

UNIVERSAL TECHNICAL INSTITUTE INC

Form 10-Q

May 05, 2009

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

**Form 10-Q**

*(Mark One)*

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

**For the quarterly period ended March 31, 2009**

**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.)

**20410 North 19<sup>th</sup> Avenue, Suite 200**

**Phoenix, Arizona 85027**

(Address of principal executive offices)

**(623) 445-9500**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

At April 30, 2009, there were 23,596,017 shares outstanding of the registrant's common stock.



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FOR THE QUARTER ENDED MARCH 31, 2009**

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

|   | <b>March 31,<br/>2009</b> | <b>September 30,<br/>2008</b> |
|---|---------------------------|-------------------------------|
|   | (\$ s in thousands)       |                               |
| <b>Assets</b>   |                           |                               |
| Current assets:   |                           |                               |
| Cash and cash equivalents   | \$ 69,453                 | \$ 80,878                     |
| Restricted cash   |                           | 2,000                         |
| Receivables, net  | 16,482                    | 20,222                        |
| Deferred tax assets   | 6,424                     | 5,951                         |
| Prepaid expenses and other current assets   | 9,491                     | 8,568                         |
| <br>  |                           |                               |
| Total current assets  | 101,850                   | 117,619                       |
| Property and equipment, net   | 68,812                    | 68,258                        |
| Goodwill  | 20,579                    | 20,579                        |
| Other assets  | 4,812                     | 2,919                         |
| <br>  |                           |                               |
| Total assets  | \$ 196,053                | \$ 209,375                    |
| <br>  |                           |                               |
| <b>Liabilities and Shareholders Equity</b>  |                           |                               |
| Current liabilities:  |                           |                               |
| Accounts payable and accrued expenses   | \$ 41,467                 | \$ 37,995                     |
| Deferred revenue  | 41,387                    | 44,695                        |
| Accrued tool sets   | 4,017                     | 3,870                         |
| Other current liabilities   | 54                        | 44                            |
| <br>  |                           |                               |
| Total current liabilities   | 86,925                    | 86,604                        |
| Deferred tax liabilities  | 1,066                     | 2,908                         |
| Deferred rent liability   | 5,474                     | 5,354                         |
| Other liabilities   | 6,975                     | 6,322                         |
| <br>  |                           |                               |
| Total liabilities   | 100,440                   | 101,188                       |
| <br>  |                           |                               |
| Commitments and contingencies (Note 8)  |                           |                               |
| <br>  |                           |                               |
| Shareholders equity:  |                           |                               |
| Common stock, \$0.0001 par value, 100,000,000 shares authorized,<br>28,466,243 shares issued and 23,596,017 shares outstanding at March 31,<br>2009 and 28,406,762 shares issued and 25,089,517 shares outstanding at<br>September 30, 2008 | 3                         | 3                             |
| Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; 0 shares<br>issued and outstanding   |                           |                               |
| Paid-in capital   | 139,237<br>(76,506)       | 137,100<br>(59,571)           |

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Treasury stock, at cost, 4,870,226 shares and 3,317,245 shares at March 31,  
2009 and September 30, 2008, respectively

|  |            |            |
|--|------------|------------|
| Retained earnings                          | 32,879     | 30,655     |
| Total shareholders' equity                 | 95,613     | 108,187    |
| Total liabilities and shareholders' equity | \$ 196,053 | \$ 209,375 |

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

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

|   | <b>Three Months Ended</b>                       |             | <b>Six Months Ended</b> |             |
|---|---|-------------|-------------------------|-------------|
|   | <b>March 31,</b>                                |             | <b>March 31,</b>        |             |
|   | <b>2009</b>                                     | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
|   | <b>(In thousands, except per share amounts)</b> |             |                         |             |
| Net revenues  | \$ 89,125                                       | \$ 88,157   | \$ 179,246              | \$ 178,192  |
| Operating expenses:                                   |   |             |                         |             |
| Educational services and facilities                   | 48,898  | 46,822      | 96,640                  | 93,008      |
| Selling, general and administrative                   | 40,430  | 39,060      | 79,220                  | 73,605      |
| Total operating expenses                              | 89,328  | 85,882      | 175,860                 | 166,613     |
| Income (loss) from operations                         | (203)   | 2,275       | 3,386                   | 11,579      |
| Other income (expense):                               |   |             |                         |             |
| Interest income                                       | 59  | 866         | 138                     | 2,237       |
| Interest expense                                      | (9)   | (9)         | (21)                    | (19)        |
| Other income  | 72  |             | 143                     |             |
| Total other income                                    | 122   | 857         | 260                     | 2,218       |
| Income (loss) before income taxes                     | (81)  | 3,132       | 3,646                   | 13,797      |
| Income tax expense (benefit)                          | (1)   | 1,226       | 1,422                   | 5,408       |
| Net income (loss)                                     | \$ (80)   | \$ 1,906    | \$ 2,224                | \$ 8,389    |
| Earnings per share:                                   |   |             |                         |             |
| Basic net income per share                            | \$  | \$ 0.08     | \$ 0.09                 | \$ 0.32     |
| Diluted net income per share                          | \$  | \$ 0.07     | \$ 0.09                 | \$ 0.32     |
| Weighted average number of common shares outstanding: |   |             |                         |             |
| Basic   | 24,529  | 25,349      | 24,812                  | 26,072      |
| Diluted   | 24,529  | 25,593      | 25,154                  | 26,476      |

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



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

|   | <b>Common Stock</b>   |               | <b>Paid-in</b> | <b>Treasury Stock</b> |               | <b>Retained</b> | <b>Total</b>        |
|---|-----------------------|---------------|----------------|-----------------------|---------------|-----------------|---------------------|
|   | <b>Shares</b>         | <b>Amount</b> | <b>Capital</b> | <b>Shares</b>         | <b>Amount</b> | <b>Earnings</b> | <b>Shareholders</b> |
|   | <b>(In thousands)</b> |               |                |                       |               |                 |                     |
| Balance at September 30, 2008                 | 28,407                | \$ 3          | \$ 137,100     | 3,317                 | \$ (59,571)   | \$ 30,655       | \$ 108,187          |
| Net income                                    |                       |               |                |                       |               | 2,224           | 2,224               |
| Issuance of common stock under employee plans | 59                    |               | (134)          |                       |               |                 | (134)               |
| Tax charge from employee stock plans          |                       |               | (459)          |                       |               |                 | (459)               |
| Stock-based compensation                      |                       |               | 2,730          |                       |               |                 | 2,730               |
| Treasury stock purchases                      |                       |               |                | 1,553                 | (16,935)      |                 | (16,935)            |
| Balance at March 31, 2009                     | 28,466                | \$ 3          | \$ 139,237     | 4,870                 | \$ (76,506)   | \$ 32,879       | \$ 95,613           |

