UNIVERSAL TECHNICAL INSTITUTE INC
Form 10-Q
May 04, 2011

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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

Commission File Number 1-31923

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

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

16220 North Scottsdale Road, Suite 100
Scottsdale, Arizona 85254
(Address of principal executive offices)
(623) 445-9500
(Registrant s telephone number, including area code)

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

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 o No o

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 o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(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 o No þ

At April 28, 2011, there were 24,447,433 shares outstanding of the registrant s common stock.

UNIVERSAL TECHNICAL INSTITUTE, INC.
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Special Note Regarding Forward-Looking Statements

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 historical or current facts. They often include words such as anticipate, estimate, expect, proje intend, plan, believe, will, and other words and terms of similar meaning in connection with any discussion of fu 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.

Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission (SEC). The Form 10-K that we filed with the SEC on December 1, 2010 listed various important factors that could cause actual results to differ materially from expected and historical 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 and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties. Our filings with the SEC may be accessed at the SEC s web site at www.sec.gov.

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PART I FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	March 31, 2011	September 30, 2010
	($ s in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 52,676	$ 48,974
Investments, current portion	34,644	28,528
Receivables, net	29,849	19,253
Deferred tax assets	6,777	8,840
Prepaid expenses and other current assets	10,409	9,836
Total current assets	134,355	115,431
Investments, less current portion	4,541	3,596
Property and equipment, net	106,186	99,040
Goodwill	20,579	20,579
Other assets	4,636	3,853
Total assets	$ 270,297	$ 242,499
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 48,772	$ 53,906
Deferred revenue	68,569	63,276
Accrued tool sets	5,080	5,066
Other current liabilities	67	66
Total current liabilities	122,488	122,314
Deferred tax liabilities	2,607	933
Deferred rent liability	10,105	5,621
Other liabilities	5,501	5,239
Total liabilities	140,701	134,107
Commitments and contingencies (Note 9)		
Shareholders equity:		
Common stock, $0.0001 par value, 100,000,000 shares authorized, 29,272,659 shares issued and 24,402,433 shares outstanding at March 31, 2011 and 29,148,585 shares issued and 24,278,359 shares outstanding at September 30, 2010	3	3

Preferred stock, $0.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding		
Paid-in capital	153,965	150,012
Treasury stock, at cost, 4,870,226 shares at March 31, 2011 and September 30, 2010	(76,506)	(76,506)
Retained earnings	52,134	34,883
Total shareholders equity	129,596	108,392
Total liabilities and shareholders equity	$ 270,297	$ 242,499

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 March 31,		Six Months Ended March 31,	
	2011	**2010**	**2011**	**2010**
	(In thousands, except per share amounts)			
Net revenues	$ 114,161	$ 105,631	$ 231,608	$ 209,153
Operating expenses:				
Educational services and facilities	57,692	51,593	111,528	100,520
Selling, general and administrative	45,079	44,154	91,837	83,693
Total operating expenses	102,771	95,747	203,365	184,213
Income from operations	11,390	9,884	28,243	24,940
Other income (expense):				
Interest income, net	55	74	143	118
Other income	125	116	255	251
Total other income	180	190	398	369
Income before income taxes	11,570	10,074	28,641	25,309
Income tax expense	4,575	4,028	11,390	9,983
Net income	$ 6,995	$ 6,046	$ 17,251	$ 15,326
Earnings per share:				
Net income per share basic	$ 0.29	$ 0.25	$ 0.71	$ 0.64
Net income per share diluted	$ 0.28	$ 0.25	$ 0.70	$ 0.63
Weighted average number of shares outstanding:				
Basic	24,366	23,957	24,323	23,891
Diluted	24,668	24,497	24,629	24,401

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 Shareholders
	Shares	Amount	Capital	Shares	Amount	Earnings	Equity
				(In thousands)			
Balance at September 30, 2010	29,149	$ 3	$ 150,012	4,870	$ (76,506)	$ 34,883	$ 108,392
Net income						17,251	17,251
Issuance of common stock under employee plans	143		493				493
Shares withheld for payroll taxes	(19)		(348)				(348)
Tax benefit from employee stock plans			255				255
Stock-based compensation			3,553				3,553
Balance at March 31, 2011	29,273	$ 3	$ 153,965	4,870	$ (76,506)	$ 52,134	$ 129,596

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)

