UNIVERSAL TECHNICAL INSTITUTE INC
Form S-1
April 05, 2004

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As filed with the Securities and Exchange Commission on April 5, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Universal Technical Institute, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**8200**	**86-0226984**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(IRS Employer Identification Number)*

20410 North 19th Avenue, Suite 200
Phoenix, Arizona 85027
(623) 445-9500
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Robert D. Hartman
Chairman of the Board
Universal Technical Institute
20410 North 19th Avenue, Suite 200
Phoenix, Arizona 85027
(623) 445-9500
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Joseph P. Richardson, Esq.	**George A. Stephanakis, Esq.**
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Two North Central Avenue, Suite 2200	825 Eighth Avenue
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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock, $0.0001 par value per share	6,325,000 shares	$38.98	$246,548,500	$31,238(3)

(1) Including shares of common stock which may be purchased by the underwriters to cover over-allotments, if any.

(2) Calculated based on the average high and low sale prices of the common stock of the registrant on March 30, 2004, as reported on the New York Stock Exchange, pursuant to Rule 457(c) under the Securities Act of 1933, as amended.

(3) This registrant made an overpayment of $954.56 in connection with the filing of a registration statement on Form S-1 (Registration No. 333-109430) initially filed with the Securities and Exchange Commission on October 3, 2003. Of such overpayment, $954.56 is being offset against the currently due fee.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED APRIL 5, 2004

5,500,000 Shares

Common Stock

The shares of common stock are being sold by the selling stockholders. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol UTI. The last reported sale price on April 1, 2004 was $40.38 per share.

The underwriters have an option to purchase a maximum of 825,000 additional shares from the selling stockholders to cover over-allotments of shares, if any.

Investing in our common stock involves risks. See Risk Factors beginning on page 8.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Stockholders
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

Banc of America Securities LLC

Jefferies & Company, Inc.

Thomas Weisel Partners LLC

SunTrust Robinson Humphrey

The date of this prospectus is , 2004.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary sets forth the material terms of the offering, but does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully before making an investment decision, especially the risks of investing in our common stock discussed under Risk Factors. Unless the context otherwise requires, the terms we, us and our refer to Universal Technical Institute, Inc., our predecessor entities and our subsidiaries. Unless otherwise indicated, industry data are derived from publicly available sources, which we have not independently verified. Unless specifically indicated otherwise or unless the context otherwise requires, the information in this prospectus assumes no exercise of the underwriters over-allotment option.

Universal Technical Institute, Inc.

Overview of Our Business

We are a leading provider of post-secondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians, as measured by total undergraduate enrollment and number of graduates. We offer undergraduate degree, diploma and certificate programs at seven campuses across the United States, and manufacturer-sponsored advanced programs at 22 dedicated training centers. For the twelve months ended September 30, 2003 and the three months ended December 31, 2003, our average undergraduate enrollments were 10,568 and 12,856 full-time students, respectively. We have provided technical education for over 35 years.

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. By staying current on the equipment and technology employed by OEMs, we are able to continuously refine and expand our programs and curricula. We believe that our industry-oriented educational philosophy and national presence have enabled us to develop valuable industry relationships that provide us with a significant competitive strength and support our market leadership. We are a primary, and often the sole, provider of manufacturer-based training programs pursuant to written agreements with various OEMs whereby we provide technician training programs using their equipment and vehicles. These OEMs include Audi of America; American Honda Motor Co., Inc.; BMW of North America, LLC; Ford Motor Co.; International Truck and Engine Corp.; Jaguar Cars, Inc.; Mercedes-Benz USA, LLC; Mercury Marine; Porsche Cars of North America, Inc.; Volkswagen of America, Inc.; Volvo Cars of North America, Inc.; and Volvo Penta of the Americas.

Through our campus-based undergraduate programs, we offer specialized technical education 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). The majority of our undergraduate programs are designed to be completed in 12 to 18 months and culminate in an associate s degree, diploma or certificate, depending on the program and campus. Tuition ranges from approximately $18,000 to $33,000 per program, primarily depending on the nature and length of the program. All of our undergraduate programs are accredited and eligible for federal Title IV financial aid. Upon completion of one of our automotive or diesel undergraduate programs, qualifying students have the opportunity to enroll in one of the manufacturer-sponsored advanced training programs that we offer. These training programs are manufacturer-specific and are offered in a facility in which the OEM supplies the cars, equipment, specialty tools and curriculum. Tuition for these advanced training programs is paid by each participating OEM in return for a commitment by the student to work for a dealer of that OEM upon graduation. We also provide continuing education and retraining to experienced technicians at our customers sites or in our training facilities.

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Market Opportunity

We believe that the market for qualified service technicians is large and growing. In 2000, the U.S. Department of Labor estimated that there were approximately 840,000 working automotive technicians in the United States, and that this number was expected to increase by 18% from 2000 to 2010. Other 2000 estimates provided by the U.S. Department of Labor indicate that, from 2000 to 2010, 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 14%, 10%, 9% and 9%, respectively. Furthermore, in 2003, the National Auto Dealers Association cited a shortage of approximately 60,000 automotive technicians. This increasing need for technicians is due to a variety of factors, including rapid 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 workforce that generally requires retraining to keep up with technological advancements and maintain its technical competency. As a result of these factors, there will be approximately 55,000 new job openings each year from 2000 to 2010 in the fields we serve, according to data collected by the U.S. Department of Labor. In addition to the increase in demand for newly qualified technicians, manufacturers are increasingly outsourcing their training functions, seeking preferred education partners that can offer high quality curricula and that have a national presence to meet the employment and advanced retraining needs of their national dealer networks.

Control by Our Affiliates

Immediately after this offering, our executive officers, directors and principal and selling stockholders listed in the section entitled Principal and Selling Stockholders will, in the aggregate, directly or indirectly hold approximately 47.3% of our outstanding shares of common stock. Accordingly, in the event that all or some of these stockholders decided to act in concert, they would have the ability to significantly influence the outcomes of various matters requiring the vote of stockholders.

Regulatory Environment

All of our campuses have been certified by the U.S. Department of Education, or ED, to participate in the federal Title IV student financial assistance programs, so that students enrolled in our undergraduate programs are eligible to receive federal student loans and grants. Like all other institutions participating in the Title IV programs, our campuses are subject to extensive regulation by ED, their accrediting commission and the states in which they operate, regarding their educational programs, financial condition and numerous other operational matters.

Competitive Strengths

We believe that we are well positioned to capitalize on current market opportunities as a result of the following competitive strengths:

Industry-Oriented Business Model. We work extensively with leading automotive, diesel, collision repair, motorcycle and marine equipment manufacturers, dealers and suppliers to determine the present and future needs of the end-markets our graduates enter and to tailor our educational programs to best serve those constituents. As a result, we believe that our graduates have the opportunity to work for the most desirable employers in their chosen fields due to the quality of their education and their commitment to careers as professional service technicians. In turn, we believe that the higher quality employment opportunities available to our graduates drive increased enrollments at our campuses and training centers.

Unique Manufacturer-Based Programs. We work closely with OEMs to develop brand-specific education programs. Participating manufacturers typically assist us in developing course content and curricula, and provide us with equipment, specialty tools and parts at no charge. In addition, the manufacturer pays the full tuition of each student enrolled in our advanced training programs. Our collaboration with OEMs enables us to provide highly specialized education to our students, resulting in improved employment opportunities and the potential for higher wages for graduates.

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Pursuant to written agreements, we provide such programs for Audi of America; American Honda Motor Co., Inc.; BMW of North America, LLC; Ford Motor Co.; International Truck and Engine Corp.; Jaguar Cars, Inc.; Mercedes-Benz USA, LLC; Mercury Marine; Porsche Cars of North America, Inc.; Volkswagen of America, Inc.; Volvo Cars of North America, Inc.; and Volvo Penta of the Americas.

Industry Relationships. In addition to our curriculum-based relationships with OEMs, we develop and maintain a variety of complementary relationships with parts and tools suppliers, enthusiast organizations and other participants in the industries we serve. These relationships provide us with a variety of strategic and financial benefits, including equipment sponsorship, new product support, licensing and branding opportunities, and selected financial sponsorship for our campuses and students. We believe that these relationships improve the quality of our educational programs, reduce our investment cost of equipping classrooms, enable us to expand the scope of our programs, strengthen our graduate placements and enhance our overall image within the industry.

National Presence. Since our founding in 1965, we have grown our business and expanded our campus platform to establish a national presence. Through the UTI, MMI and NTI brands, our undergraduate campuses and advanced training centers currently provide us with local representation covering several geographic regions across the United States. Supporting our campuses, we maintain a national recruiting network of approximately 200 education representatives who are able to identify, advise and enroll students from all 50 states. Consequently, unlike competitors with single or regional campus models, we are able to effectively reach a national pool of potential students and to provide qualified professionals to our various end-markets on a broad geographic basis.

Superior Recruiting Strategy. We employ an integrated marketing and recruitment strategy that we believe enables us to effectively target and recruit both traditional post-secondary students and working adults. Our field-based education representatives provide a local presence to prospective students at high schools across the country. Additionally, our campus-based education representatives respond to media-driven inquiries from adults across the United States who are interested in returning to school. We support our education representatives recruiting efforts with a national multimedia marketing strategy that includes television, enthusiast magazines, direct mail and the Internet.

Operating Strategy

Our goal is to maintain and strengthen our role as a leading provider of technical education services. We intend to pursue the following strategies to attain this goal:

Open New Campuses. We continue to identify new markets that we believe will complement our established campus network and support further growth. We believe that there are a number of local markets, in regions where we do not currently have a campus, with both pools of interested prospective students and career opportunities for graduates. By establishing campuses in these locations, we believe that we will be able to supply skilled technicians to local employers, as well as provide educational opportunities for students otherwise unwilling to relocate to acquire a post-secondary education. Additional locations will also provide us with an opportunity to expand our relationships with OEMs by providing a graduate population with greater geographic reach. We are developing a campus in Exton, Pennsylvania where we will initially offer programs in automotive technology. Our Pennsylvania campus is currently scheduled to open in the fourth quarter of our 2004 fiscal year.

Increase Recruitment and Marketing. We plan to hire additional education representatives to enhance our recruitment coverage in territories where we are currently active in recruiting students and to expand into new regions and cities. In our 2003 fiscal year, our field-based education representatives made approximately 9,000 high school visits and approximately 414,000 student contacts. In addition, during the same period, our campus-based education representatives addressed

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approximately 270,000 media-driven inquiries from prospective students. We believe that additional education representatives, combined with increased marketing spending, will increase our national presence and enable us to better target the prospective student pool from which we recruit.

Expand Program Offerings. As the industries we serve become more technologically advanced, the requisite training for qualified technicians continues to increase. We continually work with our industry customers to expand and adapt our course offerings to meet their needs for skilled technicians. We also intend to increase the number of specialized or manufacturer-specific electives we offer in our undergraduate programs, such as our *Hot Rod U* high performance series and our Ford-certified elective. Additionally, we have received regulatory approval to expand the program offerings at our Orlando, Florida campus to include automotive technology programs. We intend to secure the necessary facilities to expand those new program offerings.

Seek Additional Industry Relationships. We actively seek to develop new relationships with leading OEMs, dealership networks and other industry participants. Securing such relationships will enable us to further drive undergraduate enrollment growth, diversify funding sources and expand the scope and increase the number of the programs we offer. We believe that these relationships are also valuable to our industry partners since our programs provide them with a steady supply of highly trained service technicians and are a cost-effective alternative to in-house training. Therefore, we believe that these relationships will also provide us additional incremental revenue opportunities from retraining OEMs existing employees.

Consider Strategic Acquisitions. We may selectively consider acquisition opportunities that, among other factors, would complement our program offerings, benefit from our expertise and scale in marketing and administration and could be integrated into our existing operations.

Our principal executive offices are located at 20410 North 19th Avenue, Suite 200, Phoenix, Arizona 85027 and our telephone number is (623)445-9500.

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The Offering

Common stock offered	5,500,000 shares by the selling stockholders (or 6,325,000 shares if the underwriters exercise the over-allotment option in full)
Common stock outstanding before and after the offering	27,710,576 shares
New York Stock Exchange symbol	UTI
Use of proceeds	We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders.
Dividend Policy	We do not expect to pay any dividends on our common stock for the foreseeable future.
Risk Factors	You should carefully read and consider the information set forth under Risk Factors and all other information set forth in this prospectus before investing in our common stock.

All of the shares offered by this prospectus are being offered by the selling stockholders. As of March 31, 2004, the selling stockholders owned approximately 46.3% of our outstanding common stock. After giving effect to the offering and assuming the full exercise of the underwriters option to purchase 825,000 additional shares, the selling stockholders will own approximately 23.7% of our outstanding common stock.

The number of shares of common stock outstanding before and after the offering is based on the number of shares of common stock outstanding as of March 31, 2004. This number does not include:

- 744,690 shares of common stock issuable upon the exercise of stock options outstanding as of March 31, 2004 pursuant to the management 2002 stock option plan.
- 4,430,972 shares of common stock reserved for future issuance under our 2003 stock incentive plan, which includes 1,487,743 shares of common stock issuable upon exercise of stock options outstanding as of March 31, 2004.
- an aggregate of 300,000 shares of common stock reserved for future issuance under our 2003 employee stock purchase plan.