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)**

|   | <b>For the Six Months Ended<br/>March 31,</b> |                  |
|---|---|------------------|
|   | <b>2009</b>                                   | <b>2008</b>      |
|   | <b>(In thousands)</b>                         |                  |
| Cash flows from operating activities:   |   |                  |
| Net income  | \$ 2,224                                      | \$ 8,389         |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                  |
| Depreciation and amortization   | 8,826   | 8,791            |
| Bad debt expense  | 3,667   | 2,236            |
| Stock-based compensation  | 2,697   | 2,820            |
| Deferred income taxes   | (2,774)                                       | (408)            |
| Loss on sale of property and equipment  | 706   | 530              |
| Changes in assets and liabilities:  |   |                  |
| Receivables   | 263   | (6,227)          |
| Prepaid expenses and other current assets   | (988)   | (838)            |
| Other assets  | 45  | 464              |
| Accounts payable and accrued expenses   | 2,667   | 787              |
| Deferred revenue  | (3,308)                                       | (11,655)         |
| Income tax payable (receivable)   | (191)   | 1,550            |
| Accrued tool sets and other current liabilities                                   | 157   | (433)            |
| Other liabilities   | 94  | 138              |
| <b>Net cash provided by operating activities</b>                                  | <b>14,085</b>                                 | <b>6,144</b>     |
| Cash flows from investing activities:   |   |                  |
| Purchase of property and equipment  | (8,448)                                       | (10,430)         |
| Proceeds from sale of property and equipment                                      | 6   | 32,661           |
| <b>Net cash (used in) provided by investing activities</b>                        | <b>(8,442)</b>                                | <b>22,231</b>    |
| Cash flows from financing activities:   |   |                  |
| Proceeds from issuance of common stock under employee plans                       | (134)   | 386              |
| Excess tax benefit from stock-based compensation                                  | 1   | 224              |
| Purchase of treasury stock  | (16,935)                                      | (29,542)         |
| <b>Net cash used in financing activities</b>                                      | <b>(17,068)</b>                               | <b>(28,932)</b>  |
| Net decrease in cash and cash equivalents   | (11,425)                                      | (557)            |
| Cash and cash equivalents, beginning of period                                    | 80,878  | 75,594           |
| <b>Cash and cash equivalents, end of period</b>                                   | <b>\$ 69,453</b>                              | <b>\$ 75,037</b> |

**Supplemental disclosure of cash flow information:**

|  |    |       |    |       |
|--|----|-------|----|-------|
| Taxes paid   | \$ | 4,139 | \$ | 4,347 |
| Interest paid  | \$ | 21    | \$ | 29    |
| Training equipment obtained in exchange for services | \$ | 1,203 | \$ | 671   |
| Accrued capital expenditures                         | \$ | 1,428 | \$ | 495   |
| Capitalized stock-based compensation                 | \$ | 33    | \$ |       |

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

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

**1. Nature of the Business**

We are a leading provider of post-secondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians. We offer undergraduate degree, diploma and certificate programs at 10 campuses and manufacturer specific advanced training (MSAT) programs that are sponsored by the manufacturer or dealer at dedicated training centers. We work closely with leading original equipment manufacturers (OEMs) in the automotive, diesel, motorcycle and marine industries to understand their needs for qualified service professionals and to develop recruitment, training and employment strategies that are driven by end market demand.

**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 and six months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending September 30, 2009. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 26, 2008.

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

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

**3. Recent Accounting Pronouncements**

Recent accounting pronouncements are disclosed in our 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 26, 2008. During the six months ended March 31, 2009 there have been no new accounting pronouncements which are expected to significantly impact our consolidated financial statements.

**4. Fair Value Measurements**

In accordance with Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, we measure our money market funds included in cash and cash equivalents at fair value, which was the same as cost at March 31, 2009. Our money market funds are classified within Level 1 and were valued primarily using real-time quotes for transactions in active exchange markets involving identical assets. At March 31, 2009, our cash and cash equivalents were invested in a mutual fund that invests in U.S. treasury notes, U.S. treasury bills and repurchase agreements collateralized by U.S. treasury notes and U.S. treasury bills.

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

**5. Weighted Average Number of Common Shares Outstanding**

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the assumed conversion of all dilutive securities. For the six months ended March 31, 2009, 1,824,834 shares, and for the three months and six months ended March 31, 2008, 2,110,714 shares and 1,890,085 shares, respectively, which could be issued under outstanding options or unvested restricted stock, were not included in the determination of our diluted shares outstanding as they were anti-dilutive. For the three months ended March 31, 2009, diluted loss per share equals basic loss per share as the assumed exercise of outstanding stock options, vesting of unvested restricted stock and the assumed purchases under the employee stock purchase plan would have an anti-dilutive effect.