	Six Months Ended March 31, 2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 17,251	$ 15,326
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,228	8,834
Amortization of held-to-maturity investments	479	729
Bad debt expense	3,802	2,979
Stock-based compensation	3,515	3,341
Excess tax benefit from stock-based compensation	(339)	(1,311)
Deferred income taxes	3,737	(319)
Loss on disposal of property and equipment	788	80
Changes in assets and liabilities:		
Receivables	(10,931)	441
Prepaid expenses and other current assets	(731)	(411)
Other assets	(789)	79
Accounts payable and accrued expenses	(7,079)	(4,672)
Deferred revenue	5,293	2,309
Income tax receivable	(3,212)	(2,421)
Accrued tool sets and other current liabilities	15	527
Deferred rent liability	4,484	(35)
Other liabilities	358	(247)
Net cash provided by operating activities	28,869	25,229
Cash flows from investing activities:		
Purchase of property and equipment	(18,151)	(14,567)
Proceeds from disposal of property and equipment	40	1
Purchase of investments	(26,200)	(26,484)
Proceeds received upon maturity of investments	18,660	4,874
Net cash used in investing activities	(25,651)	(36,176)
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee plans	493	3,314
Payment of payroll taxes on stock-based compensation through shares withheld	(348)	(523)
Excess tax benefit from stock-based compensation	339	1,311
Net provided by financing activities	484	4,102
Net increase (decrease) in cash and cash equivalents	3,702	(6,845)
Cash and cash equivalents, beginning of period	48,974	56,199

Cash and cash equivalents, end of period	$	52,676	$	49,354
Supplemental disclosure of cash flow information:				
Taxes paid	$	10,866	$	12,751
Training equipment obtained in exchange for services	$	482	$	382
Accrued capital expenditures	$	1,945	$	(1,207)
Capitalized stock-based compensation	$	38	$	42

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

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

1. Nature of the Business

We are the leading provider of postsecondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians as measured by total average undergraduate full-time student enrollment and graduates. We offer undergraduate degree, diploma and certificate programs at 11 campuses across the United States under the banner of several well-known brands, including Universal Technical Institute, Motorcycle Mechanics Institute and Marine Mechanics Institute and NASCAR Technical Institute. We also offer manufacturer-specific training 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. Government Regulation and Financial Aid

On October 29, 2010, the Department of Education (ED) issued new regulations pertaining to certain aspects of the administration of Title IV Programs, regulations which, with minor exceptions, become effective July 1, 2011. ED previously announced that it was delaying until 2011 publication of additional regulations concerning students gainful employment in recognized occupations, which are expected to become effective July 1, 2012 . ED has since issued interpretive guidance on the final regulations in the form of multiple Dear Colleague Letters to institutions. However, there remains uncertainty in how various aspects of the new regulations will be interpreted and applied which could increase the risk that ED could seek to impose monetary or other sanctions on us if it believed we were not in full compliance with all aspects of the new regulations.

We have devoted significant effort to understanding the effects of the new regulations on our business and to developing compliant solutions that are also congruent with our business, culture and mission to serve our students and industry partners. However, these solutions, and the development of additional solutions based on further analysis and interpretive guidance related to implementation and compliance with these final rules, including but not limited to, gainful employment, compensation, the definition of a credit hour, state authorization and the broadened definition of misrepresentation, may have a material impact on the manner in which we conduct our business, our student populations and nature of our programs, financial condition, cash flows, results of operations and stock price.

ED issued a Dear Colleague Letter (DCL) dated March 18, 2011 which created open questions and interpretive issues with respect to the final regulations related to determining what will constitute a credit hour. We may not be able to obtain sufficient guidance from ED or our accreditor prior to July 1, 2011 to understand and implement the definition of a credit hour based on the Carnegie Unit or its equivalent as required by the new regulations and the DCL. Students attending credit hour programs of study that are unable to meet the measurements under the Carnegie definition or its equivalent will likely receive less funds from the Title IV Programs to pay their cost of education with respect to those programs of study. Students interested in those programs of study and those affected by the reduction of year round Pell funding may have to use other non-Title IV Program funding, with such funding potentially being more expensive or unavailable and may include increased usage of our proprietary loan program.

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

Furthermore, we have made modifications to our employee compensation structures to comply with the elimination of the safe harbors in the current regulations and such modifications will be effective by July 1, 2011. Other companies in the industry have experienced and reported material adverse impacts to their business when changes to compensation have been implemented, but we cannot fully predict whether we will experience a similar impact given our dissimilar solutions, culture and timing, nor can we predict how significant any such impact will be. Our operating costs have and will change materially as we adjust compensation in a manner that we believe to be fair and compliant.

Interpretation of the new regulations is subject to change as ED provides further guidance and clarification. Existing or future understanding could be different from ED s interpretations and thus lead to changes in our operations, fines, restrictions or litigation, and such efforts or differences could reduce our enrollment, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and stock price.

3. 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, 2011 are not necessarily indicative of the results that may be expected for the year ending September 30, 2011. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2010 Annual Report on Form 10-K filed with the SEC on December 1, 2010.

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.

We lease substantially all of our administrative and educational facilities under operating lease agreements. Some lease agreements contain tenant improvement allowances, free rent periods or rent escalation clauses. In instances where one or more of these items are included in a lease agreement, we record a deferred rent liability on the consolidated balance sheets and record rent expense evenly over the initial term of the lease.

