

UNIVERSAL TECHNICAL INSTITUTE INC

Form 10-Q

May 03, 2010

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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, 2010

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

Commission File Number 1-31923

UNIVERSAL TECHNICAL INSTITUTE, INC.

(Exact name of registrant as specified in its charter)

Delaware

86-0226984

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

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

(Address of principal executive offices)

(623) 445-9500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 28, 2010, there were 24,116,659 shares outstanding of the registrant's common stock.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	March 31, 2010	September 30, 2009
	(\$ s in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,354	\$ 56,199
Investments, current portion	42,390	25,142
Receivables, net	12,485	14,892
Deferred tax assets	6,584	7,452
Prepaid expenses and other current assets	10,864	10,480
Total current assets	121,677	114,165
Investments, less current portion	7,053	3,806
Property and equipment, net	85,018	81,168
Goodwill	20,579	20,579
Other assets	3,528	3,633
Total assets	\$ 237,855	\$ 223,351
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 41,397	\$ 47,276
Deferred revenue	50,484	48,175
Accrued tool sets	4,789	4,276
Income tax payable		1,794
Other current liabilities	39	25
Total current liabilities	96,709	101,546
Deferred tax liabilities	871	3,086
Deferred rent liability	5,558	5,593
Other liabilities	5,491	6,428
Total liabilities	108,629	116,653
Commitments and contingencies (Note 9)		
Shareholders equity:		
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 28,986,435 shares issued and 24,116,209 shares outstanding at March 31, 2010 and 28,641,006 shares issued and 23,770,780 shares outstanding at September 30, 2009	3	3

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Preferred stock, \$0.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding		
Paid-in capital	148,015	140,813
Treasury stock, at cost, 4,870,226 shares at March 31, 2010 and September 30, 2009	(76,506)	(76,506)
Retained earnings	57,714	42,388
Total shareholders' equity	129,226	106,698
Total liabilities and shareholders' equity	\$ 237,855	\$ 223,351

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		Six Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Net revenues	\$ 105,631	\$ 89,125	\$ 209,153	\$ 179,246
Operating expenses:				
Educational services and facilities	51,593	48,898	100,520	96,640
Selling, general and administrative	44,154	40,430	83,693	79,220
Total operating expenses	95,747	89,328	184,213	175,860
Income (loss) from operations	9,884	(203)	24,940	3,386
Other income (expense):				
Interest income	74	59	122	138
Interest expense		(9)	(4)	(21)
Other income	116	72	251	143
Total other income	190	122	369	260
Income (loss) before income taxes	10,074	(81)	25,309	3,646
Income tax expense (benefit)	4,028	(1)	9,983	1,422
Net income (loss)	\$ 6,046	\$ (80)	\$ 15,326	\$ 2,224
Earnings per share:				
Net income per share basic	\$ 0.25	\$	\$ 0.64	\$ 0.09
Net income per share diluted	\$ 0.25	\$	\$ 0.63	\$ 0.09
Weighted average number of shares outstanding:				
Basic	23,957	24,529	23,891	24,812
Diluted	24,497	24,529	24,401	25,154

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

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

	Common Stock		Paid-in	Treasury Stock		Retained	Total	
	Shares	Amount	Capital	Shares	Amount	Earnings	Shareholders	
	(In thousands)							Equity
Balance at September 30, 2009	28,641	\$ 3	\$ 140,813	4,870	\$ (76,506)	\$ 42,388	\$ 106,698	
Net income						15,326	15,326	
Issuance of common stock under employee plans	367		3,314				3,314	
Shares withheld for payroll taxes	(22)		(523)				(523)	
Tax benefit from employee stock plans			1,028				1,028	
Stock-based compensation			3,383				3,383	
Balance at March 31, 2010	28,986	\$ 3	\$ 148,015	4,870	\$ (76,506)	\$ 57,714	\$ 129,226	

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

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

	For the Six Months Ended	
	March 31,	
	2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 15,326	\$ 2,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,834	8,826
Bad debt expense	2,979	3,667
Stock-based compensation	3,341	2,697
Deferred income taxes	(319)	(2,774)
Loss on disposal of property and equipment	80	706
Changes in assets and liabilities:		
Receivables	441	263
Prepaid expenses and other current assets	(411)	(988)
Other assets	79	45
Accounts payable and accrued expenses	(4,672)	2,667
Deferred revenue	2,309	(3,308)
Income tax payable (receivable)	(3,732)	(191)
Accrued tool sets and other current liabilities	527	157
Other liabilities	(282)	94
Net cash provided by operating activities	24,500	14,085
Cash flows from investing activities:		
Purchase of property and equipment	(14,567)	(8,448)
Proceeds from disposal of property and equipment	1	6
Purchase of investments	(25,755)	
Proceeds received upon maturity of investments	4,874	
Net cash used in investing activities	(35,447)	(8,442)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee plans	3,314	(134)
Payment of payroll taxes on stock-based compensation through shares withheld	(523)	
Excess tax benefit from stock-based compensation	1,311	1
Purchase of treasury stock		(16,935)
Net provided by (used in) financing activities	4,102	(17,068)
Net decrease in cash and cash equivalents	(6,845)	(11,425)
Cash and cash equivalents, beginning of period	56,199	80,878
Cash and cash equivalents, end of period	\$ 49,354	\$ 69,453