Unless specifically indicated otherwise or unless the context otherwise requires, the information in this prospectus assumes no exercise of the underwriters over-allotment option.

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Summary Financial and Other Data

The following table sets forth our summary historical consolidated financial and operating data as of the dates and for the periods indicated. The summary historical consolidated statement of operations data for each of the years in the three-year period ended September 30, 2003 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The summary historical consolidated statement of operations data for the three months ended December 31, 2002 and 2003 and the summary historical consolidated balance sheet data as of December 31, 2003 have been derived from our unaudited consolidated financial statements, which are included elsewhere in this prospectus. In our opinion, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the information set forth therein. The results for any interim period are not necessarily indicative of the results that may be expected for a full fiscal year.

You should read the following summary financial and other data in conjunction with Selected Historical Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included elsewhere in this prospectus.

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
			(dollars in thousands)		
				(unaudited)	
Statement of Operations Data:					
Net revenues	$109,493	$144,372	$196,495	$45,374	$59,043
Operating expenses:					
Educational services and facilities	59,554	70,813	92,443	20,880	25,602
Selling, general and administrative	38,332	51,541	67,896	16,254	19,426
Total operating expenses	97,886	122,354	160,339	37,134	45,028
Income from operations	11,607	22,018	36,156	8,240	14,015
Interest expense, net	10,674	6,254	3,658	1,092	790
Other expense (income)		847	(234)		752
Income from continuing operations and before income taxes	933	14,917	32,732	7,148	12,473
Income tax expense	820	5,228	12,353	2,502	5,020
Income from continuing operations	113	9,689	20,379	4,646	7,453
Discontinued operations:					
Loss from operations, net of taxes	(8,536)				
Loss on sale, net of taxes	(1,316)				
Net income (loss)	(9,739)	9,689	20,379	4,646	7,453
Preferred stock dividends	(1,166)	(2,872)	(6,413)	(1,145)	(776)
Net income (loss) available to common shareholders	$ (10,905)	$ 6,817	$ 13,966	$ 3,501	$ 6,677
Income (loss) from continuing operations per share:					
Basic	$ (0.08)	$ 0.51	$ 1.03	$ 0.26	$ 0.43
Diluted	$ (0.08)	$ 0.44	$ 0.79	$ 0.18	$ 0.30

Weighted average shares:					
Basic	13,402	13,402	13,543	13,402	15,439
Diluted	13,402	20,244	25,051	24,915	25,042

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	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
	(dollars in thousands)			(unaudited)	
Other Data:					
Depreciation and amortization[1]	$4,532	$4,948	$ 6,382	$ 1,506	$ 2,095
Number of campuses	6	7	7	7	7
Average undergraduate enrollments	6,710	8,277	10,568	10,319	12,856

	As of December 31, 2003
	(in thousands) (unaudited)
Balance Sheet Data:	
Cash and cash equivalents	$ 28,799
Current assets	$ 47,175
Working capital (deficit)[2]	$(13,038)
Total assets	$ 99,054
Total debt	$ 244
Total shareholders equity	$ 31,477

(1) Depreciation and amortization includes deferred financing fees representing capitalized costs in connection with obtaining financing. Amortization of deferred financing fees was $0.6 million, $1.1 million and $0.5 million for the fiscal years ended September 30, 2001, 2002 and 2003, respectively, and $0.3 million and $0.1 million for the three months ended December 31, 2002 and 2003, respectively.

(2) Working capital (deficit) is defined as current assets less current liabilities.

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RISK FACTORS

Investing in our common stock involves risks. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this prospectus, including our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations. The risks described below are those which we believe are the material risks we face. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. As a result, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Industry

Failure of our schools to comply with the extensive regulatory requirements for school operations could result in financial penalties, restrictions on our operations and loss of external financial aid funding.

In our 2003 fiscal year, we derived approximately 68% of our net revenues from federal student financial aid programs, referred to in this prospectus as Title IV Programs, administered by the U.S. Department of Education, or ED. To participate in Title IV Programs, a school must receive and maintain authorization by the appropriate state education agencies, be accredited by an accrediting commission recognized by ED and be certified as an eligible institution by ED. As a result, our undergraduate schools are subject to extensive regulation by the state education agencies, our accrediting commission and ED. These regulatory requirements cover the vast majority of our operations, including our undergraduate educational programs, facilities, instructional and administrative staff, administrative procedures, marketing, recruiting, financial operations and financial condition. These regulatory requirements also affect our ability to acquire or open additional schools, add new, or expand our existing, undergraduate educational programs and change our corporate structure and ownership. Most ED requirements are applied on an institutional basis, with an institution defined by ED as a main campus and its additional locations, if any. Under ED s definition, we have three such institutions. The state education agencies, our accrediting commission and ED periodically revise their requirements and modify their interpretations of existing requirements.

If our schools failed to comply with any of these regulatory requirements, our regulatory agencies could impose monetary penalties, place limitations on our schools operations, terminate our schools ability to grant degrees, diplomas and certificates, revoke our schools accreditation or terminate their eligibility to receive Title IV Program funds, each of which could adversely affect our financial condition and results of operations and impose significant operating restrictions upon us. In addition, the loss by any of our institutions of its accreditation necessary for Title IV Program eligibility, or the cancellation of any such institution s ability to participate in Title IV Programs, in each case that is not cured within a specified period, constitutes an event of default under our senior credit facility agreement. We cannot predict with certainty how all of these regulatory requirements will be applied or whether each of our schools will be able to comply with all of the requirements in the future. We have described some of the most significant regulatory risks that apply to our schools in the following paragraphs.

Congress may change the law or reduce funding for Title IV Programs, which could reduce our student population, net revenues or profit margin.

Congress periodically revises the Higher Education Act of 1965, as amended, and other laws governing Title IV Programs and annually determines the funding level for each Title IV Program. Congress began the process of reviewing and reauthorizing the Higher Education Act in 2003 and is expected to conclude the process in late 2004 or in 2005, which will likely result in numerous changes to the law. Any action by Congress that significantly reduces funding for Title IV Programs or the ability of our schools or students to receive funding through these programs could reduce our student population and net revenues. Congressional action may also require us to modify our practices in ways that could result in increased administrative costs and decreased profit margin.

If our schools do not maintain their state authorizations, they may not operate or participate in Title IV Programs.

A school that grants degrees, diplomas or certificates must be authorized by the relevant education agency of the state in which it is located. Requirements for authorization vary substantially among states. State authorization is also required for students to be eligible for funding under Title IV Programs. Loss of state authorization by any of our schools from the education agency of the state in which the school is located would end that school s eligibility to participate in Title IV Programs and could cause us to close the school.

If our schools do not maintain their accreditation, they may not participate in Title IV Programs.

A school must be accredited by an accrediting commission recognized by ED in order to participate in Title IV Programs. Loss of accreditation by any of our schools would end that school s participation in Title IV Programs and could cause us to close the school.

We are subject to sanctions if we fail to correctly calculate and timely return Title IV Program funds for students who withdraw before completing their educational program.

A school participating in Title IV Programs must correctly calculate the amount of unearned Title IV Program funds that has been disbursed to students who withdraw from their educational programs before completing them and must return those unearned funds in a timely manner, generally within 30 days of the date the school determines that the student has withdrawn. If the unearned funds are not properly calculated and timely returned, we may have to post a letter of credit in favor of ED or be otherwise sanctioned by ED, which could increase our cost of regulatory compliance and adversely affect our results of operations. With respect to our 2002 fiscal year, two of our institutions made late returns of Title IV Program funds in excess of ED s prescribed threshold but were not required to post letters of credit because we had already posted a letter of credit for a greater amount as a result of our failure to satisfy ED s financial responsibility formula. Based on our 2003 fiscal year Title IV compliance audits, none of our institutions made late returns of Title IV Program funds in excess of ED s prescribed threshold for our 2003 fiscal year.

Our schools may lose eligibility to participate in Title IV Programs if the percentage of their revenue derived from those programs is too high, which could reduce our student population.

A for-profit institution loses its eligibility to participate in Title IV Programs if, on a cash accounting basis, it derives more than 90% of its revenue from those programs in any fiscal year. In our 2003 fiscal year, under the regulatory formula prescribed by ED, none of our institutions derived more than 80% of its revenues from Title IV Programs. If any of our institutions loses eligibility to participate in Title IV Programs, that loss would adversely affect our students access to various government-sponsored student financial aid programs, which could reduce our student population.

Our schools may lose eligibility to participate in Title IV Programs if their student loan default rates are too high, which could reduce our student population.

An institution may lose its eligibility to participate in some or all Title IV Programs if its former students default on the repayment of their federal student loans in excess of specified levels. Based upon the most recent official student loan default rates published by ED, none of our institutions has student loan default rates that exceed the specified levels. If any of our institutions loses eligibility to participate in Title IV Programs because of high student loan default rates, that loss would adversely affect our students access to various government-sponsored student financial aid programs, which could reduce our student population.

If we or our schools do not meet the financial responsibility standards prescribed by ED, we may be required to post letters of credit or our eligibility to participate in Title IV Programs could be terminated or limited, which could reduce our student population.

To participate in Title IV Programs, an institution must satisfy specific measures of financial responsibility prescribed by ED or post a letter of credit in favor of ED and possibly accept other conditions on its participation in Title IV Programs. Currently, due to our failure as a parent company to satisfy ED s financial responsibility formula for our 2002 fiscal year, we have posted a letter of credit in the amount of $9.9 million for all of our schools, representing 10% of Title IV Program funds received by our institutions in our 2002 fiscal year. We also did not satisfy ED s financial responsibility formula based on our financial statements for our 2003 fiscal year. We may be required to increase the amount of the existing letter of credit or post additional letters of credit in the future. Our obligation to post one or more letters of credit could increase our costs of regulatory compliance. Our inability to obtain a required letter of credit or other limitations on our participation in Title IV Programs could limit our students access to various government-sponsored student financial aid programs, which could reduce our student population.

We are subject to sanctions if we pay impermissible commissions, bonuses or other incentive payments to individuals involved in certain recruiting, admissions or financial aid activities.

A school participating in Title IV Programs may not provide any commission, bonus or other incentive payment based on success in enrolling students or securing financial aid to any person involved in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. The law and regulations governing this requirement do not establish clear criteria for compliance in all circumstances. If we violate this law, we could be fined or otherwise sanctioned by ED.

If regulators do not approve our acquisition of a school that participates in Title IV funding, the acquired school would not be permitted to participate in Title IV Programs, which could impair our ability to operate the acquired school as planned or to realize the anticipated benefits from the acquisition of that school.

If we acquire a school that participates in Title IV funding, we must obtain approval from ED and applicable state education agencies and accrediting commissions in order for the school to be able to continue operating and participating in Title IV Programs. An acquisition can result in the temporary suspension of the acquired school s participation in Title IV Programs unless we submit a timely and materially complete application for recertification to ED and ED grants a temporary certification. If we were unable to timely re-establish the state authorization, accreditation or ED certification of the acquired school, our ability to operate the acquired school as planned or to realize the anticipated benefits from the acquisition of that school could be impaired.

If regulators do not approve or delay their approval of transactions involving a change of control of our company or any of our schools, our ability to participate in Title IV Programs may be impaired.

If we or any of our schools experience a change of control under the standards of applicable state education agencies, our accrediting commission or ED, we or the affected schools must seek the approval of the relevant regulatory agencies. Transactions or events that constitute a change of control include significant acquisitions or dispositions of our common stock or significant changes in the composition of our board of directors. Some of these transactions or events may be beyond our control. Our failure to obtain, or a delay in receiving, approval of any change of control from ED, our accrediting commission or any state in which our schools are located could impair our ability to participate in Title IV Programs. Our failure to obtain, or a delay in obtaining, approval of any change of control from any state in which we do not have a school but in which we recruit students could require us to suspend our recruitment of students in that state until we receive the required approval. The potential adverse effects of a change of control with respect to participation in Title IV Programs could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the adverse regulatory effect of a change of control also could discourage bids for your shares of our common stock and could have an adverse effect on the market price of your shares.

We believe that this offering will not be a change of control under ED standards. However, this offering may be a change of control under the standards of our accrediting commission and some of the states in which our schools are located. In each of those states, the affected school will be required to obtain the reaffirmation of the school s state authorization by the relevant state education agencies. In addition, each of our schools may be required to obtain the reaffirmation of the school s accreditation by our accrediting commission. If any of our schools fails to obtain such reaffirmation from the relevant state education agency or our accrediting commission, our results of operations could be adversely affected.

Budget constraints in states that provide state financial aid to our students could reduce the amount of such financial aid that is available to our students, which could reduce our student population.

A significant number of states are facing budget constraints that are causing them to reduce state appropriations in a number of areas. Those states include California, which is one of the states that provide financial aid to our students. We expect that California and other states may decide to reduce the amount of state financial aid that they provide to students, but we cannot predict how significant any of these reductions will be or how long they will last. If the level of state funding for our students decreases and our students are not able to secure alternative sources of funding, our student population could be reduced.

Government and regulatory agencies and third parties may conduct compliance reviews, bring claims or initiate litigation against us.