In September 2010, we entered into a leasing arrangement to relocate our headquarters during the second quarter of 2011. The lease included incentives such as a leasehold improvement allowance, moving allowance, and free rent periods which will be recognized on a straight-line basis over the initial lease term resulting in a $4.5 million increase in deferred rent.

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

4. Investments

We invest in pre-funded municipal bonds which are generally secured by escrowed-to-maturity U.S. Treasury notes. Municipal bonds represent debt obligations issued by states, cities, counties, and other governmental entities, which earn interest that is exempt from federal income taxes. Additionally, we invest in certificates of deposit issued by financial institutions and corporate bonds from large cap industrial and selected financial companies with a minimum credit rating of A. We have the ability and intent to hold our investments until maturity and therefore classify these investments as held-to-maturity and report them at amortized cost. We measure fair value for these instruments using quoted market prices for identical assets (Level 1).

The amortized cost and estimated fair market value for investments classified as held-to-maturity at March 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Certificates of deposit due in less than 1 year	$ 9,679	$ 2	$	$ 9,681
Certificates of deposit due in 1- 2 years	4,541			4,541
Municipal bonds due in less than 1 year	17,164	1	(10)	17,155
Corporate bonds due in less than 1 year	7,801		(9)	7,792
	$ 39,185	$ 3	$ (19)	$ 39,169

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.

5. 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.

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

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.

At March 31, 2011, we held $32.1 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).

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, 2011, 998,291 shares and 1,008,316 shares, respectively, and for the three months and six months ended March 31, 2010, 641,726 shares and 706,407 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.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(In thousands)			
Weighted average number of shares				
Basic shares outstanding	24,366	23,957	24,323	23,891
Dilutive effect related to employee stock plans	302	540	306	510
Diluted shares outstanding	24,668	24,497	24,629	24,401

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

7. Property and Equipment, net

Property and equipment, net consist of the following:

	Depreciable Lives (in years)	March 31, 2011	September 30, 2010
Land		$ 1,456	$ 1,456
Building and building improvements	35	13,622	13,269
Leasehold improvements	1-28	42,280	37,806
Training equipment	3-10	76,873	71,255
Office and computer equipment	3-10	38,810	38,397
Software developed for internal use	3-5	11,342	11,292
Curriculum development	5	16,083	14,726
Vehicles	5	770	726
Construction in progress		6,516	3,032
		207,752	191,959
Less accumulated depreciation and amortization		(101,566)	(92,919)
		$ 106,186	$ 99,040

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	March 31, 2011	September 30, 2010
Accounts payable	$ 5,208	$ 9,147
Accrued compensation and benefits	30,073	35,854
Other accrued expenses	13,491	8,905
	$ 48,772	$ 53,906

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.

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

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 condensed consolidated balance sheets.

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, 2011, respectively, and $0.2 million and $0.4 million during the three months and six months ended March 31, 2010, 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 sheets. Our presentation will be reevaluated when sufficient collection history has been obtained.

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

	Three Months Ended March 31,		Six Months Ended March 31,		Inception
	2011	2010	2011	2010	to date
Tuition revenue and interest income excluded	$ 2,030	$ 2,932	$ 4,390	$ 5,931	$ 25,017
Amounts collected and recognized	(210)	(64)	(352)	(83)	(663)
Amounts written-off	(1,169)	(482)	(2,917)	(670)	(5,344)
Aggregate amount excluded during the period	$ 651	$ 2,386	$ 1,121	$ 5,178	$ 19,010

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

Our Board of Directors authorized the extension of up to an aggregate of $40.0 million of credit under our proprietary loan program. At March 31, 2011, we have used approximately $27.4 million by either providing or committing to provide loans to our students. We monitor the aggregate amount approved under this program and may make changes in future periods.

The balance outstanding under the program includes loans outstanding and interest and origination fees which are not reflected in our condensed consolidated balance sheets.

The following table summarizes the activity in our proprietary loan program for the period indicated:

	Six Months Ended March 31,	
	2011	2010
Balance at beginning of period	$ 23,301	$ 14,671
Loans extended	3,032	6,104
Interest accrued	1,064	811
Amounts collected and recognized	(352)	(83)
Amounts written off	(2,917)	(670)
Balance at end of period	$ 24,128	$ 20,833

10. Common Shareholders Equity

Common Stock

Holders of our common stock are entitled to receive dividends when and as declared by the Board of Directors and have the right to one vote per share on all matters requiring shareholder approval.

Stock Repurchase Program

In previous years, our Board of Directors authorized the repurchase of up to $70.0 million of our common stock. Through March 31, 2011, we have purchased 3.4 million 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, 2011.