Supplemental disclosure of cash flow information:

Taxes paid	\$ 12,751	\$ 4,139
Interest paid	\$ 4	\$ 21
Training equipment obtained in exchange for services	\$ 382	\$ 1,203
Accrued capital expenditures	\$ (1,207)	\$ 1,428
Capitalized stock-based compensation	\$ 42	\$ 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 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 enrollment and graduates. We offer undergraduate degree, diploma and certificate programs at 10 campuses across the United States under the banner of several well-known brands, including Universal Technical Institute (UTI), Motorcycle Mechanics Institute and Marine Mechanics Institute (collectively, MMI) and NASCAR Technical Institute (NTI). We also offer manufacturer-specific training programs including both student paid electives at our campuses and manufacturer or dealer sponsored training 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. Through our relationships with OEMs, we are able to continuously refine and expand our programs and curricula. We believe our industry-oriented educational philosophy and national presence have enabled us to develop valuable industry relationships which provide us with significant competitive strength and support our market leadership.

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, 2010 are not necessarily indicative of the results that may be expected for the year ending September 30, 2010. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on December 1, 2009.

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. Investments

We invest predominantly in pre-refunded 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. 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.
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(\$ s in thousands, except per share amounts)

Amortized cost and estimated fair market value for investments classified as held-to-maturity at March 31, 2010 are as follows:

	Amortized Cost	Gross Unrealized		Estimated Fair Market Value
		Gains	Losses	
Certificates of deposit due in less than 1 year	\$ 5,482	\$	\$ (1)	\$ 5,481
Certificates of deposit due in 1 - 2 years	5,150	1	(1)	5,150
Bonds due in less than 1 year	36,908	19	(10)	36,917
Bonds due in 1 - 2 years	1,903		(4)	1,899
	\$ 49,443	\$ 20	\$ (16)	\$ 49,447

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

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The valuation techniques used to determine fair value are consistent with either the market approach, income approach and/or cost approach. The following three-tier fair value hierarchy that prioritizes the inputs used in the valuation techniques to measure fair value:

Level 1 Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;

Level 2 Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and

Level 3 Unobservable inputs that are supported by little or no market activity that are significant to the fair value of assets or liabilities.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. We use prices and inputs that are current as of the measurement date, including during periods of market volatility. Therefore, classification of inputs within the hierarchy may change from period to period depending upon the ability to observe those prices and inputs. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value for certain assets and liabilities and their placement within the fair value hierarchy.

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

At March 31, 2010, we held \$46.1 million in money market mutual funds, municipal bonds and certificates of deposit which are classified within cash and cash equivalents in our consolidated balance sheet. We measure fair value for these instruments using quoted market prices for identical assets (Level 1).

5. Postemployment Benefits

Periodically, we have entered into agreements with personnel whose employment terminated and recorded charges for postemployment benefits. The postemployment benefit liability, which is included in accounts payable and accrued expenses on the accompanying condensed consolidated balance sheets, will be paid out ratably over the terms of the agreements, which range from 1 to 18 months, with the final agreement expiring in December 2010.

The following table summarizes the postemployment activity for the six months ended March 31, 2010:

	Liability Balance at September 30, 2009	Postemployment Benefit Charges	Cash Paid	Other Non-cash⁽¹⁾	Liability Balance at March 31, 2010
Severance	\$ 1,741	\$ 367	\$ (1,079)	\$ (300)	\$ 729
Other	182	47	(73)	(120)	36
Total	\$ 1,923	\$ 414	\$ (1,152)	\$ (420)	\$ 765

⁽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. For the three months and six months ended March 31, 2010, 641,726 shares and 706,407 shares, respectively, and for the three months and six months ended March 31, 2009, 1,903,926 shares and 1,824,834 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. 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.

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

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

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
	(In thousands)			
Weighted average number of shares				
Basic shares outstanding	23,957	24,529	23,891	24,812
Dilutive effect related to employee stock plans	540		510	342
Diluted shares outstanding	24,497	24,529	24,401	25,154

In June 2008, the Financial Accounting Standards Board issued guidance for determining whether instruments granted in share-based payment transactions are participating securities. This guidance clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and requires such awards be included in the computation of earnings per share (EPS) pursuant to the two-class method. We adopted this guidance effective October 1, 2009 and it did not have a material impact on our EPS calculations.