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

|   | <b>Three Months Ended<br/>March 31,</b> |                       | <b>Six Months Ended<br/>March 31,</b> |             |
|---|---|-----------------------|---------------------------------------|-------------|
|   | <b>2009</b>                             | <b>2008</b>           | <b>2009</b>                           | <b>2008</b> |
|   |   | <b>(In thousands)</b> |                                       |             |
| Basic common shares outstanding                 | 24,529                                  | 25,349                | 24,812                                | 26,072      |
| Dilutive effect related to employee stock plans |   | 244                   | 342                                   | 404         |
| Diluted common shares outstanding               | 24,529                                  | 25,593                | 25,154                                | 26,476      |

**6. Property and Equipment, net**

Property and equipment, net consist of the following:

|  | <b>Depreciable<br/>Lives (in<br/>years)</b> | <b>March 31,</b> | <b>September<br/>30,</b> |
|--|---|------------------|--------------------------|
|  |   | <b>2009</b>      | <b>2008</b>              |
| Training equipment                             | 3 10  | \$ 62,152        | \$ 62,184                |
| Office and computer equipment                  | 3 10  | 27,894           | 27,847                   |
| Software developed for internal use            | 3   | 7,070            | 6,962                    |
| Curriculum development                         | 5   | 643              | 584                      |
| Vehicles                                       | 5   | 697              | 761                      |
| Leasehold improvements                         | 1 28  | 34,531           | 33,675                   |
| Construction in progress                       |   | 5,844            | 2,332                    |
|  |   | 138,831          | 134,345                  |
| Less accumulated depreciation and amortization |   | (70,019)         | (66,087)                 |
|  |   | \$ 68,812        | \$ 68,258                |

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

**7. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following:

|                                   | <b>March 31,<br/>2009</b> | <b>September 30,<br/>2008</b> |
|-----------------------------------|---------------------------|-------------------------------|
| Accounts payable                  | \$ 4,868                  | \$ 5,126                      |
| Accrued compensation and benefits | 27,346                    | 24,675                        |
| Other accrued expenses            | 9,253                     | 8,194                         |
|                                   | <b>\$ 41,467</b>          | <b>\$ 37,995</b>              |

**8. Commitments and Contingencies*****Legal***

In the ordinary conduct of our business, we are periodically subject to lawsuits, investigations and claims, including, but not limited to, claims involving students or graduates and routine employment matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, results of operations, cash flows or financial condition.

***Proprietary Loan Program***

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

The bank agreed to provide these services in exchange for a fee equivalent to 0.4% of the principal balance of each loan and related fees. Under the terms of the related agreements, we placed a \$2.0 million deposit with the bank in July 2008 in order to secure our related loan purchase obligation. This balance is included in other assets in our consolidated balance sheet.

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

In substance, we provide the students who participate in this program with extended payment terms for a portion of their tuition and as a result, we account for the underlying transactions in accordance with our tuition revenue recognition policy. However, due to the nature of the program coupled with the extended payment terms required under the student loan agreements, collectibility is not reasonably assured. Accordingly, we will recognize tuition revenue and loan origination fees financed by the loan and any related interest income required under the loan when such amounts are collected. We will reevaluate this policy on the basis of our historical collection experience under the program and will accelerate recognition of the related revenue if appropriate. During the three months and six months ended March 31, 2009, we expensed approximately \$0.2 million and \$0.4 million, respectively, related to the fees incurred with the bank and other service providers. Since loan collectibility is not reasonably assured, the loans and related deferred tuition revenue will not be recognized in our consolidated balance sheet until sufficient collection history has been obtained.

Our Board of Directors authorized the extension of up to \$10 million of credit at the inception of the proprietary loan program during 2008 and authorized an additional \$10 million of credit under the program during the three months ended March 31, 2009. As of March 31, 2009, we had committed to provide loans to our students for approximately \$9.8 million and of that amount there was approximately \$7.5 million in loans outstanding. During the three months and six months ended March 31, 2009, we expensed approximately \$0.2 million and \$0.4 million, respectively related to the fees incurred with the bank and other service providers.

**9. Stock Repurchase Program**

On November 26, 2007, our Board of Directors authorized the repurchase of up to \$50.0 million of our common stock in the open market or through privately negotiated transactions. The timing and actual number of shares purchased will depend on a variety of factors such as price, corporate and regulatory requirements, and prevailing market conditions. We may terminate or limit the stock repurchase program at any time without prior notice. Through September 30, 2008, we had purchased 1,886,300 shares at a total cost of approximately \$29.5 million under this program. During the three months ended March 31, 2009 we purchased 1,552,981 shares at an average price per share of \$10.87 and a total cost of approximately \$16.9 million. At March 31, 2009, we have purchased 3,439,281 shares at an average price per share of \$13.50 and a total cost of approximately \$46.4 million under this program. On April 28, 2009, our Board of Directors authorized the repurchase of up to an additional \$20.0 million of our common stock in the open market or through privately negotiated transactions.

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

**10. Segment Reporting**

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

|                               | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|-------------------------------|---------------------------|-------------|-------------------------|-------------|
|                               | <b>March 31,</b>          |             | <b>March 31,</b>        |             |
|                               | <b>2009</b>               | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
| Net revenues                  |                           |             |                         |             |
| Post-secondary education      | \$ 84,843                 | \$ 83,588   | \$ 170,567              | \$ 169,165  |
| Other                         | 4,282                     | 4,569       | 8,679                   | 9,027       |
| Consolidated                  | \$ 89,125                 | \$ 88,157   | \$ 179,246              | \$ 178,192  |
| Income (loss) from operations |                           |             |                         |             |
| Post-secondary education      | \$ 1,180                  | \$ 2,508    | \$ 5,116                | \$ 11,721   |
| Other                         | (1,383)                   | (233)       | (1,730)                 | (142)       |
| Consolidated                  | \$ (203)                  | \$ 2,275    | \$ 3,386                | \$ 11,579   |
| Depreciation and amortization |                           |             |                         |             |
| Post-secondary education      | \$ 4,277                  | \$ 4,262    | \$ 8,504                | \$ 8,512    |
| Other                         | 178                       | 148         | 322                     | 279         |
| Consolidated                  | \$ 4,455                  | \$ 4,410    | \$ 8,826                | \$ 8,791    |
| Goodwill                      |                           |             |                         |             |
| Post-secondary education      | \$ 20,579                 | \$ 20,579   | \$ 20,579               | \$ 20,579   |
| Other                         |                           |             |                         |             |
| Consolidated                  | \$ 20,579                 | \$ 20,579   | \$ 20,579               | \$ 20,579   |
| Total assets                  |                           |             |                         |             |
| Post-secondary education      | \$ 189,916                | \$ 195,008  | \$ 189,916              | \$ 195,008  |
| Other                         | 6,137                     | 5,294       | 6,137                   | 5,294       |
| Consolidated                  | \$ 196,053                | \$ 200,302  | \$ 196,053              | \$ 200,302  |