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UNIVERSAL TECHNICAL INSTITUTE, INC. AND SUBSIDIARIES
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.

Summary information by reportable segment is as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net revenues				
Postsecondary education	$ 111,989	$ 103,564	$ 227,443	$ 204,391
Other	2,172	2,067	4,165	4,762
Consolidated	$ 114,161	$ 105,631	$ 231,608	$ 209,153
Income (loss) from operations				
Postsecondary education	$ 12,533	$ 10,875	$ 30,149	$ 26,459
Other	(1,143)	(991)	(1,906)	(1,519)
Consolidated	$ 11,390	$ 9,884	$ 28,243	$ 24,940
Depreciation and amortization				
Postsecondary education	$ 5,998	$ 4,320	$ 11,944	$ 8,499
Other	148	142	284	335
Consolidated	$ 6,146	$ 4,462	$ 12,228	$ 8,834
Net Income (loss)				
Postsecondary education	$ 7,668	$ 6,624	$ 18,363	$ 16,202
Other	(673)	(578)	(1,112)	(876)
Consolidated	$ 6,995	$ 6,046	$ 17,251	$ 15,326
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	$ 267,783	$ 235,211	$ 267,783	$ 235,211
Other	2,514	2,644	2,514	2,644
Consolidated	$ 270,297	$ 237,855	$ 270,297	$ 237,855

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 2010 Annual Report on Form 10-K filed with the SEC on December 1, 2010. 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.

2011 Overview

Operations

Our average undergraduate full-time student enrollment increased 3.3% to 18,800 students and 5.9% to 19,600 students for the three months and six months ended March 31, 2011, respectively, resulting in revenue growth of 8.1% and 10.7%, respectively. Our revenues for the three months and six months ended March 31, 2011 were $114.2 million and $231.6 million, respectively, increases of $8.5 million and $22.5 million, respectively, from the prior year. Our net income for the three months and six months ended March 31, 2011 was $7.0 million and $17.3 million, respectively, increases of $0.9 million and $1.9 million, respectively, from the prior year. The increase in revenues for the three months and six months ended March 31, 2011 was primarily due to an increase in tuition rates and an increase in average undergraduate full-time student enrollment. Our revenues for the three months and six months ended March 31, 2011 excluded $1.5 million and $3.3 million, respectively, of tuition revenue related to students participating in our proprietary loan program.

Our operating results were impacted by an overall increase in compensation and benefits for the three months and six months ended March 31, 2011 due to an increase in our staffing levels in order to meet the increase in our average undergraduate full-time student enrollment. This increase was partially offset by a decrease during the three months ended March 31, 2011 as a result of modifications we are making to our compensation plans in response to the final regulations issued by the Department of Education (ED) in October 2010 which become effective July 1, 2011 and are discussed in the Regulatory Environment section below. The modifications resulted in a decrease in compensation and related costs of $2.3 million during the three months ended March 31, 2011, of which a $3.2 million decrease was recorded in selling, general and administrative expenses and a $0.9 million increase was recorded in educational services and facilities. We anticipate the modifications to the compensation plans for our Admissions organization combined with the change in the number of admissions representatives to decrease compensation and related expense for that organization by approximately $6.0 million during the year ended September 30, 2011, compared to the year ended September 30, 2010. Furthermore, if the number of our admissions representatives remains consistent during the year ended September 30, 2012, we anticipate an increase of approximately $6.0 million in compensation and related expenses. Specific to bonus plans for the remainder of the organization, we anticipate the modifications to compensation plans will decrease compensation and related expense by approximately $2.0 million during the year ended September 30, 2011, as compared to the year ended September 30, 2010.

Student starts for the three months and six months ended March 31, 2011 were 3,600 and 7,000, respectively, decreases of 12.4% and 12.8%, respectively, as compared to 4,100 and 8,000 for the three months and six months ended March 31, 2010, respectively. The decrease in starts was partially due to a decrease in student applications in the prior year and the result of certain economic and regulatory challenges. The general U.S. economic conditions, including the depth and longevity of unemployment impacting our typical student demographic, may be negatively impacting our operating results while it may be positively impacting our student outcome results. We anticipate new students for the year will be below fiscal 2010 levels producing single-digit revenue growth for the year. Given the lower than anticipated student populations, we are evaluating implementing meaningful cost structure changes during the second half of the year. With a heightened focus on improving efficiencies and cost containment we still expect operating margins for the year in the range of 11% to 13%. This guidance excludes any impact from new regulations which we cannot estimate at this time. Due to the seasonality of our business and normal fluctuations in student populations, we would expect volatility in our quarterly results.