7. Property and Equipment, net

Property and equipment, net consist of the following:

	Depreciable	March 31,	September
	Lives (in	2010	30,
	years)	2009	2009
Land		\$ 1,456	\$ 1,456
Buildings and building improvements	35	10,068	7,654
Leasehold improvements	1-28	36,503	35,859
Training equipment	3-10	65,480	63,982
Office and computer equipment	3-10	36,760	35,187
Software developed for internal use	3-5	8,031	6,883
Curriculum development	5	643	643
Vehicles	5	714	695
Construction in progress		11,602	6,813
		171,257	159,172
Less accumulated depreciation and amortization		(86,239)	(78,004)
		\$ 85,018	\$ 81,168

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(\$ s in thousands, except per share amounts)

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	March 31, 2010	September 30, 2009
Accounts payable	\$ 3,728	\$ 7,515
Accrued compensation and benefits	28,152	30,218
Other accrued expenses	9,517	9,543
	\$ 41,397	\$ 47,276

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

In the ordinary conduct of our business, we are periodically subject to lawsuits, investigations and claims, including, but not limited to, claims involving students or graduates and routine employment matters. Based on internal review, we record reserves using our best estimate of the probable and reasonably estimable contingent liabilities. 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 2008. Under terms of the related agreement, 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 or withdraws from his or her program. After the deferral period, monthly principal and interest payments are required over the related term of the loan.

The 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 agreement, we have a \$2.0 million deposit with the bank in order to secure our related loan purchase obligation. This balance is classified as other assets in our consolidated balance sheets at March 31, 2010 and September 30, 2009.

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, collectability is not reasonably assured. Accordingly, we 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. All related expenses incurred with the bank or other service providers are expensed as incurred and were approximately \$0.2 million and \$0.4 million during the three months and six months ended March 31, 2010, respectively, and \$0.2 million and \$0.4 million during the three months and six months ended March 31, 2009, respectively. Since loan collectability is not reasonably assured, the loans and related deferred tuition revenue are presented net and therefore are effectively not recognized in our consolidated balance sheet. This presentation will be reevaluated when sufficient collection history has been obtained.

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

The following table aggregates the impact on tuition revenue and interest income of our proprietary loan program from inception through the periods indicated:

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 11,844	\$ 1,810	\$ 9,052	\$ 490
Amounts excluded	2,932	1,941	5,931	3,261
Amounts collected and recognized	(64)	(3)	(83)	(3)
Amounts written-off	(482)		(670)	
Balance at end of period	\$ 14,230	\$ 3,748	\$ 14,230	\$ 3,748

Our Board of Directors authorized the extension of up to an aggregate of \$30.0 million of credit under our proprietary loan program. As of March 31, 2010, we had committed to provide loans to our students for approximately \$21.1 million.

The balance outstanding under the program includes loans outstanding, interest and origination fees and, as previously discussed, are not reflected in our condensed consolidated balance sheets. 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. We write-off balances when loans are turned over to external collection agencies which is typically after 150 days of non-payment. The following table summarizes the activity in our proprietary loan program for the six months ended March 31, 2010:

	September					March 31,
	30,	Loans	Interest	Payments	Write-offs	
	2009	Extended	Accrued	Received	Write-offs	2010
Balance outstanding	\$ 14,671	\$ 6,104	\$ 811	\$ (83)	\$ (670)	\$ 20,833

Deferred Compensation Plan

Effective April 1, 2010, we have established a Deferred Compensation Plan (the Plan) into which certain members of management are eligible to defer a maximum of 75% of their regular compensation (i.e. salary) and a maximum of 100% of their incentive bonus. Non-employee members of our Board of Directors are eligible to defer up to 100% of their cash compensation. The amounts deferred under this Plan are credited with earnings or losses based upon changes in values of notional investments elected by the participant. Each participant is fully vested in the amounts the individual defers.

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

We will make incentive contributions of 50% of deferrals up to 5% of the participant's salary. Company contributions will also be made to the extent that a participant's 401(k) match is reduced due to participation in the Plan. The contributions will vest according to a five year vesting schedule. We may also make discretionary contributions to accomplish strategic objectives.

Distribution elections under the Plan may be for separation from service distribution or in-service distribution. Separation from service under the Plan is defined as termination of service through death, retirement or other reasons or reduction of services to 20% or less of the average level of services performed. At separation from service, participants will be able to elect to receive amounts in: (i) a single lump sum, (ii) annual installments over a period of two to ten years or (iii) a partial lump sum with the balance paid in two to ten annual installments. If a participant elects to receive their separation from service account in six or more annual installments, and their age plus years of service is less than sixty at the time of separation, the account balance will be paid in five annual installments. Alternatively, participants can schedule in-service penalty-free future distributions from the Plan while they are employed as long as the distribution is scheduled at the time of deferral.

Upon the death or disability of a participant, the participant or their designated beneficiary will receive the participant's account balance in a single lump sum. Unforeseeable emergency distributions are available upon approval by us and in accordance with applicable tax laws. A separation from service within two years of a change in control will be paid in a single lump sum, regardless of the elected form of distribution.

We are not obligated to fund the liability of the Plan. However, we have established a rabbi trust in order to offset the liability and protect the interest of the Plan participants in the event of a change of control.

10. Stock Repurchase Program

In previous years, our Board of Directors authorized the repurchase of up to \$70.0 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. At March 31, 2010, 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. We did not make any purchases during the six months ended March 31, 2010.