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

*The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in this report and those in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 26, 2008. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in such forward-looking statements as a result of certain factors, including but not limited to, those described under Risk Factors included in Part II, Item IA of this report.*

**2009 Overview**

**Operations**

Our net revenues for the three months and six months ended March 31, 2009 were \$89.1 million and \$179.2 million, respectively, increases of \$1.0 million, or 1.1%, and \$1.0 million, or 0.6%, respectively, from the prior year. Our net loss for the three months ended March 31, 2009 was \$0.1 million and our net income for the six months ended March 31, 2009 was \$2.2 million, decreases of \$2.0 million and \$6.2 million, respectively, from the prior year. The increase in net revenues for the three months and six months ended March 31, 2009 was primarily related to higher tuition prices and an increase in average undergraduate student enrollment, partially offset by the tuition revenue and loan origination fees financed under our proprietary loan program. Since collectibility is not reasonably assured, we will recognize the related amounts as tuition revenue when such amounts have been collected. Additionally, we had one less earning day in the three months and six months ended March 31, 2009, which offset the increase in revenue during those periods. Net income was impacted by higher compensation and related benefits expense, bad debt expense, and lower interest income. The higher costs were partially offset by lower advertising expense.

Average undergraduate full-time student enrollment increased 2.4% to 15,457 and 0.5% to 15,835 for the three months and six months ended March 31, 2009, respectively. Student starts for the three months and six months ended March 31, 2009 were 3,381 and 6,700, respectively, an increase of 19.5% and 12.5%, respectively, as compared to 2,829 and 5,955 for the three months and six months ended March 31, 2008, respectively. The increase in starts is a result of the increased number of contracts written for future students during the period of January through December 2008. During the three months ended March 31, 2009, the number of contracts written with future students increased, continuing the trend we experienced during calendar year 2008. Although we are continuing to see positive trends from our national advertising campaign and our adult-focused representatives, positive results in terms of student populations and tuition revenue lag such trends. We continue to focus on improving customer service levels, simplifying the application process, and identifying funding alternatives for our students. Our ability to attract prospective students to fill our existing capacity continues to be impacted by external factors primarily related to the general economic conditions, rising tuition, access to affordable funding, and relocation costs. In response to both the external environment and internal operational issues, we have implemented a plan that focuses on stabilizing and improving key operating efforts. We are uncertain when we will realize the benefits of these efforts.

The manufacturers we work with periodically review their technician hiring and training needs which results in adjustments to their training schedules and staffing requirements. Certain manufacturers performed such an assessment earlier this year which resulted in adjustments to their training schedules which has reduced our revenue. Additionally, since we require lower staffing levels to accommodate the training schedule, during the three months ended March 31, 2009, we provided severance packages and outplacement services to instructors impacted by the changes, which increased our salary expense during the period. The adjustment to the training schedules will continue to impact operating results of this segment through the remainder of this year. Some of those same manufacturers have identified additional training opportunities which will be offered as elective programs in our post-secondary segment. The revenue and related costs associated with those elective programs will therefore be included in the results of operations for our post-secondary segment in future periods.

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**Student Lending Environment**

Sallie Mae is discontinuing one of its loan products at the end of April 2009. We received \$5.8 million from the product during the six months ended March 31, 2009 as compared to \$11.5 million during the six months ended March 31, 2008. The product will be replaced by a new Sallie Mae loan program. The new loan program requires interest-only payments while borrowers are in school and has repayment terms of 6-7 years. The discontinued loan product did not require in-school payments, and had a repayment term of 15 years.

In order to provide funding for students who are not able to fully finance the cost of their education under traditional governmental financial aid programs, commercial loan programs or other alternative sources, we established a private loan program with a national chartered bank in June 2008. For a detailed discussion, see **Proprietary Loan Program** in Note 8 to our unaudited condensed consolidated financial statements within Part I, Item 1 of this report.

Our Board of Directors authorized the extension of up to \$10 million of credit at the inception of the proprietary loan program during 2008 and authorized an additional \$10 million of credit under the program during the three months ended March 31, 2009. As of March 31, 2009, we had committed to provide loans to our students for approximately \$9.8 million and of that amount there was approximately \$7.5 million in loans outstanding. During the three months and six months ended March 31, 2009, we expensed approximately \$0.2 million and \$0.4 million, respectively, related to the fees incurred with the bank and other service providers.

**Share Repurchase Program**

On November 26, 2007, our Board of Directors authorized the repurchase of up to \$50.0 million of our common stock in the open market or through privately negotiated transactions. The timing and actual number of shares purchased will depend on a variety of factors such as price, corporate and regulatory requirements, and prevailing market conditions. We may terminate or limit the stock repurchase program at any time without prior notice. Through September 30, 2008, we had purchased 1,886,300 shares at a total cost of approximately \$29.5 million under this program. During the three months ended March 31, 2009 we purchased 1,552,981 shares at an average price per share of \$10.87 and a total cost of approximately \$16.9 million. At March 31, 2009, we have purchased 3,439,281 shares at an average price per share of \$13.50 and a total cost of approximately \$46.4 million under this program. On April 28, 2009, our Board of Directors authorized the repurchase of up to an additional \$20.0 million of our common stock in the open market or through privately negotiated transactions.