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of non-compliance and lawsuits by government agencies, regulatory agencies and third parties. If the results of these reviews or proceedings are unfavorable to us, or if we are unable to defend successfully against lawsuits or claims, we may be required to pay money damages or be subject to fines, limitations, loss of federal funding, injunctions or other penalties. Even if we adequately address issues raised by an agency review or successfully defend a lawsuit or claim, we may have to divert significant financial and management resources from our ongoing business operations to address issues raised by those reviews or defend those lawsuits or claims.

A high percentage of the Title IV student loans our students receive are made by one lender and guaranteed by one guaranty agency.

In our 2003 fiscal year, one lender, Sallie Mae, provided more than 95% of all the federally guaranteed Title IV student loans that our students received, and one student loan guaranty agency, EdFund, guaranteed more than 95% of those loans made to our students. Sallie Mae is one of the largest lenders of federally guaranteed Title IV student loans in the United States in terms of dollar volume, and EdFund is one of the largest guaranty agencies in the United States. If loans by Sallie Mae or guarantees by EdFund were significantly reduced or no longer available and we were not able to timely identify other lenders and guarantors to make or guarantee Title IV Program loans for our students, there could be a delay in our students receipt of their loan funds or in our tuition collection, which would reduce our student population.

Budget constraints in some states may affect our ability to obtain necessary authorizations or approvals from those states to conduct or change our operations.

Due to state budget constraints in some of the states in which we operate, such as Illinois, Texas and California, it is possible that those states may reduce the number of employees in, or curtail the operations of, the state education agencies that authorize our schools. A delay or refusal by any state education agency in approving any changes in our operations that require state approval, such as the opening of a new campus, the introduction of new programs, a change of control or the hiring or placement of new education representatives, could prevent us from making such changes or could delay our ability to make such changes.

Risks Related to Our Business

If we fail to effectively manage our growth, we may incur higher costs and expenses than we anticipate in connection with our growth.

We have experienced a period of significant growth since 1998. Our continued growth may strain our management, operations, employees or other resources. We may not be able to maintain or accelerate our current growth rate, effectively manage our expanding operations or achieve planned growth on a timely or profitable basis. If we are unable to manage our growth effectively while maintaining appropriate internal controls, we may experience operating inefficiencies that likely will increase our costs more than we had planned.

Failure on our part to maintain and expand existing industry relationships and develop new industry relationships with our industry customers could impair our ability to attract and retain students.

We have an extensive set of industry relationships that we believe affords us a significant competitive strength and supports our market leadership. These types of relationships enable us to further drive undergraduate enrollment by attracting students through brand name recognition and the associated prospect of high-quality employment opportunities. Additionally, these relationships allow us to diversify funding sources, expand the scope and increase the number of programs we offer and reduce our costs and capital expenditures due to the fact that, pursuant to the terms of the underlying contracts, we provide a variety of specialized training programs and typically do so using tools, equipment and vehicles provided by the OEMs. These relationships also provide additional incremental revenue opportunities from retraining the employees of our industry customers. Our success, therefore, depends in part on our ability to maintain and expand our existing industry relationships and to enter into new industry relationships. Certain of our existing industry relationships, including those with American Suzuki Motor Corp., Harley-Davidson Motor Co., Kawasaki Motors Corp., U.S.A. and Yamaha Motor Corp., USA, as well as the marine training agreement with American Honda Co., Inc., are not memorialized in writing and are based on oral understandings. As a result, the rights of the parties under these arrangements are less clearly defined than they would be were they in writing. Additionally, certain of our existing industry relationship agreements expire within the next six months. Our written agreement with Jaguar Cars, Inc. expired on February 29, 2004 but has been extended until May 29, 2004, and our written motorcycle training agreement with American Honda Motor Co., Inc. expires in September 2004. We are currently negotiating to renew these agreements and intend to renew them to the extent we can do so on satisfactory terms. The reduction or elimination of, or failure to renew any of our existing industry relationships, or our failure to enter into new industry relationships, could impair our ability to attract and retain students. As a result, our market share and net revenues could decrease.

Failure on our part to effectively identify, establish and operate additional schools or campuses could reduce our ability to implement our growth strategy.

As part of our business strategy, we anticipate opening and operating new schools or campuses. Establishing new schools or campuses poses unique challenges and requires us to make investments in management and capital expenditures, incur marketing expenses and devote other resources that are different, and in some cases greater, than those required with respect to the operation of acquired schools. Accordingly, when we open new schools, initial investments could reduce our profitability. To open a new school or campus, we would be required to obtain appropriate state and accrediting commission approvals, which may be conditioned or delayed in a manner that could significantly affect our growth plans. In addition, to be eligible for federal Title IV student financial aid programs, a new school or campus would have to be certified by ED. We cannot be sure that we will be able to identify suitable expansion opportunities to maintain or accelerate our current growth rate or that we will be able to successfully integrate or profitably operate any new schools or campuses. A failure by us to effectively identify, establish and manage the operations of newly established schools or campuses could slow our growth and make any newly established schools or campuses more costly to operate than we had planned.

Our success depends in part on our ability to update and expand the content of existing programs and develop new programs in a cost-effective manner and on a timely basis.

Increasingly, prospective employers of our graduates demand that their entry-level employees possess appropriate technological skills. These skills are becoming more sophisticated in line with technological advancements in the automotive, diesel, collision repair, motorcycle and marine industries. Accordingly, educational programs at our schools should keep pace with those technological advancements. The expansion of our existing programs and the development of new programs may not be accepted by our students, prospective employers or the technical education market. Even if we are able to develop acceptable new programs, we may not be able to introduce these new programs as quickly as the industries we serve require or as quickly as our competitors do. If we are unable to adequately respond to changes in market requirements due to financial constraints, unusually rapid technological changes or other factors, our ability to attract and retain students could be impaired and our placement rates could suffer.

We may not be able to retain our key personnel or hire and retain the personnel we need to sustain and grow our business.

Our success to date has depended, and will continue to depend, largely on the skills, efforts and motivation of our executive officers who generally have significant experience with our company and within the technical education industry. Our success also depends in large part upon our ability to attract and retain highly qualified faculty, school directors, administrators and corporate management. Due to the nature of our business, we face significant competition in the attraction and retention of personnel who possess the skill sets that we seek. In addition, key personnel may leave us and subsequently compete against us. Furthermore, we do not currently carry key man life insurance. The loss of the services of any of our key personnel, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could impair our ability to successfully manage our business.

If we are unable to hire, retain and continue to develop and train our education representatives, the effectiveness of our student recruiting efforts would be adversely affected.

In order to support revenue growth, we need to hire new education representatives, retain and continue to develop and train our education representatives, who are our employees dedicated to student recruitment. Our ability to develop a strong education representative team may be affected by a number of factors, including our ability to integrate and motivate our education representatives; our ability to effectively train our education representatives; the length of time it takes new education representatives to become productive; restrictions on the method of compensating education representatives imposed by regulatory bodies; the competition we face from other companies in hiring and retaining education representatives; and our ability to effectively manage a multi-location educational organization. If we are unable to hire, develop or retain our education representatives, the effectiveness of our student recruiting efforts would be adversely affected.

Competition could decrease our market share and put downward pressure on our tuition rates.

The post-secondary education market is highly competitive. Some traditional public and private colleges and universities, as well as other private career-oriented schools, offer programs that may be perceived by students to be similar to ours. Most public institutions are able to charge lower tuition than our schools are, due in part to government subsidies and other financial sources not available to for-profit schools. Some of our competitors, such as Corinthian Colleges, Inc., also have substantially greater financial and other resources than we have which may, among other things, allow them to secure industry relationships with some or all of our existing strategic partners or develop other high profile industry relationships or devote more resources to expanding their programs and their school network, all of which could affect the success of our marketing programs. In addition, some of our competitors already have a more extended or dense network of schools and campuses than we do, thus enabling them to recruit students more effectively from a wider geographical area.

We may be required to reduce tuition or increase spending in response to competition in order to retain or attract students or pursue new market opportunities. As a result, our market share, net revenues and operating margin may be decreased. We cannot be sure that we will be able to compete successfully against current or future competitors or that competitive pressures faced by us will not adversely affect our business, financial condition or results of operations.

Our financial performance depends in part on our ability to continue to develop awareness and acceptance of our programs among high school graduates and working adults looking to return to school.

The awareness of our programs among high school graduates and working adults looking to return to school is critical to the continued acceptance and growth of our programs. Our inability to continue to develop awareness of our programs could reduce our enrollments and impair our ability to increase net revenues or maintain profitability. The following are some of the factors that could prevent us from successfully marketing our programs:

- student dissatisfaction with our programs and services;
- diminished access to high school student population;
- our failure to maintain or expand our brand or other factors related to our marketing or advertising practices; and
- our inability to maintain relationships with automotive, diesel, collision repair, motorcycle and marine manufacturers and suppliers.

An increase in interest rates could adversely affect our ability to attract and retain students.

Interest rates have reached historical lows in recent years, creating a favorable borrowing environment for our students. Much of the financing our students receive is tied to floating interest rates. Therefore, any future increase in interest rates will result in a corresponding increase in the cost to our existing and prospective students of financing their studies, which could result in a reduction in our student population and net revenues. Higher interest rates could also contribute to higher default rates with respect to our students repayment of their education loans. Higher default rates may in turn adversely impact our eligibility for Title IV Program participation, which could result in a reduction in our student population.

Seasonal and other fluctuations in our results of operations could adversely affect the trading price of our common stock.

In reviewing our results of operations, you should not focus on quarter-to-quarter comparisons. Our results in any quarter may not indicate the results we may achieve in any subsequent quarter or for the full year. Our net revenues normally fluctuate as a result of seasonal variations in our business, principally due to changes in total student population. 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 fiscal quarter than in the remainder of our fiscal year because fewer students are enrolled during the summer months. Our expenses, however, do not generally vary at the same rate as changes in our student population and net revenues and, as a result, such expenses do not fluctuate significantly on a quarterly basis. We expect quarterly fluctuations in results of operations to continue as a result of seasonal enrollment patterns. Such patterns may change, however, as a result of acquisitions, new school openings, new program introductions and increased enrollments of adult students. In addition, our net revenues for our first fiscal quarter are adversely affected by the fact that we do not recognize revenue during the calendar year-end holiday break, which falls primarily in that quarter. These fluctuations may result in volatility or have an adverse effect on the market price of our common stock.

We may be unable to successfully complete or integrate future acquisitions.

Although we are not presently considering any significant acquisitions, we may consider selective acquisitions in the future. We may not be able to complete any acquisitions on favorable terms or, even if we do, we may not be able to successfully integrate the acquired businesses into our business. Integration challenges include, among others, regulatory approvals, significant capital expenditures, assumption of known and unknown liabilities and our ability to control costs. The successful integration of future acquisitions may also require substantial attention from our senior management and the senior management of the acquired schools, which could decrease the time that they devote to the day-to-day management of our business. If we do not successfully address risks and challenges associated with acquisitions, including integration, future acquisitions could harm, rather than enhance, our operating performance.

In addition, if we consummate an acquisition, our capitalization and results of operations may change significantly. A future acquisition could result in the incurrence of debt and contingent liabilities, an increase in interest expense, amortization expenses, goodwill and other intangible assets, charges relating to integration costs or an increase in the number of shares outstanding. These results could have a material adverse effect on our results of operations or financial condition or result in dilution to current stockholders.

We have recorded a significant amount of goodwill, which may become impaired and subject to a write-down.

Our acquisition of the parent company of MMI in January 1998 resulted in the recording of goodwill. Goodwill, which relates to the excess of cost over the fair value of the net assets of the business acquired, was approximately $20.6 million at December 31, 2003, representing approximately 20.8% of our total assets at that date.

Goodwill is recorded at fair value on the date of the acquisition and, under SFAS No. 142, Goodwill and Other Intangible Assets, is reviewed at least annually for impairment. Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business, and a variety of other circumstances. The amount of any impairment must be recognized as an expense in the period in which we determine that such impairment has occurred. Any future determination requiring the write-off of a significant portion of goodwill would have an adverse effect on our results of operations during the financial reporting period in which the write-off occurs.

We cannot predict our future capital needs, and we may not be able to secure additional financing.

We may need to raise additional capital in the future to fund our operations, expand our markets and program offerings or respond to competitive pressures or perceived opportunities. We cannot be sure that additional financing will be available to us on favorable terms, or at all. If adequate funds are not available when required or on acceptable terms, we may be forced to cease our operations and, even if we are able to continue our operations, our ability to increase student enrollments will be adversely affected.

We do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

We do not anticipate declaring or paying any dividends on our common stock in the foreseeable future. We currently anticipate that we will retain all of our future earnings, if any, to fund the operation and expansion of our business and to use as working capital and for other general corporate purposes. Our board of directors will determine whether to pay dividends in the future based on conditions then existing, including our earnings, financial condition and capital requirements, the availability of third-party financing and the financial responsibility standards prescribed by ED, as well as any economic and other conditions that our board of directors may deem relevant.

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Terrorist attacks and the possibility of wider armed conflicts may adversely affect the U.S. economy and may disrupt our provision of educational services.

