certificates of deposit	2,625	—	—	2,625
Due in 1 - 2 years:				
Municipal bonds	4,285	4	(1)	4,288
Corporate bonds	1,506	—	(2)	1,504
Certificates of deposit	2,232	—	—	2,232
	$63,711	$31	$(5)	$63,737

Amortized cost and fair value for investments classified as held-to-maturity as of September 30, 2013 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Due in less than 1 year:				
Municipal bonds	$40,942	$22	$—	$40,964
Corporate bonds	11,684	2	(7)	11,679
Certificates of deposit	4,905	—	—	4,905
Due in 1 - 2 years:				
Municipal bonds	3,943	4	—	3,947
Certificates of deposit	245	—	—	245
	$61,719	$28	$(7)	$61,740

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

4. Fair Value Measurements

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.

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

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

	December 31, 2013	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$28,908	$28,908	$—	$—
Corporate bonds	11,580	11,580	—	—
Municipal bonds	47,300	—	47,300	—
Certificates of deposit	4,857	—	4,857	—
Total assets at fair value on a recurring basis	$92,645	$40,488	$52,157	$—

	September 30, 2013	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$23,135	$23,135	$—	$—
Corporate bonds	11,679	11,679	—	—
Municipal bonds	44,911	—	44,911	—
Certificates of deposit	5,150	—	5,150	—
Total assets at fair value on a recurring basis	$84,875	$34,814	$50,061	$—

5. Postemployment Benefits

We periodically enter into agreements which provide postemployment benefits to personnel whose employment is terminated. The postemployment benefit liability, which is included in accounts payable and accrued expenses on the accompanying condensed consolidated balance sheets, is generally paid out ratably over the terms of the agreements, which range from 1 month to 24 months, with the final agreement expiring in December 2015.

The postemployment activity for the three months ended December 31, 2013 was as follows:

	Liability Balance at September 30, 2013	Postemployment Benefit Charges	Cash Paid	Other Non-cash (1)	Liability Balance at December 31, 2013
Severance	$1,714	$127	$(245)	$(5)	$1,591
Other	2	—	(2)	—	—
Total	$1,716	$127	$(247)	$(5)	$1,591

(1) Primarily relates to the expiration of benefits not used within the time offered under the separation agreement and non-cash severance.

6. Earnings per Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares outstanding for the period. Diluted net income per share reflects the assumed conversion of all dilutive securities, if any. For the three months ended December 31, 2013 and 2012, 749,233 shares and 1,939,435 shares, respectively, which could be issued under outstanding stock-based grants, were not included in the determination of our diluted shares outstanding as they were anti-dilutive.

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

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

	Three Months Ended December 31,	
	2013	2012
Weighted average number of shares	(In thousands)	
Basic shares outstanding	24,645	24,761
Dilutive effect related to employee stock plans	194	53
Diluted shares outstanding	24,839	24,814

7. Property and Equipment, net

Property and equipment, net consisted of the following:

	Depreciable Lives (in years)	December 31, 2013	September 30, 2013
Land	—	$1,456	$1,456
Building and building improvements	35	50,712	13,741
Leasehold improvements	1-28	38,935	48,062
Training equipment	3-10	82,786	82,270
Office and computer equipment	3-10	37,590	37,206
Curriculum development	5	18,716	18,716
Software developed for internal use	3-5	10,895	10,895
Vehicles	5	1,015	1,005
Construction in progress	—	3,392	33,158
		245,497	246,509
Less accumulated depreciation and amortization		(138,315)	(143,439)
		$107,182	$103,070

The following amounts, which are included in the above table, represent assets financed by financing obligations:

	December 31, 2013
Building and building improvements	$33,500
Less accumulated depreciation and amortization	(155)
Assets financed by financing obligations, net	$33,345

As previously disclosed, we entered into a build-to-suit facility lease agreement and a construction management agreement related to the relocation of our Glendale Heights, Illinois campus to, and the design and construction of a new campus in, Lisle, Illinois. Under these agreements, we retained all construction risk and therefore, for accounting purposes, were considered the owner during the construction period. We recorded approximately $27.6 million in construction in progress and $27.6 million in the related construction liability on our condensed consolidated balance sheet as of September 30, 2013.