**Table of Contents****Results of Operations**

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

|                                     | Three Months Ended<br>March 31, |        | Six Months Ended<br>March 31, |        |
|-------------------------------------|---------------------------------|--------|-------------------------------|--------|
|                                     | 2009                            | 2008   | 2009                          | 2008   |
| Net Revenues                        | 100.0%                          | 100.0% | 100.0%                        | 100.0% |
| Operating expenses:                 |                                 |        |                               |        |
| Educational services and facilities | 54.9%                           | 53.1%  | 53.9%                         | 52.2%  |
| Selling, general and administrative | 45.3%                           | 44.3%  | 44.2%                         | 41.3%  |
| Total operating expenses            | 100.2%                          | 97.4%  | 98.1%                         | 93.5%  |
| Income (loss) from operations       | -0.2%                           | 2.6%   | 1.9%                          | 6.5%   |
| Interest income                     | 0.0%                            | 1.0%   | 0.0%                          | 1.2%   |
| Other income                        | 0.1%                            | 0.0%   | 0.1%                          | 0.0%   |
| Total other income                  | 0.1%                            | 1.0%   | 0.1%                          | 1.2%   |
| Income (loss) before income taxes   | -0.1%                           | 3.6%   | 2.0%                          | 7.7%   |
| Income tax expense (benefit)        | 0.0%                            | 1.4%   | 0.8%                          | 3.0%   |
| Net income (loss)                   | -0.1%                           | 2.2%   | 1.2%                          | 4.7%   |

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

|  | Three Months Ended<br>March 31, |        | Six Months Ended<br>March 31, |        |
|--|---------------------------------|--------|-------------------------------|--------|
|  | 2009                            | 2008   | 2009                          | 2008   |
| Average undergraduate full-time student enrollment | 15,457                          | 15,092 | 15,835                        | 15,759 |
| Total seats available                              | 24,490                          | 25,090 | 24,490                        | 25,090 |
| Average capacity utilization                       | 63.1%                           | 60.2%  | 64.7%                         | 62.8%  |

During 2009, we plan to continue to seek alternative uses for our underutilized space at existing campuses. Alternate uses may include subleasing space to third parties, allocating space for use by our manufacturer specific advanced training programs, adding new industry relationships or consolidating administrative functions into campus facilities.

**Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008 and Six Months Ended March 31, 2009 Compared to Six Months Ended March 31, 2008**

**Net revenues.** Our net revenues for the three months ended March 31, 2009 were \$89.1 million, representing an increase of \$1.0 million, or 1.1%, as compared to net revenues of \$88.2 million for the three months ended March 31, 2008. This increase was due to tuition increases between 3% and 5%, depending on the program, and an increase in the average undergraduate full-time student enrollment of 2.4%. Our net revenues were decreased by approximately

\$1.8 million related to tuition revenue and loan origination fees financed under our proprietary loan program. Since collectibility is not reasonably assured, we will recognize the related amounts as tuition revenue when such amounts have been collected. Additionally, our net revenues were decreased by approximately \$1.4 million due to one less earning day in the three months ended March 31, 2009.

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Our net revenues for the six months ended March 31, 2009 were \$179.2 million, representing an increase of \$1.0 million, or 0.6%, as compared to net revenues of \$178.2 million for the six months ended March 31, 2008.

This increase was due to tuition increases between 3% and 5%, depending on the program, and by an increase in the average undergraduate full-time student enrollment of 0.5%. Our net revenues were decreased by approximately \$3.1 million related to tuition revenue and loan origination fees financed under our proprietary loan program. Since collectibility is not reasonably assured, we will recognize the related amounts as tuition revenue when such amounts have been collected. Additionally, our net revenues were decreased by approximately \$1.4 million due to one less earning day in the six months ended March 31, 2009.

**Educational services and facilities expenses.** Our educational services and facilities expenses for the three months and six months ended March 31, 2009 were \$48.9 million and \$96.6 million, respectively, an increase of \$2.1 million and \$3.6 million, respectively, as compared to \$46.8 million and \$93.0 million for the three months and six months ended March 31, 2008, respectively.

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

|  | Three Months Ended |           | % of Net Revenues |       | Impact on Operating Margin |
|--|--------------------|-----------|-------------------|-------|----------------------------|
|  | March 31,          |           | March 31,         |       |                            |
|  | 2009               | 2008      | 2009              | 2008  |                            |
|  | (in thousands)     |           |                   |       |                            |
| Compensation and related costs                     | \$ 26,254          | \$ 24,684 | 29.5%             | 28.0% | -1.5%                      |
| Occupancy costs                                    | 9,003              | 8,765     | 10.1%             | 9.9%  | -0.2%                      |
| Other educational services and facilities expenses | 5,945              | 6,023     | 6.7%              | 6.8%  | 0.1%                       |
| Depreciation expense                               | 3,773              | 3,752     | 4.2%              | 4.3%  | 0.1%                       |
| Tools and training aids expense                    | 2,201              | 2,439     | 2.5%              | 2.8%  | 0.3%                       |
| Contract services expense                          | 1,722              | 1,159     | 1.9%              | 1.3%  | -0.6%                      |
|  | \$ 48,898          | \$ 46,822 | 54.9%             | 53.1% | -1.8%                      |

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|   | Six Months Ended |           | % of Net Revenues |       | Impact on<br>Operating<br>Margin |
|---|------------------|-----------|-------------------|-------|----------------------------------|
|   | March 31,        |           | Six Months Ended  |       |                                  |
|   | 2009             | 2008      | 2009              | 2008  |                                  |
|   | (in thousands)   |           |                   |       |                                  |
| Compensation and related costs                        | \$ 51,066        | \$ 48,629 | 28.5%             | 27.3% | -1.2%                            |
| Occupancy costs                                       | 18,020           | 17,814    | 10.1%             | 10.0% | -0.1%                            |
| Other educational services and<br>facilities expenses | 12,511           | 12,197    | 6.8%              | 6.8%  | 0.0%                             |
| Depreciation expense                                  | 7,490            | 7,441     | 4.2%              | 4.2%  | 0.0%                             |
| Tools and training aids expense                       | 4,585            | 4,725     | 2.6%              | 2.7%  | 0.1%                             |
| Contract services expense                             | 2,968            | 2,202     | 1.7%              | 1.2%  | -0.5%                            |
|   | \$ 96,640        | \$ 93,008 | 53.9%             | 52.2% | -1.7%                            |

Total compensation and related costs increased by approximately \$1.6 million and \$2.4 million for the three months and six months ended March 31, 2009, respectively. The increase is attributable to higher support staff salaries, severance accrual and an increase in benefits expense. Salaries expense increased \$1.2 million and \$1.8 million for the three months and six months ended March 31, 2009, respectively, primarily as a result of an increase in the number of employees in our financial aid and other student support departments. We increased our staff in these areas in response to the increase in contracts from January 2008 through December 2008, the changing student funding environment, changes in the general economic conditions and changes to our internal processes. Additionally, we are hiring and training seasonal staff in these areas in advance of our peak start period in the fourth quarter. Salaries expense also increased by \$0.5 million related to severance accrued for employees impacted by adjustments to the training calendars for certain manufacturer specific training programs. The manufacturers we work with periodically review their technician hiring and training needs which results in adjustments to the training schedules and staffing requirements. Certain manufacturers performed such an assessment earlier this year which resulted in a reduction in the number of instructors. Benefits expense increased \$0.3 million and \$0.4 million for the three months and six months ended March 31, 2009, respectively, primarily due to increased expenses under our self-insured employee benefit plans.