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

11. Segment Information

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

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Net revenues				
Postsecondary education	\$ 103,564	\$ 84,843	\$ 204,391	\$ 170,567
Other	2,067	4,282	4,762	8,679
Consolidated	\$ 105,631	\$ 89,125	\$ 209,153	\$ 179,246
Income (loss) from operations				
Postsecondary education	\$ 10,875	\$ 1,180	\$ 26,459	\$ 5,116
Other	(991)	(1,383)	(1,519)	(1,730)
Consolidated	\$ 9,884	\$ (203)	\$ 24,940	\$ 3,386
Depreciation and amortization				
Postsecondary education	\$ 4,320	\$ 4,277	\$ 8,499	\$ 8,504
Other	142	178	335	322
Consolidated	\$ 4,462	\$ 4,455	\$ 8,834	\$ 8,826
Goodwill				
Postsecondary education	\$ 20,579	\$ 20,579	\$ 20,579	\$ 20,579
Other				
Consolidated	\$ 20,579	\$ 20,579	\$ 20,579	\$ 20,579
Total assets				
Postsecondary education	\$ 235,211	\$ 189,916	\$ 235,211	\$ 189,916
Other	2,644	6,137	2,644	6,137
Consolidated	\$ 237,855	\$ 196,053	\$ 237,855	\$ 196,053

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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 2009 Annual Report on Form 10-K filed with the SEC on December 1, 2009. 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.

2010 Overview

Operations

Our average undergraduate full-time student enrollment increased 18.0% to 18,241 students and 16.7% to 18,472 students for the three months and six months ended March 31, 2010, respectively, resulting in revenue growth of 18.5% and 16.7%, respectively. Our net revenues for the three months and six months ended March 31, 2010 were \$105.6 million and \$209.2 million, respectively, increases of \$16.5 million and \$30.0 million, respectively, from the prior year. Our net income for the three months and six months ended March 31, 2010 was \$6.0 million and \$15.3 million, respectively, increases of \$6.1 million and \$13.1 million, respectively, from the prior year. The increase in net revenues for the three months and six months ended March 31, 2010 was primarily due to an increase in average undergraduate student enrollment, an increase in tuition rates, and a decrease in tuition discounts. Our net revenues for the three months and six months ended March 31, 2010 excluded \$2.5 million and \$5.1 million, respectively, of tuition revenue related to students participating in our proprietary loan program. Additionally, our net revenues related to our industry training programs declined during the period. Net income was impacted by higher compensation and related benefits expense and higher advertising expense.

Student starts for the three months and six months ended March 31, 2010 were 4,135 and 7,985, respectively, increases of 22.3% and 19.2%, respectively as compared to 3,381 and 6,700 for the three months and six months ended March 31, 2009. The increase in starts is a result of the investments we made in our student recruitment representatives as well as the recruitment, training and development of additional financial aid and future student advisors during 2009. In addition, although not quantifiable, we believe broader economic conditions have contributed to a portion of our recent enrollment growth.

Student Lending Environment

In March 2010, the Health Care and Education Affordability Reconciliation Act was signed into law which discontinues the Federal Family Education Loan program effective after June 30, 2010 under which banks and other lending institutions make loans to students or their parents. Under this legislation, such loans will be available only through the existing Federal Direct Loan Program under which we are currently processing loans.

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 proprietary loan program with a national chartered bank in June 2008. For a detailed discussion, see Proprietary Loan Program in Note 9 to our Condensed Consolidated Financial Statements within Part I, Item 1 of this report.

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The following table aggregates the impact on tuition revenue and interest income of our proprietary loan program from inception through the periods indicated:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 11,844	\$ 1,810	\$ 9,052	\$ 490
Amounts excluded	2,932	1,941	5,931	3,261
Amounts collected and recognized	(64)	(3)	(83)	(3)
Amounts written-off	(482)		(670)	
Balance at end of period	\$ 14,230	\$ 3,748	\$ 14,230	\$ 3,748

Our Board of Directors authorized the extension of up to an aggregate of \$30.0 million of credit under our proprietary loan program. As of March 31, 2010, we had committed to provide loans to our students for approximately \$21.1 million.

The balance outstanding under the program includes loans outstanding, interest and origination fees and, as previously discussed, are not reflected in our condensed consolidated balance sheet. 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. We write-off balances when loans are turned over to external collection agencies which is typically after 150 days of non-payment. The following table summarizes the activity in our proprietary loan program for the six months ended March 31, 2010:

	September 30, 2009	Loans Extended	Interest Accrued	Payments Received	Write-offs	March 31, 2010
Balance outstanding	\$ 14,671	\$ 6,104	\$ 811	\$ (83)	\$ (670)	\$ 20,833

New Campus

We are planning to open a new campus in Dallas/Ft. Worth, Texas in the second half of 2010, providing our automotive program. In the following three months to six months, we anticipate offering our automotive/diesel training programs.

Through March 31, 2010, we have invested approximately \$11.4 million in the building and land purchase, building improvements and equipment, with approximately \$2.2 million of that investment occurring during the six months ended March 31, 2010. We anticipate making an additional investment of approximately \$6.7 million in preparing this campus for opening over the next three months. During the three months and six months ended March 31, 2010, we have incurred approximately \$1.0 million and \$1.6 million in operating expenses related to opening our new campus and we anticipate we will incur approximately \$7.5 million in total during 2010. We anticipate this new campus will become profitable within 9 months to 15 months after opening.