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Regulatory Environment

On October 29, 2010, ED issued new regulations pertaining to certain aspects of the administration of Title IV Programs, regulations which, with minor exceptions, become effective July 1, 2011. ED previously announced that it was delaying until 2011 publication of additional regulations concerning students gainful employment in recognized occupations, which are expected to become effective July 1, 2012. ED has since issued interpretive guidance on the final regulations in the form of multiple Dear Colleague Letters to institutions. However, there remains uncertainty in how various aspects of the new regulations will be interpreted and applied, which could increase the risk that ED could seek to impose monetary or other sanctions on us if it believed we were not in full compliance with all aspects of the new regulations.

We have devoted significant effort to understanding the effects of the new regulations on our business and to developing compliant solutions that are also congruent with our business, culture and mission to serve our students and industry partners. However, these solutions, and the development of additional solutions based on further analysis and interpretive guidance related to implementation and compliance with these final rules, including but not limited to gainful employment, compensation, the definition of a credit hour, state authorization and the broadened definition of misrepresentation, may have a material impact on the manner in which we conduct our business, our student populations, and the nature of our programs, financial condition, cash flows, results of operations and stock price.

ED issued a Dear Colleague Letter (DCL) dated March 18, 2011 that created open questions and interpretive issues with respect to the final regulations related to determining what will constitute a credit hour. We may not be able to obtain sufficient guidance from ED or our accreditor prior to July 1, 2011 to understand and implement the definition of a credit hour based on the Carnegie Unit or its equivalent as required by the new regulations and the DCL. Students attending credit hour programs of study that are unable to meet the measurements under the Carnegie definition or its equivalent will likely receive less funds from the Title IV Programs to pay their cost of education with respect to those programs of study. Students interested in those programs of study and those affected by the reduction of year round Pell funding may have to use other non-Title IV Program funding, with such funding potentially being more expensive or unavailable and which may include increased usage of our proprietary loan program.

Furthermore, we have made modifications to our employee compensation structures to comply with the elimination of the safe harbors in the current regulations and such modifications will be effective by July 1, 2011. Other companies in the industry have experienced and reported material adverse impacts to their business when changes to compensation have been implemented, but we cannot fully predict whether we will experience a similar impact given our dissimilar solutions, culture and timing, nor can we predict how significant any such impact will be. Our operating costs have and will change materially as we adjust compensation in a manner that we believe to be fair and compliant (please see Overview; Operations).

Interpretation of the new regulations is subject to change as ED provides further guidance and clarification. Existing or future understanding could be different from ED s interpretations and thus lead to changes in our operations, fines, restrictions or litigation, and such efforts or differences could reduce our enrollment, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and stock price.

Curriculum Transformation

We are transforming our Automotive Technology and Diesel Technology II program curricula to a blend of daily instructor-led theory and hands-on lab training complemented by interactive web-based learning, which is reflective of current industry training methods and standards. In addition to improving the overall educational experience for our students, the new curricula offer more convenience and training flexibility for our students while meeting industry standards. We began offering the new curricula at the Dallas/Ft. Worth, Texas campus at the time of opening and we intend to integrate the new curricula at our other campuses in the future, starting with one of our other campuses which teaches Automotive/Diesel Technology programs, as early as the second quarter of 2012. To date we have invested approximately $18.3 million for this transformation and anticipate investing within the range of $1.0 million to $2.0 million during the remainder of 2011.

Graduate Placement

Securing employment opportunities in industry for our graduates is critical to our ability to help our graduates benefit from their education. Accordingly, we dedicate significant resources to maintaining an effective graduate placement team. Our campus-based staff instruct active students on employment search and interviewing skills, facilitate employer visits to campuses, provide access to reference materials and assist with the composition of resumes. We also have a centralized department whose focus is to develop job opportunities and referrals. We believe that our employment services program provides our students with a more compelling value proposition and enhances the employment opportunities for our graduates. Our consolidated placement rate for 2010 graduates improved 530 basis points during the three months ended March 31, 2011 when compared to the placement rate for 2009 graduates during the three months ended March 31, 2010.

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,	
	2011	2010	2011	2010
Net Revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Educational services and facilities	50.5%	48.8%	48.1%	48.1%
Selling, general and administrative	39.5%	41.8%	39.7%	40.0%
Total operating expenses	90.0%	90.6%	87.8%	88.1%
Income from operations	10.0%	9.4%	12.2%	11.9%
Interest income	0.0%	0.0%	0.1%	0.1%
Other income	0.1%	0.1%	0.1%	0.1%
Total other income	0.1%	0.1%	0.2%	0.2%
Income before income taxes	10.1%	9.5%	12.4%	12.1%
Income tax expense	4.0%	3.8%	5.0%	4.8%
Net income	6.1%	5.7%	7.4%	7.3%