Contract services expense increased \$0.6 million and \$0.8 million for the three months and six months ended March 31, 2009, respectively, primarily due to contracting consultants for process improvement projects in financial aid and admissions, and outplacement services for employees terminated during the quarter.

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**Selling, general and administrative expenses.** Our selling, general and administrative expenses for the three months and six months ended March 31, 2009 were \$40.4 million and \$79.2 million, respectively, representing an increase of \$1.4 million and \$5.6 million as compared to \$39.1 million and \$73.6 million for the three months and six months ended March 31, 2008, respectively.

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

|  | Three Months Ended |           | % of Net Revenues  |       | Impact on Operating Margin |
|--|--------------------|-----------|--------------------|-------|----------------------------|
|  | March 31,          |           | Three Months Ended |       |                            |
|  | 2009               | 2008      | 2009               | 2008  |                            |
|  | (in thousands)     |           |                    |       |                            |
| Compensation and related costs                     | \$ 22,044          | \$ 19,626 | 24.7%              | 22.3% | -2.4%                      |
| Other selling, general and administrative expenses | 7,932              | 7,560     | 8.9%               | 8.5%  | -0.4%                      |
| Advertising costs                                  | 7,152              | 8,470     | 8.0%               | 9.6%  | 1.6%                       |
| Contract services expense                          | 1,719              | 2,096     | 1.9%               | 2.4%  | 0.5%                       |
| Bad debt expense                                   | 1,583              | 1,308     | 1.8%               | 1.5%  | -0.3%                      |
|  | \$ 40,430          | \$ 39,060 | 45.3%              | 44.3% | -1.0%                      |

|  | Six Months Ended |           | % of Net Revenues |       | Impact on Operating Margin |
|--|------------------|-----------|-------------------|-------|----------------------------|
|  | March 31,        |           | Six Months Ended  |       |                            |
|  | 2009             | 2008      | 2009              | 2008  |                            |
|  | (in thousands)   |           |                   |       |                            |
| Compensation and related costs                     | \$ 44,731        | \$ 39,551 | 25.0%             | 22.2% | -2.8%                      |
| Other selling, general and administrative expenses | 14,616           | 14,602    | 8.2%              | 8.2%  | 0.0%                       |
| Advertising costs                                  | 13,153           | 13,274    | 7.3%              | 7.4%  | 0.1%                       |
| Contract services expense                          | 3,053            | 3,942     | 1.7%              | 2.2%  | 0.5%                       |
| Bad debt expense                                   | 3,667            | 2,236     | 2.0%              | 1.3%  | -0.7%                      |
|  | \$ 79,220        | \$ 73,605 | 44.2%             | 41.3% | -2.9%                      |

Compensation and related costs increased primarily due to increases in salaries and benefits expense. Salaries expense increased \$2.1 million and \$4.0 million for the three months and six months ended March 31, 2009, respectively, primarily due to an increase in the sales force representatives in response to our increase in the number and quality of leads we have been experiencing. Benefits expense increased \$0.3 million and \$0.9 million for the three months and six months ended March 31, 2009, respectively, primarily due to increased expenses under our self-insured employee benefit plans.

Advertising expense decreased \$1.3 million and \$0.1 million for the three months and six months ended March 31, 2009, respectively, primarily due to expenses concentrated in the three months ended March 31, 2008 related to the launch of a new advertising campaign.

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Contract services expense decreased \$0.4 million and \$0.9 million for the three months and six months ended March 31, 2009, respectively, primarily due to a decrease in information technology and financial consulting services, partially offset by an increase in creative services as we continue to invest in our national advertising campaign.

Bad debt expense increased \$0.3 million and \$1.4 million for the three months and six months ended March 31, 2009, respectively, due to changes in the student funding environment, our internal execution challenges, and the declining general economic conditions experienced over the past twelve months.

**Interest income.** Our interest income for the three months and six months ended March 31, 2009 was \$0.1 million, representing a decrease of \$0.8 million and \$2.1 million, respectively, as compared to \$0.9 million and \$2.2 million for the three months and six months ended March 31, 2008, respectively. During September 2008, we changed the investments of our cash and cash equivalents from a mutual fund invested in commercial paper, variable rate bonds, repurchase agreements, certificates of deposit, time deposits, municipal bonds, short-term corporate bonds and federal agency issues to a mutual fund that invests in U.S. treasury notes, U.S. treasury bills and repurchase agreements collateralized by U.S. treasury notes and U.S. treasury bills. During the three months ended March 31, 2009 we used \$16.9 million of cash to repurchase outstanding common stock of the company. These changes resulted in the decreases to interest income.

**Income taxes.** Our provision for income taxes for the six months ended March 31, 2009 was \$1.4 million, or 39.0% of pre-tax income, as compared to \$5.4 million, or 39.2% of pre-tax income for the six months ended March 31, 2009. The effective income tax rate in each year differed from the federal statutory tax rate of 35% primarily as a result of state income taxes, net of related federal income tax benefits. The decrease in the tax rate as a percentage of pretax income was primarily attributable to an adjustment of the prior year federal and state income tax liabilities.

**Liquidity and Capital Resources**

We finance our operating activities and our internal growth through cash generated from operations. Our net cash provided by operating activities was \$14.1 million for the six months ended March 31, 2009, as compared to \$6.1 million for the six months ended March 31, 2008.

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

**Operating Activities***Six months ended March 31, 2009*

For the six months ended March 31, 2009, our cash flows provided by operating activities were \$14.1 million resulting from net income of \$2.2 million with adjustments of \$13.1 million for non-cash and other items which were offset by \$1.3 million related to the change in our operating assets and liabilities.