Curriculum Transformation

As discussed in prior filings, we are transforming our curriculum to a blend of instructor-led training and web-based training for our auto and diesel courses. The curriculum will include modular components that can be modified for other programs we offer. To date we have invested approximately \$8.5 million for this transformation and anticipate investing within the range of \$6.0 million to \$9.0 million during the second half of 2010.

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Deferred Compensation Plan

Effective April 1, 2010, we have established a Deferred Compensation Plan (the Plan) into which certain members of management are eligible to defer a maximum of 75% of their regular compensation (i.e. salary) and a maximum of 100% of their incentive bonus. Non-employee members of our Board of Directors are eligible to defer up to 100% of their cash compensation. The amounts deferred under this Plan are credited with earnings or losses based upon changes in values of notional investments elected by the participant. Each participant is fully vested in the amounts the individual defers.

We will make incentive contributions of 50% of deferrals up to 5% of the participant's salary. Company contributions will also be made to the extent that a participant's 401(k) match is reduced due to participation in the Plan. The contributions will vest according to a five year vesting schedule. We may also make discretionary contributions to accomplish strategic objectives. See Deferred Compensation Plan in Note 9 to our Condensed Consolidated Financial Statements within Part I, Item 1 of this report for more detailed information.

Regulatory Update

In November 2009, the U.S. Department of Education (ED) convened two groups of negotiators to develop new regulations related to the oversight of the Title IV programs and foreign schools. In accordance with the requirements of the Higher Education Act, ED was obligated to convene a committee of various constituencies to discuss revisions to the regulations, and the members of the committee would negotiate the terms of the revisions with ED. This process is referred to as negotiated rulemaking. If the committee reaches consensus on all topics, then ED is obligated to propose the regulations to the public in the form agreed to by the committee. If the committee does not reach consensus on all topics, then ED can attempt to move forward with revisions to the regulations as originally proposed or change certain provisions without additional discussion.

The program integrity negotiated rulemaking process addressed 14 different topics and the committee responsible for discussing these provisions, which included representatives of the various higher education constituencies, was unable to reach consensus on the form of all of the proposed rules. Accordingly, under the negotiated rulemaking protocol, ED can propose rules without regard to the tentative agreement or disagreement regarding certain issues. The most significant of the original ED proposals for our business are the following:

Adoption of a new definition of gainful employment for purposes of establishing and retaining program eligibility for Title IV student financial aid that includes provisions related to a debt-to-income ratio;

Modification of the standards relating to the payment of incentive compensation to employees involved in student recruitment and enrollment; and

Changes to the current clock-to-credit hour conversion ratio for the purpose of calculating financial aid funding for all non-degree programs.

ED is expected to issue its proposed regulations on these and the other issues for public comment sometime this spring or summer and final regulations prior to November 1, 2010, in order to be effective July 1, 2011. We cannot predict the form of the rules that ultimately will be proposed by ED for public comment or any final rules that may be adopted following the comment period. If the rules regarding incentive compensation, gainful employment and clock-to-credit hour conversion ratio are adopted in the form presented by the ED in the negotiated rulemaking session, they could have a material impact on the manner in which we conduct our business.

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In March 2010, the Patient Protection and Affordable Care Act and the Healthcare and Education Affordability Reconciliation Act were signed into law. We are currently evaluating the impact of this legislation but do not anticipate a material effect to our business.

Industry Background

The U.S. Department of Labor recently released data related to the market for qualified service technicians which estimated that in 2008 there were approximately 764,000 working automotive technicians in the United States, and this number was expected to increase by 4.7% from 2008 to 2018. Other 2008 estimates provided by the U.S. Department of Labor indicate that from 2008 to 2018 the number of technicians in the other industries we serve, including diesel repair, collision repair, motorcycle repair and marine repair, are expected to increase by 5.7%, 0.5%, 9.0% and 5.9%, respectively. This need for technicians is due to a variety of factors, including technological advancement in the industries our graduates enter, a continued increase in the number of automobiles, trucks, motorcycles and boats in service, as well as an aging and retiring workforce that generally requires training to keep up with technological advancements and maintain its technical competency. As a result of these factors, it is estimated that an average of approximately 31,200 new job openings will exist annually for new entrants from 2008 to 2018 in the fields we serve, according to data collected by the U.S. Department of Labor.