Terrorist attacks and other acts of violence or war, such as those that took place on September 11, 2001 and the war between the U.S.-led coalition forces and Iraq, could disrupt our operations. Attacks or armed conflicts that directly impact our physical facilities or ability to recruit and retain students could significantly affect our ability to provide educational services to our students and thereby impair our ability to achieve our expected results. Furthermore, violent acts and threats of future attacks could adversely affect the U.S. and world economies. Finally, future terrorist acts could cause the United States to enter into a wider armed conflict that could further impact our operations and result in prospective students, as well as our current students and personnel, entering the armed services. These factors could cause significant declines in our student population.

Risks Related to the Offering

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock could fluctuate significantly for various reasons which include:

- our quarterly or annual earnings or those of other companies in our industry;
- the public s reaction to our press releases, our other public announcements and our filings with the Securities and Exchange Commission;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of other companies in our industry;
- new laws or regulations or new interpretations of laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in general conditions in the U.S. and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events; and
- sales of common stock by our directors and executive officers.

In addition, in recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of these companies. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our stock price.

If our share price is volatile, we may be the target of securities litigation, which is costly and time-consuming to defend.

In the past, following periods of market volatility in the price of a company s securities, security holders have often instituted class action litigation. If the market value of our common stock experiences adverse fluctuations and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management s attention could be diverted from the operation of our business, causing our business to suffer.

This offering will result in a substantial amount of previously unregistered shares of our common stock being registered, which may depress the market price of our common stock.

As of March 31, 2004, the number of outstanding shares of our common stock freely tradable on the New York Stock Exchange and not owned by our officers, directors, or affiliates was approximately 8.6 million. The sale of the shares of common stock in this offering could depress the market price of our common stock.

Future sales of our common stock in the public market could lower our stock price.

Sales of a substantial number of shares of common stock in the public market by our current stockholders, or the threat that substantial sales may occur, could cause the market price of our common stock to decrease significantly or make it difficult for us to raise additional capital by selling stock. In connection with this offering, our directors and executive officers, as well as the selling stockholders in this offering, have entered into 90-day lock-up agreements at the request of the underwriters. On the day that is 91 days after the date of this prospectus, those parties will be able to sell in the public market an aggregate of 13,098,800 shares of our common stock that they will hold after this offering, provided that the requirements of Rule 144 under the Securities Act of 1933 are met. In addition, the lock-up agreement of John White, our Chief Strategic Planning Officer and Vice Chairman of our board of directors, contains a provision that allows him to pledge up to 1,800,000 shares of our common stock held by him to Pershing LLC as collateral for a personal loan.

In connection with our initial public offering in December 2003, our directors and executive officers, and all of our pre-initial public offering stockholders, entered into 180-day lock-up agreements. The 180-day lock-up agreements of those parties who were stockholders prior to our initial public offering, but who have not entered into 90-day lock-up agreements as described above, will remain in effect after this offering and are scheduled to expire, pursuant to their terms, on June 13, 2004. Beginning June 14, 2004, these stockholders will be entitled to sell in the public market an aggregate of approximately 331,071 shares of our common stock that they will hold after this offering, provided that the requirements of Rule 144 are met. Credit Suisse First Boston LLC may also consent to the release of some or all of these shares for sale prior to that time. See the section of this prospectus entitled Shares Eligible for Future Sale for further details regarding the number of shares eligible for sale in the public market after this offering.

Several of our existing stockholders, owning 11,694,014 shares of our common stock after giving effect to this offering, are parties to a registration rights agreement with us. Under that agreement, certain of these stockholders will have the right, after June 13, 2004, to require us to effect the registration of their shares. In addition, if we propose to register, or are required to register following the exercise of a demand registration right, any of our shares of common stock under the Securities Act, all the stockholders who are parties to the registration rights agreement will be entitled to include their shares of common stock in that registration. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Anti-takeover provisions in our certificate of incorporation, our bylaws and Delaware law could discourage a change of control that our stockholders may favor, which could negatively affect our stock price.

Provisions in our certificate of incorporation and our bylaws and applicable provisions of the Delaware General Corporation Law may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our stockholders. These provisions could discourage potential takeover attempts and could adversely affect the market price of our common stock. Our amended and restated certificate of incorporation and amended and restated bylaws:

- authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;

- classify the board of directors into staggered, three-year terms, which may lengthen the time required to gain control of our board of directors;

- discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of two years after the person becomes an interested stockholder, unless such a transaction has met certain fair market value requirements;

prohibit cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of stock to elect some directors;

require super-majority voting to effect amendments to certain provisions of our certificate of incorporation or bylaws, including those provisions concerning the composition of the board of directors and certain business combinations;

limit who may call special meetings of both the board of directors and stockholders;

prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders;

establish advance notice requirements for nominating candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholders meetings; and

require that vacancies on the board of directors, including newly-created directorships, be filled only by a majority vote of directors then in office.

Our executive officers, directors and principal stockholders will continue to own a large percentage of our voting stock after this offering, which may allow them to control substantially all matters requiring stockholder approval.

Immediately after this offering, our executive officers, directors and principal and selling stockholders listed in the section entitled Principal and Selling Shareholders will, in the aggregate, directly or indirectly hold approximately 47.3% of our outstanding shares of common stock. Accordingly, in the event that all or some of these stockholders decided to act in concert, they would have the ability to significantly influence the outcomes of various matters requiring the vote of stockholders.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new programs; scheduled openings of new campuses and campus expansions; expectations that regulatory developments or other matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; and statements of management s goals and objectives and other similar expressions concerning matters that are not historical facts. Words such as may, will, should, could, would, predicts, potential, continue, expects, anticipates, future, intends, plan similar expressions, as well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- our failure to comply with the extensive regulatory framework applicable to our industry;
- failure on our part to maintain and expand existing industry relationships and develop new industry relationships;
- our success in updating and expanding the content of existing programs and developing new programs in a cost-effective manner or on a timely basis;
- risks associated with the opening of new campuses;
- industry competition;
- our ability to continue to execute our growth strategies;
- general and economic conditions; and
- other factors discussed under the headings Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and Regulatory Environment.

Forward-looking statements speak only as of the date the statements are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares by the selling stockholders in this offering. The selling stockholders will receive all of the net proceeds from this offering.

MARKET PRICE OF OUR COMMON STOCK

Our common stock has been listed on the New York Stock Exchange under the symbol UTI since December 17, 2003. Prior to that time, there was no public market for our common stock. The following table sets forth for the periods indicated the high and low sale prices of our common stock on the New York Stock Exchange.

	High	Low
Fiscal Year Ending September 30, 2004		
First Quarter (from December 17, 2003)	$30.40	$24.00
Second Quarter	$43.36	$28.55

On April 1, 2004, the closing sale price of our common stock as reported on the New York Stock Exchange was $40.38 per share. At March 31, 2004, there were 50 holders of record of our common stock, based on the stockholders list maintained by our transfer agent.

DIVIDEND POLICY

We do not anticipate declaring or paying any dividends on our common stock in the foreseeable future. Instead, we currently anticipate that we will retain all of our future earnings, if any, to fund the operation and expansion of our business and to use as working capital and for other general corporate purposes. Our board of directors will determine whether to pay dividends in the future based on conditions then existing, including our earnings, financial condition and capital requirements, the availability of third-party financing and the financial responsibility standards prescribed by ED, as well as any economic and other conditions that our board of directors may deem relevant. In addition, our ability to declare and pay any dividends is currently restricted under the credit agreement for our senior credit facilities.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of December 31, 2003. No adjustments to the balance sheet to reflect this offering are shown because we will not be selling shares or receiving any of the proceeds from the sale of shares by the selling stockholders. You should read this information in conjunction with Management Discussion & Analysis of Financial Conditions and Results of Operations, Description of Capital Stock and our consolidated financial statements and the notes to those statements included elsewhere in this prospectus.

	As of December 31, 2003 (in millions) (unaudited)
Cash and cash equivalents:	$ 28.8
Debt:	
Revolving credit facility(1)	
Capital leases	0.2
Total debt	0.2
Shareholders equity:	
Common stock, $0.0001 par value per share, 100,000,000 shares authorized; 27,705,576 shares issued and outstanding	
Paid-in capital	107.9
Accumulated deficit	(76.4)
Total shareholders equity	31.5
Total capitalization	$ 31.7

(1) At December 31, 2003, we had available funds under our $30.0 million revolving credit facility in the approximate amount of $12.1 million. Availability of the revolving credit facility is reduced by the amount of outstanding letters of credit issued under the facility. As of December 31, 2003, we had letters of credit in an aggregate amount of $17.9 million outstanding under our revolving credit facility.

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SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth our selected historical consolidated financial and operating data as of and for the periods indicated. You should read the selected financial data set forth below together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included elsewhere in this prospectus. The selected historical consolidated statement of operations data for each of the years in the three-year period ended September 30, 2003, and the selected historical consolidated balance sheet data as of September 30, 2002 and 2003 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The selected historical consolidated statements of operations data for the fiscal years ended September 30, 1999 and 2000 and selected historical consolidated balance sheet data as of September 30, 1999, 2000 and 2001 have been derived from our audited consolidated financial statements not included in this prospectus. The selected historical consolidated statement of operations for the three months ended December 31, 2002 and 2003 and the selected historical consolidated balance sheet data as of December 31, 2003 have been derived from our unaudited historical consolidated financial statements, which are included elsewhere in this prospectus. The selected historical consolidated balance sheet as of December 31, 2002 has been derived from our unaudited interim consolidated financial statements not included in this prospectus. In our opinion, the unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the information set forth therein. The results for any interim period are not necessarily indicative of the results that may be expected for a full fiscal year.

	Year Ended September 30,					Three Months Ended December 31,	
	1999	2000	2001	2002	2003	2002	2003
	(dollars in thousands, except per share amounts)					(unaudited)	
Statement of Operations Data:							
Net revenues	$ 78,020	$ 92,079	$ 109,493	$ 144,372	$ 196,495	$ 45,374	$ 59,043
Operating expenses:							
Educational services and facilities	34,560	48,523	59,554	70,813	92,443	20,880	25,602
Selling, general and administrative	49,111	33,893	38,332	51,541	67,896	16,254	19,426
Total operating expenses	83,671	82,416	97,886	122,354	160,339	37,134	45,028
Income (loss) from operations:	(5,651)	9,663	11,607	22,018	36,156	8,240	14,015
Interest expense, net	10,582	11,877	10,674	6,254	3,658	1,092	790
Other expense (income)				847	(234)		752
Income (loss) from continuing operations and before income taxes	(16,233)	(2,214)	933	14,917	32,732	7,148	12,473
Income tax expense (benefit)	(5,609)	(431)	820	5,228	12,353	2,502	5,020
Income (loss) from continuing operations	(10,624)	(1,783)	113	9,689	20,379	4,646	7,453
Discontinued operations:							
Income (loss) from operations, net of taxes	1,677	(34,437)	(8,536)				
Loss on sale, net of taxes			(1,316)				
Net income (loss)	(8,947)	(36,220)	(9,739)	9,689	20,379	4,646	7,453
Preferred stock dividends	(914)	(1,166)	(1,166)	(2,872)	(6,413)	(1,145)	(776)
	$ (9,861)	$ (37,386)	$ (10,905)	$ 6,817	$ 13,966	$ 3,501	$ 6,677

Net income (loss) available to common shareholders							

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	Year Ended September 30,					Three Months Ended December 31,	
	1999	2000	2001	2002	2003	2002	2003
	(dollars in thousands, except per share amounts)					(unaudited)	
Income (loss) from continuing operations per share:							
Basic	$ (1.21)	$ (0.22)	$ (0.08)	$ 0.51	$ 1.03	$ 0.26	$ 0.43
Diluted	$ (1.21)	$ (0.22)	$ (0.08)	$ 0.44	$ 0.79	$ 0.18	$ 0.30
Weighted average shares (in thousands):							
Basic	9,527	13,432	13,402	13,402	13,543	13,402	15,439
Diluted	9,527	13,432	13,402	20,244	25,051	24,915	25,042
Other Data:							
Depreciation and amortization[(1)]	$ 2,917	$ 3,887	$ 4,532	$ 4,948	$ 6,382	$ 1,506	$ 2,095
Number of campuses	6	6	6	7	7	7	7
Average undergraduate enrollments	5,321	5,866	6,710	8,277	10,568	10,319	12,856
Balance Sheet Data:							
Cash and cash equivalents	$ 10,316	$ 3,326	$ 3,353	$ 13,554	$ 8,925	$ 24,790	$ 28,799
Current assets	$ 26,643	$ 21,051	$ 16,477	$ 29,278	$ 31,819	$ 39,016	$ 47,175
Working capital (deficit)[(2)]	$ 670	$ (12,987)	$ (29,187)	$ (14,577)	$ (29,240)	$ (10,924)	$ (13,038)
Total assets	$ 112,071	$ 68,845	$ 63,086	$ 76,886	$ 84,099	$ 84,826	$ 99,054
Total long-term debt	$ 115,885	$ 104,122	$ 97,336	$ 57,886	$ 53,476	$ 57,005	$ 11
Total debt[(3)]	$ 117,631	$ 109,294	$ 104,578	$ 60,902	$ 57,336	$ 60,273	$ 244
Redeemable convertible preferred stock	$ 17,155	$ 18,296	$ 19,414	$ 64,395	$ 47,161	$ 65,534	$
Total shareholders equity (deficit)	$ (54,675)	$ (92,071)	$ (102,976)	$ (96,159)	$ (83,152)	$ (92,656)	$ 31,477

(1) Depreciation and amortization includes deferred financing fees representing capitalized costs in connection with obtaining financing. Amortization of deferred financing fees was $0.5 million, $0.6 million, $0.6 million, $1.1 million and $0.5 million for the fiscal years ended September 30, 1999, 2000, 2001, 2002 and 2003, respectively, and $0.3 million and $0.1 million for the three months ended December 31, 2002 and 2003, respectively.