We opened a new campus in Dallas/Ft. Worth, Texas in June 2010. For the three months and six months ended March 31, 2011, this campus had revenues of $2.5 million and $4.3 million, respectively, and operating expenses of $3.7 million and $6.9 million, respectively, including corporate allocations of $1.6 million and $3.1 million, respectively. For the three months and six months ended March 31, 2010, this campus had operating expenses of $1.0 million and $1.6 million, respectively, including corporate allocations of $0.6 million and $1.0 million, respectively.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the three months and six months ended March 31, 2011 were $17.9 million and $41.1 million, respectively, as compared to $14.7 million and $34.5 million for the three months and six months ended March 31, 2010, respectively. EBITDA is a non-GAAP financial measure which is provided to supplement, but not substitute for, the most directly comparable GAAP measure. We choose to disclose to investors this non-GAAP financial measure because it provides an additional analytical tool to clarify our results from operations and helps to identify underlying trends. Additionally, such measure helps compare our performance on a consistent basis across time periods. To obtain a complete understanding of our performance, this measure should be examined in connection with net income determined in accordance with GAAP. Since the items excluded from this measure are significant components in understanding and assessing financial performance under GAAP, this measure should not be considered to be an alternative to net income as a measure of our operating performance or profitability. Exclusion of items in our non-GAAP presentation should not be construed as an inference that these items are unusual, infrequent or non-recurring. Other companies, including other companies in the education industry, may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure across companies. Investors are encouraged to use GAAP measures when evaluating our financial performance.

EBITDA reconciles to net income as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(In thousands)			
Net income	$ 6,995	$ 6,046	$ 17,251	$ 15,326
Interest income, net	(55)	(74)	(143)	(118)
Income tax expense	4,575	4,028	11,390	9,983
Depreciation and amortization	6,355	4,690	12,645	9,320
EBITDA	$ 17,870	$ 14,690	$ 41,143	$ 34,511

Return on equity for the trailing four quarters ended March 31, 2011 was 26.2% compared to 25.6% percent for the trailing four quarters ended September 30, 2010. Return on equity is calculated as the sum of net income for the last four quarters divided by the average of our total shareholders equity balances at the end of each of the last five quarters.

Capacity utilization is the ratio of our average undergraduate full-time student enrollment to total seats available. Total seats available represents our maximum capacity; however, due to certain dynamics, our operating capacity tends to be lower. 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,	
	2011	2010	2011	2010
Average undergraduate full-time student enrollment	18,800	18,200	19,600	18,500
Total seats available	29,500	25,500	29,500	25,500
Average capacity utilization	63.7%	71.4%	66.4%	72.5%

The increase in our total seats available was primarily due to classrooms transferred to our Automotive Technology programs as a result of reductions in and discontinuation of training for certain manufacturer specific training programs and the opening of our Dallas/Ft. Worth, Texas campus. 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, 2011 Compared to Three Months Ended March 31, 2010 and Six Months Ended March 31, 2011 Compared to Six Months Ended March 31, 2010

Revenues. Our revenues for the three months ended March 31, 2011 were $114.2 million, representing an increase of $8.5 million, or 8.1%, as compared to revenues of $105.6 million for the three months ended March 31, 2010. This increase was a result of tuition rate increases between 3% and 5%, depending on the program, and an increase in the average undergraduate full-time student enrollment of 3.3%. Our revenues for the three months ended March 31, 2011 and 2010 excluded $1.5 million and $2.5 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. We recognized revenue and interest of $0.2 million under the program during the three months ended March 31, 2011 and minimal amounts during the three months ended March 31, 2010.

Our revenues for the six months ended March 31, 2011 were $231.6 million, representing an increase of $22.5 million, or 10.7%, as compared to net revenues of $209.2 million for the six months ended March 31, 2010. This increase was a result of an increase in the average undergraduate full-time student enrollment of 5.9% as well as tuition increases between 3% and 5%, depending on the program. Our revenues for the six months ended March 31, 2011 and 2010 excluded $3.3 million and $5.1 million, respectively, of tuition revenue related to students participating in our proprietary loan program. We recognized revenue and interest of $0.3 million under the program during the six months ended March 31, 2011, and minimal amounts during the six months ended March 31, 2010.

Educational services and facilities expenses. Our educational services and facilities expenses for the three months and six months ended March 31, 2011 were $57.7 million and $111.5 million, respectively, an increase of $6.1 million and $11.0 million, respectively, as compared to $51.6 million and $100.5 million for the three months and six months ended March 31, 2010, respectively. Our educational services and facilities expenses for the three months and six months ended March 31, 2011 for our Dallas/Ft. Worth, Texas campus were $2.0 million and $3.6 million, respectively, including corporate allocations of $0.3 million and $0.5 million, respectively; for the three months and six months ended March 31, 2010, the expenses were $0.2 million and $0.4 million, respectively, including minimal corporate allocations.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(In thousands)			
Compensation and related costs	$ 32,022	$ 27,364	$ 60,468	$ 53,183
Occupancy costs	9,037	8,838	18,126	17,774
Other educational services and facilities expenses	5,865	5,852	11,453	11,047
Depreciation expense	4,714	3,599	9,261	7,180
Tools and training aids expense	2,954	3,038	6,283	5,749
Supplies and maintenance	3,100	2,902	5,937	5,587
	$ 57,692	$ 51,593	$ 111,528	$ 100,520