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 March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Net Revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Educational services and facilities	48.8%	54.9%	48.1%	53.9%
Selling, general and administrative	41.8%	45.3%	40.0%	44.2%
Total operating expenses	90.6%	100.2%	88.1%	98.1%
Income (loss) from operations	9.4%	-0.2%	11.9%	1.9%
Interest income	0.0%	0.0%	0.1%	0.0%
Other income	0.1%	0.1%	0.1%	0.1%
Total other income	0.1%	0.1%	0.2%	0.1%
Income (loss) before income taxes	9.5%	-0.1%	12.1%	2.0%
Income tax expense	3.8%	0.0%	4.8%	0.8%
Net income (loss)	5.7%	-0.1%	7.3%	1.2%

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Average undergraduate full-time student enrollment	18,241	15,457	18,472	15,835
Total seats available	25,475	24,490	25,475	24,490
Average capacity utilization	71.6%	63.1%	72.5%	64.7%

The increase in our total seats available was primarily due to classrooms transferred to our automotive programs as a result of reductions in and discontinuation of training for certain manufacturer specific training programs. We continue to seek alternate 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, 2010 Compared to Three Months Ended March 31, 2009 and Six Months Ended March 31, 2010 Compared to Six Months Ended March 31, 2009

Net revenues. Our net revenues for the three months ended March 31, 2010 were \$105.6 million, representing an increase of \$16.5 million, or 18.5%, as compared to net revenues of \$89.1 million for the three months ended March 31, 2009. This increase was a result of an increase in the average undergraduate full-time student enrollment of 18.0%, tuition increases between 3% and 5%, depending on the program, and a decrease in tuition discounts of \$0.5 million. Our net revenues for the three months ended March 31, 2010 and 2009 excluded \$2.5 million and \$1.8 million, respectively, of tuition revenue related to students participating in our proprietary loan program. In accordance with our accounting policy, we will recognize the related revenue as payments are received from the students participating in this program. In addition, industry training revenue decreased by \$2.2 million due to reductions in and discontinuation of training 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 which resulted in a reduction in the number of courses offered, and in some cases, a shift of courses from manufacturer paid courses to student paid electives.

Our net revenues for the six months ended March 31, 2010 were \$209.2 million, representing an increase of \$30.0 million, or 16.7%, as compared to net revenues of \$179.2 million for the six months ended March 31, 2009. This increase was a result of an increase in the average undergraduate full-time student enrollment of 16.7%, tuition increases between 3% and 5%, depending on the program, and a decrease in tuition discounts of \$1.2 million. Our net revenues for the six months ended March 31, 2010 and 2009 excluded \$5.1 million and \$3.1 million, respectively, of tuition revenue related to students participating in our proprietary loan program. In accordance with our accounting policy, we will recognize the related revenue as payments are received from the students participating in this program. In addition, industry training revenue decreased by \$3.9 million due to reductions in and discontinuation of training for certain manufacturer specific training programs as discussed above.

Educational services and facilities expenses. Our educational services and facilities expenses for the three months and six months ended March 31, 2010 were \$51.6 million and \$100.5 million, respectively, an increase of \$2.7 million and \$3.9 million, respectively, as compared to \$48.9 million and \$96.6 million for the three months and six months ended March 31, 2009, respectively.

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

	Three Months Ended		% of Net Revenues	
	March 31,		Three Months Ended	
	2010	2009	2010	2009
	(In thousands)			
Compensation and related costs	\$ 27,364	\$ 26,254	25.9%	29.5%
Occupancy costs	8,838	9,003	8.4%	10.1%
Other educational services and facilities expenses	7,015	5,945	6.6%	6.7%
Depreciation expense	3,599	3,773	3.4%	4.2%
Tools and training aids expense	3,038	2,201	2.9%	2.5%
Contract services expense	1,739	1,722	1.6%	1.9%
	\$ 51,593	\$ 48,898	48.8%	54.9%

	Six Months Ended		% of Net Revenues	
	March 31,		Six Months Ended	
	2010	2009	2010	2009
	(In thousands)			
Compensation and related costs	\$ 53,183	\$ 51,066	25.4%	28.5%
Occupancy costs	17,774	18,020	8.5%	10.1%
Other educational services and facilities expenses	13,750	12,511	6.7%	6.8%
Depreciation expense	7,180	7,490	3.4%	4.2%
Tools and training aids expense	5,749	4,585	2.7%	2.6%
Contract services expense	2,884	2,968	1.4%	1.7%
	\$ 100,520	\$ 96,640	48.1%	53.9%

Total compensation and related costs increased by approximately \$1.1 million and \$2.1 million for the three months and six months ended March 31, 2010, respectively, primarily due to an increase in salaries expense of approximately \$0.8 million and \$2.0 million, respectively. This increase was due to the growth in average undergraduate full-time students and our related investment in the recruitment, training, and development of additional financial aid and future student advisors to ensure we provide the highest level of service to our future students.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the three months and six months ended March 31, 2010 were \$44.2 million and \$83.7 million, respectively, representing an increase of \$3.7 million and \$4.5 million as compared to \$40.4 million and \$79.2 million for the three months and six months ended March 31, 2009, respectively.