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For the six months ended March 31, 2009, the primary adjustments to our net income for non-cash and other items were depreciation and amortization of \$8.8 million, substantially all of which was depreciation, bad debt expense of \$3.7 million, stock-based compensation of \$2.7 million and loss on sale of property and equipment of \$0.7 million, partially offset by a \$2.8 million change in deferred tax benefit.

*Six months ended March 31, 2008*

For the six months ended March 31, 2008, our cash flows provided by operating activities were \$6.1 million resulting from net income of \$8.4 million with adjustments of \$14.0 million for non-cash and other items which were offset by \$16.2 million related to the change in our operating assets and liabilities.

For the six months ended March 31, 2008, the primary adjustments to our net income for non-cash and other items were depreciation and amortization of \$8.8 million, substantially all of which was depreciation, stock-based compensation of \$2.8 million, bad debt expense of \$2.2 million and loss on sale of property and equipment of \$0.5 million partially offset by a reduction in deferred income taxes of \$0.4 million.

***Changes in operating assets and liabilities***

*Six months ended March 31, 2009*

For the six months ended March 31, 2009, changes in our operating assets and liabilities resulted in cash outflows of \$1.3 million and were primarily attributable to changes in prepaid expenses and deferred revenue, partially offset by changes in accounts payable and accrued expenses.

The increase in prepaid expenses resulted in a use of cash of \$1.0 million and was primarily due to cash paid in advance to our third party claims administrator under our self-insured worker's compensation plan of \$0.4 million and an increase in prepaid television advertising of \$0.6 million.

The decrease in deferred revenue resulted in a use of cash of \$3.3 million. The decrease was primarily attributable to the timing of student starts, the number of students in school and where they were at period end in relation to the completion of their program coupled with a decrease in student headcount at March 31, 2009 compared to September 30, 2008.

Accounts payable and accrued expenses increased \$2.7 million primarily due to increases in our accrued salaries and benefits due to an increase in employee headcount, salary increases, bonus increases for our sales representatives, and the timing of payroll tax payments at March 31, 2009 compared to September 30, 2008.

*Six months ended March 31, 2008*

For the six months ended March 31, 2008, changes in our operating assets and liabilities resulted in cash outflows of \$16.2 million and were primarily attributable to changes in receivables, deferred revenue, and prepaid expenses, partially offset by changes in accounts payable and accrued expenses and income taxes payable.

The increase in receivables resulted in a use of cash of \$6.2 million. In-school student receivables increased due to the challenges we experienced in outsourcing a portion of our student financial aid process and the resulting delay in receiving student financial aid funding used to settle the students in-school receivable. This was partially offset by a lower number of students in school at March 31, 2008 when compared to September 30, 2007. The increase in receivables also affected our days sales outstanding (DSO) which was approximately 16 days at March 31, 2008 compared to approximately 14 days at March 31, 2007.

The decrease in deferred revenue resulted in a use of cash of \$11.7 million and was primarily due to the decrease in students in school at March 31, 2008 when compared to September 30, 2007.

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Prepaid expenses increased \$0.8 million primarily due to payments made for worker's compensation of \$0.6 million and increase in prepaid advertising of \$0.3 million.

Accounts payable and accrued expenses increased \$0.8 million primarily due to \$1.3 million related to the timing of our payroll cycle and an increase of \$6.6 million for the bonus accruals related to the year ending September 30, 2008 partially offset by \$2.7 million in severance payments related to our reduction in force in September 2007, \$2.9 million in bonus payments primarily related to the year ended September 30, 2007 and \$2.8 million in bonus payments related to our high school focused sales representative graduate bonus plan.

We were in an income tax payable position at March 31, 2008 as compared to an income tax receivable position at September 30, 2007, due to the timing of income tax payments, which increased cash by \$1.6 million.

***Investing Activities***

*Six months ended March 31, 2009*

For the six months ended March 31, 2009, cash used in investing activities was \$8.4 million and was primarily related to the purchase of property and equipment associated with information technology projects, curriculum development, campus improvements and ongoing replacement of equipment related to student training.

*Six months ended March 31, 2008*

For the six months ended March 31, 2008, cash flows provided by investing activities were \$22.2 million and were primarily related to proceeds received from the sale of the Norwood, Massachusetts campus facility offset by capital expenditures associated with existing campus expansions and ongoing replacement of equipment related to student training.

***Financing Activities***

*Six months ended March 31, 2009*

For the six months ended March 31, 2009, cash flows used in financing activities were \$17.1 million and were primarily attributable to the repurchase of our stock.

*Six months ended March 31, 2008*

For the six months ended March 31, 2008, cash flows used in financing activities were \$28.9 million and were primarily attributable to the repurchase of our stock.

***Debt Service***

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

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***Future Liquidity Sources***

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

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

**Seasonality and Trends**

Our net revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in total student population and costs associated with opening or expanding our campuses. Student population varies as a result of new student enrollments, graduations and student attrition. Historically, our schools have had lower student populations in our third quarter, which ends on June 30, than in the remainder of the year because fewer students are enrolled during the summer months. Our expenses, however, do not vary significantly with changes in our student population and net revenues and, as a result, such expenses do not fluctuate significantly on a quarterly basis. We expect quarterly fluctuations in operating results to continue as a result of seasonal enrollment patterns. Such patterns may change however, as a result of new school openings, new program introductions, increased enrollments of adult students, increased investment in sales and marketing or acquisitions. In addition, our net revenues for the first quarter ending December 31 are adversely affected by the fact that we have fewer earning days when our campuses are closed during the calendar year end holiday break and accordingly do not recognize revenue during that period.

**Critical Accounting Policies and Estimates**

Our critical accounting policies are disclosed in our 2008 Annual Report on Form 10-K. During the six months ended March 31, 2009 there have been no significant changes in our critical accounting policies.

**Recent Accounting Pronouncements**

Recent accounting pronouncements are disclosed in our 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 26, 2008. During the six months ended March 31, 2009 there have been no new accounting pronouncements which are expected to significantly impact our consolidated financial statements.