(2) Working capital (deficit) is defined as current assets less current liabilities.

(3) We adopted SFAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, effective July 1, 2003. Accordingly, we reclassified as a liability the mandatory redeemable series A, series B and series C preferred stock that were outstanding until December 22, 2003, at which time all of such shares were either exchanged for shares of common stock or redeemed.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with the financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on management s current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under Risk Factors and elsewhere in this prospectus.

General

We are a leading provider of post-secondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians. We offer undergraduate degree, diploma or certificate programs at seven campuses across the United States, and manufacturer-sponsored advanced programs at 22 dedicated training centers. We have provided technical education for over 35 years.

Our revenues consist principally of student tuition and fees derived from the programs we provide and are presented as net revenues after reductions related to scholarships we sponsor and refunds for students who withdraw from our programs prior to specified dates. We recognize tuition revenue and fees ratably over the terms of the various programs we offer. We supplement our core revenues with additional revenues from sales of textbooks and program supplies, student housing provided by us and other revenues, all of which are recognized as sales occur or services are performed. In aggregate, these additional revenues represented less than 10% of our total net revenues in each fiscal year in the three-year period ended September 30, 2003. Tuition revenue and fees generally vary based on the average number of students enrolled and average tuition charge per program.

Average student enrollments vary depending on, among other factors, the number of (i) continuing students at the beginning of a fiscal period, (ii) new student enrollments during the fiscal period, (iii) students who have previously withdrawn but decide to re-enroll during the fiscal period, and (iv) graduations and withdrawals during the fiscal period. We believe that our average student enrollments are influenced by the number of graduating high school students, the attractiveness of our program offerings to high school graduates and potential adult students, the effectiveness of our marketing efforts, the depth of our industry relationships, the strength of employment markets and long term career prospects, the quality of our instructors and student services professionals, the persistence of our students, the length of our education programs, the availability of federal funding for our programs, the number of graduates of our programs who elect to attend the advanced training programs we offer and general economic conditions. Our introduction of additional program offerings at existing schools and establishment of new schools (either through acquisition or start-up) are expected to significantly influence our average student enrollment. Our average undergraduate student enrollments have grown at a compounded annual growth rate of 25.5% over the past three full fiscal years. This growth can largely be attributed to the demand for our graduates and the expansion of our capacity. We currently offer 38 start dates throughout the year in our various undergraduate programs. The number of start dates of advanced programs varies by the duration of those programs and the needs of the manufacturers who sponsor them.

Our tuition charges vary by type or length of our programs and the program level, such as undergraduate or advanced training. Tuition has increased by approximately 3% to 5% per annum in each fiscal year in the three-year period ended September 30, 2003. Tuition increases are generally consistent across our schools and programs, however, changes in operating costs may impact price increases at individual locations. We believe that we can continue to increase tuition as the demand for our graduates remains strong and tuition at other post-secondary institutions continues to rise, although any of those increases may be less than past increases.

Most students at our campuses rely on funds received under various government-sponsored student financial aid programs, predominantly Title IV Programs, to pay a substantial portion of their tuition and other education-related expenses. In our 2003 fiscal year, approximately 68% of our net revenues were derived from federal student financial aid programs.

We extend credit for tuition and fees to the majority of our students that are in attendance at our campuses. Our credit risk is mitigated through the students participation in federally funded financial aid programs unless students withdraw prior to the receipt by us of Title IV funds for those students. Any remaining tuition receivable is comprised of smaller individual amounts due from students across the United States.

We categorize our operating expenses as (i) educational services and facilities and (ii) selling, general and administrative.

Major components of educational services and facilities expenses include faculty compensation and benefits, compensation and benefits of other campus administration employees, facility rent, maintenance, utilities, depreciation and amortization of property and equipment used in the provision of educational services, royalties payable to licensors under our licensing arrangements and other costs directly associated with teaching our programs and providing educational services to our students.

Selling, general and administrative expenses include compensation and benefits of employees who are not directly associated with the provision of educational services (such as executive management, finance and central accounting, legal, human resources and business development), marketing and student enrollment expenses (including compensation and benefits of personnel employed in sales and marketing and student admissions), costs of professional services, bad debt expense, costs associated with the implementation and operation of our student management and reporting system, rent for our corporate headquarters, depreciation and amortization of property and equipment that is not used in the provision of educational services and other costs that are incidental to our operations. All marketing and student enrollment expenses are recognized in the period incurred. Costs related to the opening of new facilities, excluding related capital expenditures, are expensed in the period incurred.

Costs associated with the implementation of our student management and reporting system have increased over the last several years as we installed a new integrated information network that tracks inquiries from potential students and supports our student enrollment and processing of data as it relates to our student activities. We anticipate that we will need to further upgrade our student management and reporting system and expect additional costs will be incurred in connection with such an upgrade. We believe that the investment in our student management and reporting system has improved services to students and our ability to track student inquiries and may facilitate the integration of new schools into our operations, if and when new schools are opened or acquired.

Acquisitions

In January 1998, we acquired all of the assets of Clinton Harley Corporation and Clinton Education Group, Inc. for an aggregate of $26.3 million. Motorcycle Mechanics Institute and Marine Mechanics Institute (MMI) were operating divisions of Clinton Harley Corporation. As consideration for the MMI assets, we issued 3,673 shares of our series A preferred stock having a liquidation value of $1,000 per share, 1,422,450 shares of common stock and a subordinated note bearing interest at 13.5% in the principal amount of $2.0 million and maturing in January 2008, and paid $18.7 million in cash.

Recapitalization Transactions

Concurrent with the MMI acquisition, we also engaged in a recapitalization transaction with a group of investors assembled by The Jordan Company, LLC and with certain members of our management. Pursuant to the recapitalization agreement, we issued to the Jordan investors 7,505 shares of our series A preferred stock for net proceeds of $22.5 million, 4,763,250 shares of common stock and a subordinated note bearing interest at 13.5% in the principal amount of $15.4 million and maturing in January 2008. In addition, in exchange for the 107,396,436 shares of common stock held by the management group, we issued to the management group 2,318,550 shares of common stock, 4,067 shares of our series B preferred stock having a liquidation value of $1,000 per share, and subordinated notes in the aggregate principal amount of $2.0 million bearing interest at 13.5% and maturing in January 2008. In addition, we redeemed 101,682,024 shares of common stock for approximately $21.9 million. The redemption also included the contribution of assets held by an employee stock ownership plan to another qualified plan. The $47.8 million recapitalization transaction provided liquidity for certain stockholders as well as funds for the MMI acquisition and for our continued growth.

In April 2002, we effected another recapitalization transaction with a number of investors, including Charlesbank Capital Partners, LLC and Worldwide Training Group, LLC, whereby we issued 2,357 shares of series D convertible preferred stock for aggregate proceeds of $45.5 million. Series D preferred stock converts automatically into shares of our common stock upon the occurrence of certain events, including the consummation of an initial public offering.

In December 2003, we sold 3,250,000 million shares of our common stock in an initial public offering for approximately $59.0 million in net cash proceeds, after deducting underwriting commissions and offering expenses of approximately $7.6 million. In conjunction with our initial public offering, we effected a 4,350 to one stock split. Certain stockholders sold 5,375,000 shares of our common stock in the initial public offering. In addition, our outstanding series D preferred stock automatically converted to common stock upon the consummation of our initial public offering. Accordingly, the approximately 2,357 outstanding shares of series D preferred stock representing a liquidation value of $45.5 million were converted into an equivalent number of shares of our common stock which, upon giving effect to the stock split, amounted to 10,253,797 shares of common stock. Also in December 2003, we consummated an exchange offer pursuant to which we offered to exchange the then outstanding shares of our series A, series B and series C preferred stock for shares of our common stock at an exchange price per share equal to our initial public offering price of $20.50. An aggregate of 6,499 shares of series A, series B and series C preferred stock, representing a liquidation value of approximately $6.5 million, were presented for exchange and we issued an aggregate of 317,006 shares of our common stock in connection with that exchange. We used $25.5 million of the net proceeds from the initial public offering to redeem all of the outstanding shares of series A, series B and series C preferred stock that were not exchanged for shares of common stock and to pay all the accrued and unpaid dividends on all the series of our preferred stock, whether or not exchanged.

Critical Accounting Policies and Estimates

Our discussion of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, bad debts, fixed assets, long-lived assets, including goodwill, income taxes and contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements.

We believe that the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

Revenue recognition. Net revenues consist primarily of student tuition and fees derived from the programs we provide after reductions made for scholarships we sponsor. Tuition and fee revenue is recognized on a pro-rata (straight-line) basis over the term of the course or program offered. If a student withdraws from a program prior to a specified date, any paid but unearned tuition is refunded. Approximately 97% of our net revenues for the three months ended December 31, 2003 and 96% of our

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net revenues for the year ended September 30, 2003 consisted of tuition. Our net revenues vary from period to period in conjunction with our average student population. The majority of our undergraduate programs are typically designed to be completed in 12 to 18 months and our advanced training programs range from 8 to 27 weeks in duration. We supplement our core revenues with sales of textbooks and program supplies, student housing provided by us and other revenues. Sales of textbooks and program supplies, revenue related to student housing and other revenue are each recognized as sales occur or services are performed. Deferred tuition represents the excess of tuition payments received as compared to tuition earned and is reflected as a current liability in our consolidated financial statements because it is expected to be earned within the following twelve-month period.

Allowance for uncollectible accounts. We maintain an allowance for uncollectible accounts for estimated losses resulting from the inability, failure or refusal of our students to make required payments. We offer a variety of payment plans to help students pay that portion of their education expenses not covered by financial aid programs which are unsecured and not guaranteed. Management analyzes accounts receivable, historical percentages of uncollectible accounts, customer credit worthiness, when applicable, and changes in payment history when evaluating the adequacy of the allowance for uncollectible accounts. We use an internal group of collectors, augmented by third party collectors as deemed appropriate, in our collection efforts. Although we believe that our reserves are adequate, if the financial condition of our students deteriorates, resulting in an impairment of their ability to make payments, or if we underestimate the allowances required, additional allowances may be necessary, which will result in increased selling, general and administrative expenses in the period such determination is made.

Healthcare and workers compensation costs. Claims and insurance costs which primarily relate to health insurance and workers compensation are accrued using current information and, in the case of healthcare costs, future estimates provided by consultants to reasonably measure current cost incurred but not invoiced for services provided. Although we believe our estimated liability recorded for healthcare and workers compensation costs are reasonable, actual results could differ and require adjustment of the recorded balance.

Tool sets. We accrue the estimated cost of promotional tool sets offered to students at the time of enrollment and provided at a future date based upon satisfaction of certain criteria, including completion of certain course work. We accrue these costs based upon current student information and an estimate of the number of students that will complete the requisite coursework. Although we believe our estimated liability for tool sets is reasonable, actual results could differ and require adjustment of the recorded balance.

Long-lived assets. We record our long-lived assets, such as property and equipment, at cost. We review the carrying value of our long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable in accordance with the provisions of Statement of Financial Accounting Standards, or SFAS, No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We evaluate these assets to determine if their current recorded value is impaired by examining estimated future cash flows. These cash flows are evaluated by using weighted probability techniques as well as comparisons of past performance against projections. Assets may also be evaluated by identifying independent market values. If we determine that an asset s carrying value is impaired, we will record a write-down of the carrying value of the identified asset and charge the impairment as an operating expense in the period in which the determination is made. Although we believe that the carrying value of our long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances.

Goodwill. We assess the impairment of goodwill in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Accordingly, we test our goodwill for impairment annually, or whenever events or changes in circumstances indicate an impairment may have occurred, by comparing its fair value to its carrying value. Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations, including

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changes that restrict the activities of the acquired business, and a variety of other circumstances. If we determine that an impairment has occurred, we are required to record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. Goodwill represents a significant portion of our total assets. At December 31, 2003, goodwill represented approximately 20.8% of our total assets, or $20.6 million, and resulted from our acquisition of the parent company of MMI in January of 1998. Although we believe goodwill is appropriately stated in our consolidated financial statements, changes in strategy or market conditions could significantly impact these judgments and require an adjustment to the recorded balance.

Stock-based compensation. We account for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, and comply with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Several companies recently elected to change their accounting policies and record the fair value of options as an expense. We currently are not required to record stock-based compensation charges if the employee stock option exercise price or restricted stock purchase price equals or exceeds the deemed fair value of our common stock at the grant date. However, we understand that discussions of potential changes to APB Opinion No. 25 and SFAS No. 123 standards are ongoing and that the parties responsible for authoritative guidance in this area may require changes to the applicable accounting standards. If we had estimated the fair value of the options on the date of grant using the Black-Scholes pricing model and then amortized this estimated fair value over the vesting period of the options, our net income (loss) would have been adversely affected, as shown in the table below.