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

	Three Months Ended		% of Net Revenues	
	March 31,		Three Months Ended	
	2010	2009	2010	2009
	(In thousands)			
Compensation and related costs	\$ 24,960	\$ 22,044	23.6%	24.7%
Advertising costs	9,021	7,152	8.5%	8.0%
Other selling, general and administrative expenses	7,470	7,932	7.1%	8.9%
Contract services expense	1,220	1,719	1.2%	1.9%
Bad debt expense	1,483	1,583	1.4%	1.8%
	\$ 44,154	\$ 40,430	41.8%	45.3%

	Six Months Ended		% of Net Revenues	
	March 31,		Six Months Ended	
	2010	2009	2010	2009
	(In thousands)			
Compensation and related costs	\$ 48,544	\$ 44,731	23.2%	25.0%
Advertising costs	14,889	13,153	7.1%	7.3%
Other selling, general and administrative expenses	14,679	14,616	7.1%	8.2%
Contract services expense	2,602	3,053	1.2%	1.7%
Bad debt expense	2,979	3,667	1.4%	2.0%
	\$ 83,693	\$ 79,220	40.0%	44.2%

Compensation and related costs increased primarily due to an increase in salaries expense of \$2.1 million and \$3.0 million for the three months and six months ended March 31, 2010, respectively. The increase is primarily due to an increase in the number of sales force representatives who were hired to drive an increase in the number of enrollments. Salary expense also increased due to an increase in the number of staff to support the growth associated with the increase in average undergraduate full-time students.

Advertising expense increased \$1.9 million and \$1.7 million for the three months and six months ended March 31, 2010, respectively, primarily due to an increase in our advertising spend to generate additional high quality leads to support future student enrollments. We anticipate our advertising expense will increase during the second half of 2010 due to higher advertising costs overall and the local market support necessary for the launch of our new campus.

Income taxes. Our provision for income taxes for the three months and six months ended March 31, 2010 was \$4.0 million, or 40.0% of pre-tax income and \$10.0 million, or 39.4% of pre-tax income, respectively. We had minimal income tax benefit for the three months ended March 31, 2009 and our provision for income taxes for the six months ended March 31, 2009 was \$1.4 million, or 39.0% of pre-tax income. The effective income tax rate in each period differed from the federal statutory tax rate of 35% primarily as a result of state income taxes, net of related federal income tax benefits.

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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 \$24.5 million for the six months ended March 31, 2010, as compared to \$14.1 million for the six months ended March 31, 2009.

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 within 30 days of 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. 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, 2010

For the six months ended March 31, 2010, our cash flows provided by operating activities were \$24.5 million resulting from net income of \$15.3 million with adjustments of \$14.9 million for non-cash and other items which were offset by \$5.7 million related to the change in our operating assets and liabilities.

For the six months ended March 31, 2010, 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 \$3.0 million, and stock-based compensation of \$3.3 million.

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.

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 disposal of property and equipment of \$0.7 million, partially offset by a \$2.8 million change in deferred tax benefit.

Changes in operating assets and liabilities

Six months ended March 31, 2010

For the six months ended March 31, 2010, changes in our operating assets and liabilities resulted in cash outflows of \$5.7 million and were primarily attributable to changes in accounts payable and accrued expenses and income tax payable (receivable), partially offset by changes in deferred revenue.

The decrease in accounts payable and accrued expenses resulted in a use of cash of \$4.7 million and was primarily due to the timing of our accounts payable cycle and a decrease in accrued payroll and benefits. The timing of our accounts payable cycle resulted in a decrease in accounts payable and accrued expenses of \$2.6 million. Accrued payroll and benefits decreased \$2.1 million primarily due to the payment of 2009 bonuses and the timing of our payroll cycle.

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The change in income tax from a payable position to a receivable position resulted in cash used of \$3.7 million and was primarily due to the timing of tax payments.

The increase in deferred revenue resulted in cash provided of \$2.3 million. The increase was primarily attributable to the timing of student starts, the number of students in school and where they were at period end in relation to the completion of their program at March 31, 2010 compared to September 30, 2009.

Our days sales outstanding (DSO) was approximately 14 days at March 31, 2010 compared to approximately 19 days at March 31, 2009. The decrease of 5 days is due to our revenue growth and the decrease in accounts receivable.

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.

Investing Activities

Six months ended March 31, 2010

For the six months ended March 31, 2010, cash used in investing activities was \$35.4 million and was primarily related to our investment of \$25.8 million in pre-funded municipal bonds and certificates of deposit partially offset by \$4.9 million of proceeds received upon the maturity of investments, all of which were re-invested. Additionally, we invested \$14.6 million for 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, 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.

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Financing Activities

Six months ended March 31, 2010

For the six months ended March 31, 2010, cash flows provided by financing activities were \$4.1 million and were primarily attributable to proceeds from issuance of common shares under employee plans and excess tax benefit from stock-based compensation.

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.

Future Liquidity Sources

Based on past performance and current expectations, we believe that our cash flows from operations, cash on hand and investments will satisfy our working capital needs, capital expenditures, commitments, and other liquidity requirements associated with our operations through the next 12 months.

We believe that the strategic use of our cash resources includes funding our new campus as well as subsidizing funding alternatives for our students. In addition, we evaluate the repurchase of our common stock, payment of dividends, consideration of strategic acquisitions and other potential uses of cash. To the extent that potential acquisitions are large enough to require financing beyond cash from operations, we may 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. Our 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 than in the remainder of our year because fewer students are enrolled during the summer months. Additionally, our schools have had higher student populations in our fourth quarter than in the remainder of the year because more students enroll during this period. Our expenses, however, do not vary significantly with changes in student population and 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 or acquisitions. In addition, our net revenues for the first quarter ending December 31 are impacted by the fact that we have fewer earning days when our campuses are closed during the calendar year end holiday break and accordingly we do not earn revenue during that period.