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**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Historically, our principal exposure to market risk related to changes in interest rates. As of March 31, 2009, we held \$69.5 million in cash and cash equivalents. During the six months ended March 31, 2009, we earned interest income of \$0.1 million. In September 2008, we changed the investments of our cash and cash equivalents from a mutual fund invested in commercial paper, variable rate bonds, repurchase agreements, certificates of deposit, time deposits, municipal bonds, short-term corporate bonds and federal agency issues to a mutual fund that invests in U.S. treasury notes, U.S. treasury bills and repurchase agreements collateralized by U.S. treasury notes and U.S. treasury bills. Lower interest rates may reduce our interest income for fiscal year 2009.

As of March 31, 2009, we did not have significant short-term or long-term borrowings. Any future borrowings under our Revolving Credit Facility will be subject to interest rate risk. Please refer to the Form 10-K that we filed with the SEC on November 26, 2008 for additional information.

**Cautionary Factors That May Affect Future Results**

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

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

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission ( SEC ). The Form 10-K that we filed with the SEC on November 26, 2008 listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them under the heading Risk Factors in the Form 10-K. We incorporate that section of the Form 10-K in this filing and investors should refer to it. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties. Our filings with the SEC may be accessed at the SEC s web site at [www.sec.gov](http://www.sec.gov).

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**Item 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that occurred during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Notwithstanding the foregoing, in March 2009, Universal Technical Institute, Inc. hired a Vice President - Corporate Controller. This position supervises daily financial and internal control functions for the company and reports to the Chief Financial Officer. Inherent with any change in management is a change in understanding of the control environment and internal control over financial reporting. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected. We do not believe that the change in management has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

In the ordinary conduct of our business, we are periodically subject to lawsuits, investigations and claims including, but not limited to, claims involving students or graduates and routine employment matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party will have a material adverse effect on our business, results of operations, cash flows or financial condition.

**Item 1A. RISK FACTORS**

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

The information presented below updates and should be read in conjunction with the risk factors and information disclosed in our 2008 Annual Report on Form 10-K.

**Table of Contents*****Our business may be adversely affected by a general economic slowdown or recession in the U.S. or abroad.***

The U.S. economy and the economies of other key industrialized countries are characterized by reduced economic activity, increased unemployment and substantial uncertainty about their financial services markets. The U.S. and other key economies may be in or heading toward recession. In addition, homeowners in the U.S. have experienced an unprecedented reduction in wealth due to the decline in residential real estate values across much of the country. These events may reduce the demand for our programs among students, the willingness of employers to sponsor educational opportunities for their employees, and the ability of our students to find employment in the auto, diesel, motorcycle or marine industries, any of which could materially and adversely affect our business, financial condition, results of operations and cash flows. In particular, the consolidation of automotive dealerships may result in a shift of employment opportunities for our graduates into automobile aftermarket service from automotive dealerships where, historically, the placement of our graduates has been concentrated. In addition, these events could adversely effect the ability or willingness of our former students to repay student loans, which could increase our student loan cohort default rate and require increased time, attention and resources to manage these defaults. See *Risks Related to Our Industry* Our schools may lose eligibility to participate in Title IV programs if their student loan default rates are too high, which could reduce our student population, in our 2008 Annual Report on Form 10-K.

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

The following table summarizes the purchase of equity securities for the three months ended March 31, 2009:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period        | (a) Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | (b) Average<br>Price Paid<br>per Share | (c) Total<br>Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans | (d) Approximate<br>Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased<br>Under the Plans Or<br>Programs |
|---------------|--|--|--|--|
|               |  |  |  | (In thousands) <sup>(2)</sup>  |
| January 2009  |  | \$                                     |  | \$ 20,534  |
| February 2009 | 774,558  | \$ 11.57                               | 750,022  | \$ 11,842  |
| March 2009    | 802,959  | \$ 10.19                               | 802,959  | \$ 3,660   |
| Total         | 1,577,517  |  | 1,552,981  | \$ 3,660   |

(1) Total shares includes 24,536 shares of common stock delivered to us as payment of taxes on the vesting of shares of our common stock for February 2009, which were

granted subject to forfeiture restrictions under our 2003 Incentive Compensation Plan.

- (2) On November 26, 2007, our Board of Directors authorized the repurchase of up to \$50.0 million of our common stock in the open market or through privately negotiated transactions. This program was announced in a press release filed as an exhibit to the company's Form 8-K filed on November 27, 2007. On April 28, 2009, our Board of Directors authorized the repurchase of up to an additional \$20.0 million of our common stock in the open market or through privately negotiated transactions.

**Table of Contents****Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

(a) Our annual meeting of stockholders was held on February 25, 2009.

(b) Our stockholders voted as follows to elect three Class III directors to our board of directors:

| <b>Directors:</b> | <b>For:</b> | <b>Against:</b> | <b>Abstained:</b> |
|-------------------|-------------|-----------------|-------------------|
| Roger S. Penske   | 15,625,234  | 7,688,696       | 11,424            |
| John C. White     | 19,683,976  | 3,630,476       | 10,902            |
| Linda J. Srere    | 22,824,915  | 489,682         | 10,757            |

Directors whose term of office continued after the annual meeting include: Conrad A. Conrad, Kimberly J. McWaters, A. Richard Caputo, Allan D. Gilmour, and Alan E. Cabito.

(c) Our stockholders voted as follows to ratify the appointment of PricewaterhouseCoopers LLP as the independent auditors for our financial statements for the year ending September 30, 2009:

For: 23,215,160

Against: 51,492

Abstain: 58,702

**Item 6. EXHIBITS**

(a) Exhibits:

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 10.1          | Employment Agreement, dated March 6, 2009, between Registrant and Roger L. Speer. (Incorporated by reference to Exhibit 10.1 to a Form 8-K filed by the Registrant on March 6, 2009.) |
| 31.1          | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)   |
| 31.2          | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)   |
| 32.1          | Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)                         |
| 32.2          | Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)                         |

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**SIGNATURES**

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

UNIVERSAL TECHNICAL INSTITUTE, INC.

Dated: May 5, 2009

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

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**EXHIBIT INDEX**

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