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
	(dollars in thousands, except per share amounts)			(unaudited)	
Net income (loss) available to common shareholders as reported	$(10,905)	$6,817	$13,966	$3,501	$6,677
Add: Stock-based compensation expense included in reported net income, net of taxes			39		16
Deduct: Total stock based employee compensation expense determined using the fair value based method, net of taxes	(1)	(72)	(163)	(32)	(110)
Net income (loss) pro forma	$(10,906)	$6,745	$13,842	$3,469	$6,583
Earnings per share basic as reported	$ (0.81)	$ 0.51	$ 1.03	$ 0.26	$ 0.43
Earnings per share diluted as reported	$ (0.81)	$ 0.44	$ 0.79	$ 0.18	$ 0.30
Earnings per share basic pro forma	$ (0.81)	$ 0.50	$ 1.02	$ 0.26	$ 0.42
Earnings per share diluted pro forma	$ (0.81)	$ 0.44	$ 0.78	$ 0.18	$ 0.30

Accounting for income taxes. In preparing our consolidated financial statements, we assess the likelihood that our deferred tax assets will be realized from future taxable income. We establish a valuation allowance if we determine that it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Changes in the valuation allowance are included in our statement of operations as a provision for or benefit from income taxes. We exercise significant judgment in determining our provisions for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our ability to utilize any future tax benefit from our deferred tax assets. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to audit by tax authorities in the ordinary course of business.

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As of December 31, 2003, we had a valuation allowance of $16.2 million to reduce our deferred tax assets to an amount that management believes is more likely than not realizable. The valuation allowance primarily relates to a deferred tax asset arising from a capital loss carryforward from the sale of a discontinued business. In addition, we had deferred tax assets comprised primarily of compensation and related costs and accrued expenses associated with tool purchases. We use significant judgment in determining the amounts of those accrued expenses reflected in the underlying financial statements. Should we incur capital gains in the future, we would be able to realize all or part of the capital loss carryforward against which we have applied the valuation allowance. In that event, our current income tax expense would be reduced or our income tax benefits would be increased, resulting in an increase in net income or a reduction in net loss.

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.

	Year Ended September 30,			Three Months Ended December 31,	
	2001	2002	2003	2002	2003
				(unaudited)	
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses:					
Educational services and facilities	54.4%	49.0%	47.0%	46.0%	43.4%
Selling, general and administrative	35.0%	35.7%	34.6%	35.8%	32.9%
Total operating expenses	89.4%	84.7%	81.6%	81.8%	76.3%
Income from operations	10.6%	15.3%	18.4%	18.2%	23.7%
Interest (income)	(0.4)%	(0.3)%	(0.2)%	(0.2)%	0.0%
Interest expense	10.1%	4.7%	2.1%	2.7%	1.3%
Other (income) expense	0.0%	0.6%	(0.2)%	0.0%	1.3%
Total other expense	9.7%	5.0%	1.7%	2.5%	2.6%
Income from continuing operations before income taxes	0.9%	10.3%	16.7%	15.7%	21.1%
Income tax expense	0.8%	3.6%	6.3%	5.5%	8.5%
Income from continuing operations	0.1%	6.7%	10.4%	10.2%	12.6%

Three Months Ended December 31, 2003 Compared to Three Months Ended December 31, 2002

Net revenues. Our net revenues for the three months ended December 31, 2003 were $59.0 million, representing an increase of $13.7 million, or 30.1%, as compared to net revenues of $45.4 million for the three months ended December 31, 2002. This increase was primarily due to a 24.6% increase in the average undergraduate full-time student enrollment, which increased to 12,856 for the three months ended December 31, 2003 as compared to 10,319 for the three months ended December 31, 2002.

Educational services and facilities expenses. Our educational services and facilities expenses for the three months ended December 31, 2003 were $25.6 million, representing an increase of $4.7 million, or 22.6%, as compared to educational services and facilities expenses of $20.9 million for the three months ended December 31, 2002. This increase was primarily due to incremental education expenses related to higher average student enrollments, offset partially by a $0.8 million reduction in estimated tool set expenses. Our results for the three months ended December 31, 2003 also include an additional charge of approximately $0.3 million for depreciation related to a change in the estimated useful life of the leasehold improvement at a campus that we intend to relocate within the next 9 to 12 months to provide additional

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capacity. Educational services and facilities expenses as a percentage of net revenues decreased to 43.4% for the three months ended December 31, 2003 as compared to 46.0% for the three months ended December 31, 2002. The decrease in educational services and facilities expenses as a percentage of net revenues is attributable to operating efficiencies resulting from increased average student enrollments at our existing facilities and a favorable adjustment of our estimated tool set expense.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the three months ended December 31, 2003 were $19.4 million, an increase of $3.2 million, or 19.5%, as compared to selling, general and administrative expenses of $16.3 million for the three months ended December 31, 2002. This increase was due to an incremental increase in marketing and student enrollment expenses and an increase in administrative expenses resulting from a need to further establish the infrastructure necessary to support our current and future operations. This increase also includes approximately $0.8 million in costs associated with the start-up of our new Pennsylvania campus. Selling, general and administrative expenses as a percentage of revenue decreased to 32.9% for the three months ended December 31, 2003 from 35.8% for the three months ended December 31, 2002. The decrease in selling, general and administrative expenses as a percentage of revenue is attributable to efficiencies of scale.

Interest expense. Our interest expense for the three months ended December 31, 2003 was $0.8 million, representing a decrease of $0.4 million, or 32.7%, compared to interest expense of $1.2 million for the three months ended December 31, 2002. This decrease was primarily due to a reduction in the average debt balance outstanding and a decrease in the average interest rate paid on our indebtedness to 3.91% for the three months ended December 31, 2003 from 5.82% for the three months ended December 31, 2002.

Other expenses. Our other expenses for the three months ended December 31, 2003 represent the write-off of unamortized deferred financing costs of approximately $0.8 million related to the early repayment of the term loans under our senior credit facilities. We repaid the term loans under our senior credit facilities during December 2003 with a portion of the net proceeds of our initial public offering.

Income taxes. Our provision for income taxes for the three months ended December 31, 2003 was $5.0 million, or 40.2% of pretax income, compared to $2.5 million, or 35.0% of pretax income, for the three months ended December 31, 2002. The lower effective rate for the three months ended December 31, 2002 is primarily attributable to the increase of our deferred tax assets as a result of applying a higher federal statutory rate.

Income from continuing operations. As a result of the foregoing, we reported income from continuing operations for the three months ended December 31, 2003 of $7.5 million, as compared to income from continuing operations of $4.6 million for the three months ended December 31, 2002.

Fiscal Year Ended September 30, 2003 Compared to Fiscal Year Ended September 30, 2002

Net revenues. Our net revenues for the year ended September 30, 2003 were $196.5 million, representing an increase of $52.1 million, or 36.1%, as compared to net revenues of $144.4 million for the year ended September 30, 2002. This increase was primarily due to a 27.7% increase in the average undergraduate full-time student enrollment during the year ended September 30, 2003 and an increase in the average tuition charge per student resulting from tuition increases of between 3% and 5%, depending on the program, and a shift in the mix of average student enrollments toward higher priced programs, particularly following the introduction of our higher-priced NASCAR programs at our new NTI facility opened in July 2002. For the year ended September 30, 2003, the average undergraduate full-time student enrollment was 10,568, compared with 8,277 for the year ended September 30, 2002. We have been able to accommodate the increase in student enrollments by improving the utilization of our existing facilities, opening our new NTI campus in July 2002 and expanding many of our existing facilities.

Educational services and facilities expenses. Our educational services and facilities expenses for the year ended September 30, 2003 were $92.4 million, representing an increase of $21.6 million, or 30.5%, as compared to educational services and facilities expenses of $70.8 million for the year ended September 30, 2002. This increase was primarily due to incremental education expenses related to higher average student enrollments, including additional costs of $7.0 million incurred in connection with the start-up and operation of our new campus that we opened in July 2002. Educational services and facilities expenses as a percentage of net revenues decreased to 47.0% of net revenues for the year ended September 30, 2003 from 49.0% for the year ended September 30, 2002, primarily due to cost and operating efficiencies resulting from increased enrollments at our existing facilities, partially offset by the costs attributable to the opening and operation of the new NTI campus.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the year ended September 30, 2003 were $67.9 million, representing an increase of $16.4 million, or 31.7%, as compared to selling, general and administrative expenses of $51.5 million for the year ended September 30, 2002. This increase was due in large measure to the incremental increase in marketing and student enrollment expenses in the 2003 period to support any future growth in student enrollments, which includes additional costs of $3.9 million relating to the new NTI campus that we opened in July 2002. Selling, general and administrative expenses as a percentage of net revenues decreased to 34.6% of net revenues in the year ended September 30, 2003 compared to 35.7% of net revenues in the year ended September 30, 2002. This decrease is primarily due to operating efficiencies resulting from increased enrollments at our existing facilities, partly offset by the costs attributable to the opening of our new campus.

Interest expense. Our interest expense for the year ended September 30, 2003 was $4.1 million, representing a decrease of $2.6 million, or 38.9%, compared to interest expense of $6.8 million for the year ended September 30, 2002. This decrease was due primarily to a reduction in the average debt balance outstanding and a decrease in the average interest rate paid on our indebtedness to 6.1% for the year ended September 30, 2003 from 6.5% for the year ended September 30, 2002. The reduction in the average debt balance outstanding was principally due to the repayment of $23.4 million of 13.5% subordinated notes and repayment of $17.9 million of long term debt under our existing senior credit facilities with proceeds received from the issuance of our series D convertible preferred stock in April 2002, as well as scheduled repayments under the senior credit facilities and repayment of $15.0 million of long-term debt under our existing senior credit facilities with available cash on hand during July 2003. We also repaid approximately $7.0 million of a subordinated convertible promissory note at a 10% discount in August 2003. The decrease in the average rate of interest we paid on our indebtedness was primarily attributable to the repayment of the 13.5% subordinated notes that carried a higher fixed interest rate, decreases in the LIBOR rates and a reduction in the applicable interest margin under our senior credit facilities as a result of our improved financial condition and the amendment of our senior credit facilities.

Other expenses. Our other expenses for the year ended September 30, 2002 represent the write-off of unamortized deferred financing costs of approximately $1.0 million as a result of the amendment of our senior credit facilities in April 2002.

Income taxes. Our provision for income taxes for the year ended September 30, 2003 was $12.4 million, or 37.7% of pretax income, compared to $5.2 million, or 35.0% of pretax income, for the year ended September 30, 2002. The increase in the effective rate is primarily attributable to higher state taxes for the year ended September 30, 2003, as all available state net operating loss carryforwards were utilized in the year ended September 30, 2002. In addition, a higher federal statutory rate applied to the year ended September 30, 2003, as well as an increase in our state tax rates that primarily impacted deferred tax items for the year ended September 30, 2003.

Income from continuing operations. As a result of the foregoing, we reported income from continuing operations for the year ended September 30, 2003 of $20.4 million, as compared to income from continuing operations of $9.7 million for the year ended September 30, 2002.

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Fiscal Year Ended September 30, 2002 Compared to Fiscal Year Ended September 30, 2001

Net revenues. Our net revenues for the fiscal year ended September 30, 2002 were $144.4 million, representing an increase of $34.9 million, or 31.9%, as compared to net revenues of $109.5 million for the fiscal year ended September 30, 2001. This increase was primarily due to a 23.4% increase in the average undergraduate full-time student population and an increase in the average tuition charge per student resulting from tuition increases of between 3% and 5%, depending on the program, and a modest shift in the mix of enrollments toward higher priced programs. For the fiscal year ended September 30, 2002, our average undergraduate full-time student enrollment was 8,277, compared with 6,710 for the fiscal year ended September 30, 2001. We have been able to accommodate the increase in student enrollments by improving the utilization of our existing facilities and opening a new campus in July 2002, as well as expanding our existing facilities.

Educational services and facilities expenses. Our educational services and facilities expenses for the fiscal year ended September 30, 2002 were $70.8 million, representing an increase of $11.3 million, or 18.9%, compared to educational services and facilities expenses of $59.6 million for the fiscal year ended September 30, 2001. This increase was primarily due to incremental education expenses related to higher average student enrollments and additional costs of $1.7 million incurred in connection with the start-up and operation of our new campus that was opened in July 2002. Educational services and facilities expenses as a percentage of net revenues decreased to 49.0% of net revenues for the fiscal year ended September 30, 2002 from 54.4% for the fiscal year ended September 30, 2001. This decrease was due primarily to cost and operating efficiencies resulting from improved utilization of our existing facilities.

Selling, general and administrative expenses. Our selling, general and administrative expenses for the fiscal year ended September 30, 2002 were $51.5 million, representing an increase of $13.2 million, or 34.5%, as compared to selling, general and administrative expenses of $38.3 million for the fiscal year ended September 30, 2001. This increase is primarily attributable to an incremental increase in marketing and student enrollment expenses related to higher student enrollments, an increase in administrative expense resulting from investments to further develop our corporate infrastructure and an increase in bad debt expense and professional services costs. In fiscal 2002, we made further investments in our corporate infrastructure by adding additional management personnel to accommodate our growth during that period as well as by increasing the number of our education representatives to support future growth. Selling, general and administrative expenses for the fiscal year ended September 30, 2002 also include $0.6 million related to the write-off of a related party note receivable and $1.0 million in professional services costs incurred in connection with our recapitalization completed in April 2002. Selling, general and administrative expenses as a percentage of net revenues increased to 35.7% of net revenues for the fiscal year ended September 30, 2002 from 35.0% in the fiscal year ended September 30, 2001.