Critical Accounting Policies and Estimates

Our critical accounting policies are disclosed in our 2009 Annual Report on Form 10-K, filed with the SEC on December 1, 2009. During the six months ended March 31, 2010 there have been no significant changes in our critical accounting policies.

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Recent Accounting Pronouncements

Recent accounting pronouncements are disclosed in our 2009 Annual Report on Form 10-K, filed with the SEC on December 1, 2009. During the six months ended March 31, 2010 there have been no new accounting pronouncements which are expected to significantly impact our consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposure to market risk relates to changes in interest rates. As of March 31, 2010, we held \$49.4 million in cash and cash equivalents and \$49.4 million in investments. During the six months ended March 31, 2010, we earned minimal interest income.

As of March 31, 2010, we did not have short-term or long-term borrowings. Any future borrowings will be subject to interest rate risk. Please refer to the Form 10-K that we filed with the SEC on December 1, 2009 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 regulatory initiatives, 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 SEC. The Form 10-K that we filed with the SEC on December 1, 2009 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.

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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, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, including the information contained in Part I, Item 3, you should carefully consider the factors discussed in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on December 1, 2009 and as updated below, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Regulatory

Pending rulemaking by the U.S. Department of Education may result in regulatory changes that could materially and adversely affect our business

In November 2009, the ED convened two groups of negotiators to develop new regulations related to the oversight of the Title IV programs and foreign schools. In accordance with the requirements of the Higher Education Act, ED was obligated to convene a committee of various constituencies to discuss revisions to the regulations, and the members of the committee would negotiate the terms of the revisions with ED. This process is referred to as negotiated rulemaking. If the committee reaches consensus on all topics, then ED is obligated to propose the regulations to the public in the form agreed to by the committee. If the committee does not reach consensus on all topics, then ED can attempt to move forward with revisions to the regulations as originally proposed or change certain provisions without additional discussion.

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The program integrity negotiated rulemaking process addressed 14 different topics and the committee responsible for discussing these provisions, which included representatives of the various higher education constituencies, was unable to reach consensus on the form of all of the proposed rules. Accordingly, under the negotiated rulemaking protocol, ED can propose rules without regard to the tentative agreement or disagreement regarding certain issues. The most significant of the original ED proposals for our business are the following:

Adoption of a new definition of gainful employment for purposes of establishing and retaining program eligibility for Title IV student financial aid that includes provisions related to a debt-to-income ratio;

Modification of the standards relating to the payment of incentive compensation to employees involved in student recruitment and enrollment; and

Changes to the current clock-to-credit hour conversion ratio for the purpose of calculating financial aid funding for all non-degree programs.

Impact of Rulemaking

ED is expected to issue its proposed regulations on these and the other issues for public comment sometime this spring or summer and final regulations prior to November 1, 2010, in order to be effective July 1, 2011. We cannot predict the form of the rules that ultimately will be proposed by ED for public comment or any final rules that may be adopted following the comment period. If the rules regarding incentive compensation, gainful employment and clock-to-credit hour conversion ratio are adopted in the form presented by the ED in the negotiated rulemaking session, they could have a material impact on the manner in which we conduct our business.

Our business may be adversely affected by general economic conditions in the U.S. or abroad

The U.S. economy and the economies of other key industrialized countries have been in a recession as characterized by reduced economic activity, increased unemployment and substantial uncertainty about their financial services markets. 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. Due to this shift and the general decline in economic conditions, it has been more difficult to place graduates. In addition, these events could adversely affect 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.

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The following table summarizes the purchase of equity securities for the three months ended March 31, 2010:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans Or Programs (In thousands)⁽²⁾
January 2010	916	\$ 20.09		\$ 23,660
February 2010	18,566	\$ 25.25		\$ 23,660
March 2010		\$		\$ 23,660
Total	19,482			\$ 23,660

(1) Represents shares of common stock delivered to us as payment of taxes on the vesting of shares of our common stock which were granted subject to forfeiture restrictions under our 2003 Incentive Compensation Plan.

(2) Our Board of Directors has authorized the repurchase of up to \$70.0 million of our common stock in the open market or through

privately
negotiated
transactions.

Item 5. OTHER INFORMATION

(a) Our annual meeting of stockholders was held on February 24, 2010.

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

Directors:	For:	Against:	Abstained:	Broker Non-Votes:
A. Richard Caputo, Jr.	20,333,655	402,019	3,759	1,990,825
Allan D. Gilmour	20,459,232	276,325	3,876	1,990,825

Directors whose term of office continued after the annual meeting include: Conrad A. Conrad, Kimberly J. McWaters, Alan E. Cabito, Roger S. Penske, John C. White, and Linda J. Sreer.

(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, 2010:

For: 22,625,739

Against: 100,301

Abstained: 4,218

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Item 6. EXHIBITS

(a) Exhibits:

Number	Description
10.1	Deferred Compensation Plan (Incorporated by reference to Exhibit 10.1 to a Form 8-K filed by the registrant on April 6, 2010.)
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 3, 2010

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