Compensation and related costs increased $4.7 million and $7.3 million during the three months and six months ended March 31, 2011, respectively, and was primarily due to the addition of instructors to support our higher average undergraduate full-time student enrollment, additional staff dedicated to student outcomes as well as the modifications to our compensation plans discussed previously. Compensation and related costs for our Dallas/Ft. Worth, Texas campus were $0.8 million and $1.4 million for the three months and six months ended March 31, 2011, including corporate allocations of $0.1 million and $0.2 million, respectively; the expenses were minimal for the three months and six months ended March 31, 2010.

Depreciation expense increased $1.1 million and $2.1 million for the three months and six months ended March 31, 2011, respectively, and was primarily due to the addition of assets related to our Automotive Technology and Diesel Technology II curriculum project and the opening of our Dallas/Ft. Worth, Texas campus during the last half of 2010. Depreciation expense related to our Automotive Technology and Diesel Technology II curriculum was $0.7 million and $1.4 million for the three months and six months ended March 31, 2011, respectively and for our Dallas/Ft. Worth, Texas campus was $0.3 million and $0.6 million for the three months and six months ended March 31, 2011, respectively.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the three months and six months ended March 31, 2011 were $45.1 million and $91.8 million, respectively, representing an increase of $0.9 million and $8.1 million, respectively, as compared to $44.2 million and $83.7 million for the three months and six months ended March 31, 2010, respectively. Our selling, general and administrative expenses for the three months and six months ended March 31, 2011 for our Dallas/Ft. Worth, Texas campus were $1.7 million and $3.3 million, respectively, including corporate allocations of $1.3 million and $2.5 million, respectively; for the three months and six months ended March 31, 2010, the expenses were $0.7 million and $1.2 million, respectively, including corporate allocations of $0.6 million and $0.9 million, respectively.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(In thousands)			
Compensation and related costs	$ 23,816	$ 24,960	$ 49,291	$ 48,544
Advertising expense	8,736	9,021	16,765	14,889
Other selling, general and administrative expenses	7,933	6,382	15,829	12,544
Bad debt expense	1,519	1,483	3,802	2,979
Depreciation expense	1,639	1,088	3,379	2,135
Contract services expense	1,436	1,220	2,771	2,602
	$ 45,079	$ 44,154	$ 91,837	$ 83,693

Compensation and related costs decreased by $1.1 million for the three months ended March 31, 2011 primarily due to modifications to our compensation plans discussed previously. Compensation and related costs increased by $0.7 million for the six months ended March 31, 2011 primarily due to an increase in the number of staff to support the transformation of our Automotive Technology and Diesel Technology II program curricula, increases which were partially offset by the compensation changes noted above. Our compensation and related costs for the three months and six months ended March 31, 2011 for our Dallas/Ft. Worth, Texas campus were $0.6 million and $1.3 million, respectively, including corporate allocations of $0.3 million and $0.7 million, respectively; for the three months and six months ended March 31, 2010, the expenses were $0.4 million and $0.7 million, respectively, including corporate allocations of $0.3 million and $0.5 million, respectively.

Advertising expense increased $1.9 million for the six months ended March 31, 2011 primarily due to an increase in our spending on internet media. We expect our advertising expense to remain in the range of approximately 8.0% 9.0% of revenues for the remainder of the year, and approximately 7.5% 8.5% of revenues for the full year.

Depreciation expense increased $1.2 million for the six months ended March 31, 2011 primarily related to the addition of software developed for internal use, acceleration of depreciation related to the move of our corporate offices in March 2011 and investments in information technology infrastructure.

Income taxes. Our provision for income taxes for the three months and six months ended March 31, 2011 was $4.6 million, or 39.5% of pre-tax income, and $11.4 million, or 39.8% of pre-tax income, respectively. 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. 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.

Liquidity and Capital Resources

Based on past performance and current expectations, we believe that our cash flows from operations, cash on hand and investments will satisfy our working capital needs, capital expenditures, commitments, and other liquidity requirements associated with our existing 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. Our aggregate cash and cash equivalents and current investments were $87.3 million at March 31, 2011.

Our principal source of liquidity is operating cash flows. 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. 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, 2011

For the six months ended March 31, 2011, our cash flows provided by operating activities were $28.9 million resulting from net income of $17.3 million with adjustments of $24.2 million for non-cash and other items which were offset by $12.6 million related to the change in our operating assets and liabilities.