Interest expense. Our interest expense for the fiscal year ended September 30, 2002 was $6.8 million, representing a decrease of $4.4 million, or 39.2%, as compared to interest expense of $11.1 million for the fiscal year ended September 30, 2001. This decrease was primarily due to a decrease in the average debt balance outstanding during the 2002 period and a decrease in the average rate of interest we paid on our indebtedness to 6.5% for the fiscal year ended September 30, 2002 from 10.0% for the fiscal year ended September 30, 2001. The decrease in our average debt balance outstanding was primarily due to the repayment of $23.4 million of our 13.5% subordinated notes and repayment of $17.9 million of long term debt under our existing senior credit facilities and a portion of the term loans outstanding under our senior credit facilities concurrently with our recapitalization completed in April 2002, as well as scheduled repayments under the senior credit facilities. The decrease in the average rate of interest we paid on our indebtedness was primarily attributable to the repayment of the 13.5% subordinated notes that carried a higher fixed interest rate and the decrease in the interest rate margins applicable on borrowings under our senior credit facilities following their amendment.

Other expenses. Our other expenses for the fiscal year ended September 30, 2002 include the write-off of unamortized deferred financing costs that we were no longer able to amortize as a result of the amendment of our senior credit facilities in April 2002 of approximately $1.0 million which was partially offset by a gain on the sale of miscellaneous securities.

Income taxes. Our provision for income taxes for the fiscal year ended September 30, 2002 was $5.2 million, or 35.0% of pretax income, compared to $0.8 million, or 87.9% of pre-tax income for the fiscal year ended September 30, 2001. This decrease is primarily due to lower state income taxes as a percentage of net income and non-deductible items representing a lower percentage of pre-tax income for the fiscal year ended September 30, 2002 as compared to the fiscal year ended September 30, 2001.

Income from continuing operations. As a result of the foregoing, we reported income from continuing operations of $9.7 million for the fiscal year ended September 30, 2002, compared to $0.1 million for the fiscal year ended September 30, 2001.

Discontinued Operations

In June 1998, we acquired National Technology Transfer, Inc., or NTT, and Performance Training Associates, or PTA, a wholly owned subsidiary of NTT at the date of acquisition. NTT provides intensive training seminars to technicians in sectors similar to the sectors that we serve. PTA organized lecture training seminars in markets similar to those in which NTT is active. The acquisition of NTT and PTA was completed for approximately $50.2 million, comprised of $37.8 million we borrowed under our senior credit facilities to finance the acquisition, our issuance of a $5.2 million subordinated convertible promissory note payable to the former NTT and PTA shareholder, our issuance of a $5.4 million 60-day note payable to the former NTT and PTA shareholder and $1.8 million in transaction costs. PTA was subsequently merged into NTT. In September 2001, we sold our interest in NTT for a nominal consideration to certain of our stockholders. The NTT business has been reflected in our consolidated financial statements included in this prospectus as a discontinued operation. Losses related to the operations (net of taxes) of NTT were $34.4 million and $8.5 million in our fiscal years ended September 30, 2000 and 2001, respectively.

Liquidity and Capital Resources

Liquidity

During the last three fiscal years and the three months ended December 31, 2003, we financed our operating activities and capital expenditures principally from net cash provided by operating activities.

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 (thirty-week periods). Loan funds are generally provided by lenders in two disbursements for each academic year. The first disbursement is usually received 30 days after the start of a student s academic year and the second disbursement is typically received at the beginning of the sixteenth week from the start of the student s academic year. Certain types of grants and other funding are not subject to a 30-day delay. The majority of our undergraduate programs are typically designed to be completed in 12 to 18 months. These factors, together with the timing of our students beginning their programs, affect our operating cash flow.

Net cash provided by operating activities was attributable primarily to net income adjusted for depreciation and changes in working capital items. Net cash provided by operating activities during the three months ended December 31, 2003 was $21.3 million, an increase of $8.1 million, or 61.0%, from $13.2 million during the three months ended December 31, 2002. This increase was primarily attributable to a decrease in accounts receivable of approximately $5.8 million and an increase in deferred revenue of approximately $4.4 million resulting from the timing of tuition funding, as well as an increase in net income of approximately $2.8 million. The combined increase in net cash of approximately $10.2 million as a result of changes in accounts receivable and deferred revenue represents an increase of approximately $7.2 million as compared to net cash provided from those items in the three months ended December 31, 2002 and was primarily due to an increase in the average enrollment of undergraduate full-time students.

The increase in net cash provided by operating activities as a result of the factors mentioned in the two preceding sentences was partially offset by our use of cash related to the timing of payments of facility rents, annual liability insurance payments and reduction of accounts payable.

Net cash provided by operating activities during the year ended September 30, 2003 was $36.4 million, an increase of approximately $16.0 million, or 77.9%, from $20.5 million during the fiscal year ended September 30, 2002. This increase was primarily due to an increase in net income in the 2003 period, an increase in accounts payable, an increase in accrued expenses related to the purchase of supplies and equipment as a result of the increase in average student enrollments, an increase in accrued salaries and related benefits and an increase related to accrued health care benefits from a self-insured benefit plan.

Net cash provided by operating activities during the fiscal year ended September 30, 2002 was $20.5 million, an increase of $9.7 million, or 90.2%, from $10.8 million during the fiscal year ended September 30, 2001. This increase was primarily due to the increase in net income in the 2001 period, an increase in deferred tuition revenue and accrued salaries and related benefits partially offset by an increase in receivables and prepaid expenses.

Net cash provided by operating activities was $10.8 million during the fiscal year ended September 30, 2001, an increase of $5.0 million, or 87.0%, from $5.8 million during the fiscal year ended September 30, 2000. This increase was primarily due to the increase in net income in the 2001 period, as well as an increase in accrued salaries and benefits, including accrued bonuses, partially offset by an increase in deferred income taxes primarily related to our arrangement with Snap-on Tools.

Capital Expenditures

Our cash used in investing activities is primarily related to the purchase of property and equipment. Our capital expenditures primarily result from the addition of new and the expansion of existing facilities, investment in tools, classroom technology and other equipment that supports our program offerings and our student management and reporting system. Net cash used in investing activities was $5.5 million, $5.8 million and $11.7 million for the fiscal years ended September 30, 2001, 2002, 2003, respectively, and was $1.3 million and $3.5 million for the three months ended December 31, 2002 and 2003, respectively. Capital expenditures are primarily related to ongoing replacements of equipment related to student training as well as costs associated with expansion of new and existing campuses. In addition, capital improvements consist of upgrades of various systems used throughout our company and, therefore, are reflected as selling, general and administrative expenses. Capital expenditures are expected to increase as we upgrade and expand current equipment and facilities or open new facilities to meet increased student enrollments. We expect to be able to fund these capital expenditures with cash generated from operations.

The following is a summary of our current material capital expenditure commitments:

In September 2003, we entered into a lease for approximately 28,000 square feet of space near our Glendale Heights location. This additional space will support expected student growth. We currently anticipate that we will incur capital expenditures of approximately $0.5 million for tenant improvements and that we will occupy the building in the summer of 2004.

In October 2003, we entered into a contract with a third party to build a 24,000 square foot building at our Glendale Heights location. This additional space will support expected student growth and manufacturer-specific training. As of March 31, 2004, we had incurred approximately $1.8 million in tenant improvement costs and we currently anticipate incurring additional tenant improvement costs in the amount of $0.3 million in the third quarter of our 2004 fiscal year. We took occupancy of the new building in March 2004.

In December 2003, we entered into a lease for approximately 160,000 square feet of space for our new Exton, Pennsylvania campus. We currently anticipate that we will incur capital expenditures of approximately $2.2 million through September 30, 2004 to equip the classrooms, labs and other

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campus operations at this location. This new campus is currently scheduled to open in the fourth quarter of our 2004 fiscal year.

Also in February 2004, we entered into a build-to-suit lease with a third party for the construction of a campus facility to which we will relocate our existing Rancho Cucamonga campus. The new campus facility will consist of approximately 190,000 square feet, an increase of approximately 107,000 square feet as compared to the existing campus. We anticipate that we will occupy the new campus facility in the first quarter of our 2005 fiscal year.

Furthermore, our strategy includes considering strategic acquisitions in the future. To the extent that potential acquisitions are large enough to require financing beyond cash from operations and available borrowings under our senior credit facilities, we may incur additional debt, resulting in increased interest expense.

We lease all of our facilities. We expect to make future payments on existing leases from cash provided from operations.

Debt Service

Our total debt was $60.9 million as of September 30, 2002, $57.3 million as of September 30, 2003 and $0.2 million as of December 31, 2003.

The following schedule sets forth our long-term debt obligations as of September 30, 2001, 2002 and 2003 and December 31, 2003.

	Long-Term Debt			
	September 30,			December 31,
	2001	2002	2003	2003
	(in thousands)			
Revolving credit facility[1]	$	$	$	$
Term A loan facility	14,188	19,150	16,950	
Term B loan facility	54,966	29,850	14,550	
6.0% Mandatory redeemable series A preferred stock[2]			15,202	
6.0% Mandatory redeemable series B preferred stock[2]			5,531	
6.0% Mandatory redeemable series C preferred stock[2]			4,729	
13.5% Subordinated promissory notes payable to shareholders and related parties	23,400			
6.6% Subordinated promissory note payable to shareholder and related party	4,000	4,000		
8.0% Subordinated convertible promissory note payable	6,616	7,011		
Capital leases	1,408	891	374	244
Total debt	104,578	60,902	57,336	244
Less current portion	7,242	3,016	3,860	233
Total long-term debt	$ 97,336	$ 57,886	$ 53,476	$ 11

(1) At December 31, 2003, we had available funds under our $30.0 million revolving credit facility in the approximate amount of $12.1 million. Availability of the revolving credit facility is reduced by the amount of outstanding letters of credit issued under the facility. As of December 31, 2003, we had letters of credit in an aggregate amount of $17.9 million outstanding under our revolving credit facility.

(2) We adopted SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, effective July 1, 2003. Accordingly, we reclassified as a liability the mandatory redeemable series A, series B and series C preferred stock. All of this stock was either exchanged for shares of common stock or redeemed in December 2003.

At December 31, 2003, the revolving credit facility bore interest at a rate equal to LIBOR plus 2.50% to 3.50% or, at our option, the alternate base rate (as defined in the revolving credit facility) plus 1.25% to

2.25%, in each case depending on our leverage ratio during the applicable interest period. In addition to paying interest on outstanding borrowings under the revolving credit facility, we are required to pay a commitment fee to the lenders under the revolving credit facility with respect to the unused commitments at a rate equal to 0.5% per year and to the issuers of letters of credit under our revolving credit facility a risk participation fee equal to 2.5% per year with respect the amount of such letters of credit. The revolving credit facility matures on March 31, 2007.

Our revolving credit facility is available for working capital, capital expenditures and other general corporate purposes and to support letters of credit issued under the facility. The amount available under the revolving credit facility is reduced by the amount of outstanding letters of credit. As a result of our failure to meet the standards of financial responsibility prescribed by the U.S. Department of Education, or ED, primarily due to our level of indebtedness, we have posted a letter of credit issued under our revolving credit facility in favor of ED in the amount of $6.4 million as of September 30, 2002, $7.6 million as of September 30, 2003 and $9.9 million as of December 31, 2003. In addition, we have posted letters of credit securing surety bonds issued on behalf of our schools and education representatives with various state agencies that regulate our activities. The aggregate amount of those letters of credit was $8.0 million as of December 31, 2003. At December 31, 2003 and March 31, 2004, we had no borrowings under the revolving credit facility.

Our revolving credit facility contains a number of covenants. The facility, among other things, restricts our ability to: incur additional indebtedness, grant liens or other security interests, make certain investments, become liable for contingent obligations, make specified restricted payments, including dividend or other distributions relating to shares of any class of our stock, dispose of assets or stock of our subsidiaries, or make capital expenditures above a specified limit. Our capital expenditure covenant limits our permitted capital expenditures to $30 million per year, as adjusted by up to $10 million of the preceding fiscal year s unutilized permitted capital expenditures.

Our revolving credit facility also requires us to comply with specified financial ratios and tests, including minimum EBITDA requirements, fixed charge coverage and interest coverage ratios and maximum leverage ratios, which become more stringent over time as follows:

We are required to have EBITDA (as defined under our revolving credit facility), measured over a trailing twelve month period, of not less than specified amounts, which amounts increase from $18.75 million for the period ended December 31, 2003 to $25.0 million during the period ending December 31, 2008 and thereafter;

We are required to maintain a fixed charge coverage ratio of 1.02-to-1.0 at December 31, 2003, which increases to 1.09-to-1.0 at June 30, 2005 and to 1.10-to-1.0 thereafter. Our fixed charge coverage ratio is defined as the ratio of our cash flow for the trailing twelve month period to the sum of interest expense for the period;

We are required to maintain a total interest coverage ratio, defined as the ratio of interest expense for the trailing twelve month period divided by EBITDA (as defined under our revolving credit facility) for the same period of at least 3.0-to-1.0 during the term of the credit facilities; and

The leverage covenant requires that our ratio of total indebtedness on a consolidated basis to EBITDA (as defined under our revolving credit facility) for the previous four quarters not exceed a specified ratio, which is 3.06-to-1.0 at December 31, 2003 and which decreases as follows: 3.0-to-1.0 at March 31, 2004, 2.93-to-1.0 at June 30, 2004, 2.87-to-1.0 at September 30, 2004, 2.81-to-1.0 at December 31, 2004, 2.75-to-1.0 at March 31, 2005, 2.50-to-1.0 at June 30, 2005, 2.00-to-1.0 at June 30, 2006, and 1.75-to-1.0 at June 30, 2007.