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

Construction was completed during November 2013 and the facility was placed into service effective December 1, 2013. The investment in the joint venture related to the lease of this facility represents continuing involvement after the construction period was completed. Therefore, we will continue to account for the arrangement as a financing obligation and have an imputed operating lease related to our use of the land. Accordingly, the asset and a corresponding lease financing obligation are included in our condensed consolidated balance sheet. The asset will be depreciated over the initial lease term of 18 years. The financing obligation is amortized through the effective interest method in which a portion of the lease payments is recognized as interest expense, a portion is allocated to the imputed land lease and the remaining portion will decrease the financing obligation. Future minimum lease payments under this lease as of December 31, 2013 are as follows:

Years ending September 30,	Financing Obligations	Operating Leases
2014 (Remaining)	$ 2,100	$ 228
2015	2,852	291
2016	2,914	291
2017	2,978	291
2018	3,044	291
Thereafter	46,808	3,823
Total future minimum lease obligation	$ 60,696	$ 5,215
Less imputed interest on financing obligation	(26,876)	
Less imputed accrued land lease obligation	(361)	
Net present value of financing obligation	$ 33,459	

Subsequent Event

In January 2014, we entered into amended lease agreements for certain buildings on our Orlando, Florida campus which extended the lease terms to August 31, 2022 and modified the scheduled rental payments. Additionally, one of the amendments included a provision which allows us to expand the square footage at one of the buildings by approximately 13,500 square feet with an associated tenant improvement allowance of approximately $1.7 million.

Under the agreement, we have retained all construction risk and are responsible for all budget overruns. Therefore, for accounting purposes, we are considered the owner during the construction period. Additionally, during the construction period, the existing building and the addition are considered one unit of account. Accordingly, when construction begins, we will record the existing building and a corresponding financing obligation on our condensed consolidated balance sheet of approximately $5.6 million and discontinue recognizing rent expense.

During construction of the addition, we will record construction costs as construction in progress with a corresponding construction liability on our condensed consolidated balance sheet. Although we are owners during the construction period, we do not own the underlying land. Therefore, we will have an imputed operating lease expense related to our use of the land that will be recognized from the time we entered into the agreement through the end of the construction period. During the construction period, the rental payment on the existing building will be allocated to imputed land lease expense and interest expense, which will then be capitalized, and the remaining portion will decrease the financing obligation.

Upon occupancy of the facility under this lease agreement, we believe that we will not have continuing involvement in the facility after the construction period is complete, and we anticipate that the lease will be accounted for as an operating lease.

As such, we anticipate we will derecognize the existing building, addition, financing obligation and construction liability. Furthermore, we will record prepaid rent related to the rent paid during construction, which will be amortized over the initial lease term.

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

8. Investment in Unconsolidated Affiliate

During the year ended September 30, 2012, we invested $4.0 million to acquire an equity interest of approximately 28% in a joint venture (JV) related to the lease of our Lisle, Illinois campus facility. 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 sheet. We recognize our proportionate share of the JV's net income or loss during each accounting period as a change in our investment. For the three months ended December 31, 2013, our equity in earnings was $0.1 million. We did not recognize any equity in earnings during the three months ended December 31, 2012.

Investment in unconsolidated affiliate consists of the following:

	December 31, 2013			September 30, 2013		
	Carrying Value (In thousands)	Ownership Percentage		Carrying Value (In thousands)	Ownership Percentage	
Investment in unconsolidated affiliate	$4,081	27.972	%	$4,000	27.972	%

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

	December 31, 2013	September 30, 2013
Accounts payable	$12,759	$13,758
Accrued compensation and benefits	18,155	16,858
Other accrued expenses	7,758	8,613
	$38,672	$