For the six months ended March 31, 2011, the primary adjustments to our net income for non-cash and other items were depreciation and amortization of $12.2 million, substantially all of which was depreciation, bad debt expense of $3.8 million, stock-based compensation of $3.5 million, and deferred income taxes of $3.7 million

Six months ended March 31, 2010

For the six months ended March 31, 2010, our cash flows provided by operating activities were $25.2 million resulting from net income of $15.3 million with adjustments of $14.3 million for non-cash and other items which were offset by $4.4 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.

Changes in operating assets and liabilities

Six months ended March 31, 2011

For the six months ended March 31, 2011, changes in our operating assets and liabilities resulted in cash outflows of $12.6 million and were primarily attributable to changes in receivables, accounts payable and accrued expenses and income tax receivable, partially offset by changes in deferred revenue and deferred rent.

The increase in our receivables resulted in a use of cash of $10.9 million. This was primarily due to the timing of the receipt of financial aid funding.

The decrease in accounts payable and accrued expenses resulted in a use of cash of $7.1 million and was primarily due to the timing of our payroll cycle, payments of 2010 bonuses and the modifications to our compensation plans.

The change in income tax from a payable position to a receivable position resulted in cash used of $3.2 million and was primarily due to the timing of tax payments.

The increase in deferred revenue resulted in cash provided of $5.3 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, 2011 compared to September 30, 2010.

In September 2010, we entered into a leasing arrangement to relocate our headquarters during the second quarter of 2011. The lease included incentives such as a leasehold improvement allowance, moving allowance, and free rent periods which will be recognized on a straight-line basis over the initial lease term resulting in a $4.5 million increase in deferred rent.

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 $4.4 million and were primarily attributable to changes in accounts payable and accrued expenses and income tax 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.

The change in income tax from a payable position to a receivable position resulted in cash used of $2.4 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.

Investing Activities

Six months ended March 31, 2011

For the six months ended March 31, 2011, cash used in investing activities was $25.7 million and was primarily related to our investment of $18.1 million in office leasehold improvements, our Automotive Technology and Diesel Technology II program curricula and in new and replacement training equipment for our ongoing operations. We had cash outflows of $26.2 million for purchases of investments, and cash inflows of $18.7 from proceeds received upon maturity of investments.

Six months ended March 31, 2010

For the six months ended March 31, 2010, cash used in investing activities was $36.2 million and was primarily related to our investment of $26.5 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.

Financing Activities

Six months ended March 31, 2011 and 2010

During the six months ended March 31, 2011 and 2010, cash used in or provided by financing activities was primarily attributable to activity in our stock-based compensation plans.

Seasonality and Trends

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to changes in total student population and costs associated with opening or expanding our campuses. 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 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 revenues for the first quarter ending December 31 are impacted by the closure of our campuses for a week in December for a holiday break and, accordingly, we do not earn revenue during that closure period.

Operating income is negatively impacted during the initial start up of new campus openings. We incur sales and marketing costs as well as campus personnel costs in advance of the campus opening. Typically we begin to incur such costs approximately 12 to 15 months in advance of the campus opening, with the majority of the costs being incurred in the nine month period prior to a campus opening.

Critical Accounting Policies and Estimates

Our critical accounting policies are disclosed in our 2010 Annual Report on Form 10-K, filed with the SEC on December 1, 2010. During the six months ended March 31, 2011 there have been no significant changes in our critical accounting policies.

Recent Accounting Pronouncements

Recent accounting pronouncements are disclosed in our 2010 Annual Report on Form 10-K, filed with the SEC on December 1, 2010. During the six months ended March 31, 2011 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

There have been no significant changes to our market risk since September 30, 2010. For a discussion of our exposure to market risk, refer to our 2010 Annual Report on Form 10-K, filed with the SEC on December 1, 2010.

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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, 2011 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 IA of our Annual Report on Form 10-K filed with the SEC on December 1, 2010 and as updated below, which could materially affect our business, financial condition or operating 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 or operating results.

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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, 2011:

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 2011	442	$ 19.75		$ 23,660
February 2011	13,641	$ 18.38		$ 23,660
March 2011				$ 23,660
Total	14,083			$ 23,660

(1) Represents shares of common stock withheld by 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.

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Item 6. EXHIBITS

Number	Description
10.1	Employment Agreement, dated March 7, 2011, between the Company and Kimberly J. McWaters. (Incorporated by reference to the Form 8-K filed by the Registrant on March 8, 2011).
10.2	Employment Agreement, dated March 7, 2011, between the Company and Eugene S. Putnam, Jr. (Incorporated by reference to the Form 8-K filed by the Registrant on March 8, 2011).
10.3	Employment Agreement, dated March 7, 2011, between the Company and John C. White. (Incorporated by reference to the Form 8-K filed by the Registrant on March 8, 2011).
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.)

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 4, 2011

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