Furthermore, our revolving credit facility contains customary events of default as well as an event of default in the event that any of our institutions loses any accreditation necessary for Title IV Program eligibility, or the ability of any such institution to participate in Title IV Programs is cancelled, and such loss or cancellation is not cured within a specified period.

In April 2002, we issued shares of our series D convertible preferred stock to a number of investors, including Charlesbank Capital Partners, LLC, and Worldwide Training Group, LLC, and, in connection with that issuance, received net proceeds of approximately $42.0 million. We used the net proceeds from the issuance of our series D convertible preferred stock to repay $23.4 million of our 13.5% subordinated promissory notes and to prepay approximately $17.9 million of borrowings under our senior credit facilities. In connection with our April 2002 recapitalization, we amended our senior credit facilities to increase the availability under the revolving loan facility and the limit on the letters of credit that may be issued under that facility.

In September 2002, we received a waiver from our lender related to exceeding an indebtedness threshold contained in the agreement.

In July 2003, we prepaid without penalty, with available cash on hand, $15.0 million of borrowings under our term loan B facility, which had been a part of our senior credit facilities.

In August 2003, we retired at a 10% discount a subordinated convertible promissory note having a principal amount of approximately $7.0 million using available cash on hand of $6.3 million.

Also in August 2003, we repaid in full, including all accrued interest, a promissory note in the principal sum of $4.0 million that we had issued in September 1997 in favor of Whites Family Company, LLC, an entity controlled by John C. White. This note bore interest at approximately 6.6% and was due on or before September 2023. Immediately following this repayment, Whites Family Company, LLC remitted to us approximately $4.0 million in satisfaction of the principal amount of, and accrued interest on, a subscription note receivable bearing interest at approximately 6.1%.

In October 2003, we received a waiver from our lender related to a non-financial covenant for financial reporting which we have met subsequently. As of March 31, 2004, we were in compliance with our covenants under our revolving credit facility.

In December 2003, we received net proceeds from our initial public offering of approximately $59.0 million. We used $31.5 million of these proceeds to repay the outstanding balance of the term loans under the senior credit facilities and approximately $25.5 million of these proceeds to redeem all outstanding shares of series A, series B and series C preferred stock that were not exchanged for shares of our common stock and pay all accrued and unpaid dividends on all the series of our preferred stock, whether or not exchanged.

Dividends

In September 2003, we paid a $5.0 million dividend to our common stockholders and the holders of our series D preferred stock. We do not expect to pay any dividends on our common stock for the foreseeable future.

Future Liquidity Sources

Based on our current level of operations and anticipated growth, we believe that our cash flow from operations and other available sources of liquidity, including borrowings under the revolving credit facility, will provide adequate funds for ongoing operations, expansion to new locations, planned capital expenditures and debt service for the next 12 to 18 months.

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Contractual Obligations

The following table sets forth, as of December 31, 2003, the aggregate amounts of our significant contractual obligations and commitments with definitive payment terms that will require significant cash outlays in the future.

	Payments Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
			(in thousands)		
Capital leases	$ 244	$ 233	$ 11	$	$
Operating leases[1]	197,984	12,526	28,379	27,783	129,296
Other long-term obligations					
Total contractual cash obligations	198,228	12,759	28,390	27,783	129,296
Standby letters of credit[2]	17,900	17,900			
Total contractual commitments	$216,128	$30,659	$28,390	$27,783	$129,296

(1) Minimum rental commitments.

(2) Consists of a letter of credit in the amount of $9.9 million issued under our $30 million revolving credit facility in favor of ED as a result of our failure to meet the standards of financial responsibility prescribed by ED and letters of credit in the amount of $8.0 million issued under the revolving credit facility to secure surety bonds issued on behalf of our schools and education representatives with various state agencies that regulate our activities.

Related Party Transactions

We exchanged for shares of our common stock or redeemed for cash, at the holder s election, our series A preferred stock, series B preferred stock and series C preferred stock in connection with our initial public offering in December 2003. We used $25.5 million of the net proceeds from that public offering to redeem all outstanding shares of our series A preferred stock, series B preferred stock and series C preferred stock that were not exchanged for shares of common stock and to pay all the accrued and unpaid dividends on all the series of our preferred stock, whether or not exchanged. The following table shows the amounts that our officers and directors received in connection with such redemption and payment of dividends.

	Preferred Stock Redemption Amount
	(in thousands)
Robert Hartman	$3,617
John White	$1,498
Kimberly McWaters	$ 50
David Miller	$ 4
Roger Speer	$ 14

We lease some of our properties from entities controlled by John C. White, our Chief Strategic Planning Officer and Vice Chairman of our board of directors. A portion of the property comprising our Orlando location is occupied pursuant to a lease with the John C. and Cynthia L. White 1989 Family Trust, with the lease term expiring on August 19, 2022. The annual base lease payments for the first year under this lease total approximately $326,000, with annual adjustments based on the higher of (i) an amount equal to 4% of the total annual rent for the immediately preceding year or (ii) the percentage of increase in the Consumer Price Index. Another portion of the property comprising our Orlando location is occupied pursuant to a lease with Delegates LLC, an entity controlled by the White Family Trust, with the lease term expiring on July 1, 2016. The beneficiaries of this trust are Mr. White s children, and the trustee of the trust is not related to Mr. White. Annual base lease payments under this lease are approximately $680,000, with annual adjustments based on the higher of (i) an amount equal to 4% of the total annual rent for the immediately preceding year or (ii) the percentage of increase in the Consumer

Price Index. Additionally, we lease two of our Phoenix properties under one lease from City Park LLC, a successor in interest of 2844 West Deer Valley L.L.C. and in which the John C. and Cynthia L. White 1989 Family Trust holds a 25% interest. The lease expires on February 28, 2015, and the annual base lease payments under this lease, as amended, are approximately $463,000, with annual adjustments based on the higher of (i) an amount equal to 4% of the total annual rent for the immediately preceding year or (ii) the percentage of increase in the Consumer Price Index. The table below sets forth the total payments that we made in fiscal 2001, 2002 and 2003 under these leases:

	City Park LLC	John C. and Cynthia L. White 1989 Family Trust	Delegates LLC
Fiscal 2001	$447,795	$299,597	$404,912
Fiscal 2002	$462,567	$364,508	$644,715
Fiscal 2003	$495,040	$399,901	$796,015

We believe that the rental rates under these leases approximate the fair market rental value of the properties at the time the lease agreements were negotiated.

For a description of additional related party transactions, see Certain Relationships and Related Transactions.

Seasonality

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. 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 fiscal quarter than in the remainder of our fiscal year because fewer students are enrolled during the summer months. 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. The second and third quarters of our fiscal year ended September 30, 2003 were favorably impacted by an increase in student population at our NTI campus, which resulted in increased revenue and operational efficiencies during those two quarters. 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 acquisitions, new school openings, new program introductions and increased enrollments of adult students. In addition, our net revenues for the first fiscal quarter are adversely affected by the fact that we do not recognize revenue during the calendar year-end holiday break, which falls primarily in that quarter.

Year Ended September 30,

(dollars in thousands)

	Net Revenues			
	2002		2003	
	Amount	Percent	Amount	Percent
	(unaudited)			
Three Month Period Ending				
December 31, (previous year)	$ 34,405	23.8%	$ 45,374	23.1%
March 31,	35,483	24.6	47,358	24.1
June 30,	35,540	24.6	48,910	24.9
September 30,	38,944	27.0	54,853	27.9
	$144,372	100.0%	$196,495	100.0%

	Income from Operations			
	2002		2003	
	Amount	Percent	Amount	Percent
	(unaudited)			
Three Month Period Ending				
December 31, (previous year)	$ 6,249	28.4%	$ 8,240	22.8%
March 31,	6,096	27.7	9,482	26.2
June 30,	4,766	21.6	9,171	25.4
September 30,	4,907	22.3	9,263	25.6
	$22,018	100.0%	$36,156	100.0%

Quantitative and Qualitative Disclosures about Market Risk

Historically, our principal exposure to market risk relates to changes in interest rates. However, we repaid substantially all of our long-term debt in December 2003 with a portion of the net proceeds of our initial public offering. Consequently, we believe that we currently have minimal financial exposure to market risk.

Effect of Inflation

To date, inflation has not had a significant effect on our operations.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and should be initially measured at fair value. Under EITF Issue No. 94-3, a liability for such costs is recognized as of the date of an entity s commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that we initiated after December 31, 2002. Our adoption of SFAS No. 146 did not have a material effect on our financial condition or results of operations.

In November 2002, the FASB issued Financial Interpretation No. (FIN) 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires certain guarantees to be recorded at fair value and also requires a guarantor to make certain disclosures regarding guarantees. FIN 45 s initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Our adoption of this Interpretation did not have a material impact on our consolidated financial statements or disclosures.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation An Amendment of SFAS No. 123. Although SFAS 148 does not require use of the fair value method of accounting for stock-based employee compensation, it does provide alternative methods of transition. It also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS 148 s amendment of the transition and annual disclosure requirements is effective for fiscal years ending after December 15, 2002. The amendment of disclosure requirements of APB Opinion No. 28 is effective for interim periods beginning after December 15, 2002. Our adoption of SFAS No. 148 has resulted in expanded disclosure to include the effect of stock-based compensation in interim reporting.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 is effective prospectively for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. Our adoption of SFAS No. 149 did not have a material impact on our consolidated financial statements or disclosures.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 changes the accounting and disclosure requirements for certain financial instruments that, under previous guidance, could be classified as equity. The guidance in SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Upon adoption of SFAS No. 150, effective July 1, 2003, we classified as a liability our then-outstanding redeemable series A, series B, and series C preferred stock with a combined carrying value of approximately $25.5 million. Additionally, effective July 1, 2003 the dividends on these securities were included as a component of interest expense instead of preferred stock dividends in the consolidated statement of operations. SFAS No. 150 prohibits restatements of financial statements for periods prior to adoption and, accordingly, these changes were made prospectively.

In December 2003, the FASB issued FIN 46R, Consolidation of Variable Interest Entities, an Interpretation of ARB 51, replacing FIN 46, of the same title, that was issued in January 2003. FIN 46R provides guidance on when certain entities should be consolidated or the interests in those entities should be disclosed by enterprises that do not control them through majority voting interest. Under FIN 46R, entities are required to be consolidated by enterprises that lack majority voting interest when equity investors of those entities have insignificant capital at risk or they lack voting rights, the obligation to absorb expected losses, or the right to receive expected returns. Entities identified with these characteristics are called variable interest entities, or VIEs, and the interests that enterprises have in these entities are called variable interests. These interests can derive from certain guarantees, leases, loans or other arrangements that result in risks and rewards that are disproportionate to the voting interests in the entities.

The provisions of FIN 46R must be applied for VIEs created after January 31, 2003 and for variable interests in entities commonly referred to as special purpose entities. For all other VIEs, implementation is required by March 31, 2004. Our adoption of FIN 46R did not have a material impact on our consolidated financial statements or disclosures.

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BUSINESS

General

We are a leading provider of post-secondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians, as measured by total undergraduate enrollment and number of graduates. We offer undergraduate degree, diploma and certificate programs at seven campuses across the United States, and manufacturer-sponsored advanced programs at 22 dedicated training centers. For the twelve months ended September 30, 2003 and the three months ended December 31, 2003, our average undergraduate enrollments were 10,568 and 12,856 full-time students, respectively. We have provided technical education for over 35 years.

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. By staying current on the equipment and technology employed by OEMs, we are able to continuously refine and expand our programs and curricula. We believe that our industry-oriented educational philosophy and national presence have enabled us to develop valuable industry relationships that provide us with a significant competitive strength and support our market leadership. We are a primary, and often the sole, provider of manufacturer-based-training programs pursuant to written agreements with various OEMs whereby we provide technician training programs using their equipment and vehicles. These OEMs include Audi of America; American Honda Motor Co., Inc.; BMW of North America, LLC; Ford Motor Co.; International Truck and Engine Corp.; Jaguar Cars, Inc.; Mercedes-Benz USA, LLC; Mercury Marine; Porsche Cars of North America, Inc.; Volkswagen of America, Inc.; Volvo Cars of North America, Inc.; and Volvo Penta of the Americas.

Through our campus-based undergraduate programs, we offer specialized technical education 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). The majority of our undergraduate programs are designed to be completed in 12 to 18 months and culminate in an associate s degree, diploma or certificate, depending on the program and campus. Tuition ranges from approximately $18,000 to $33,000 per program, primarily depending on the nature and length of the program. All of our undergraduate programs are accredited and eligible for federal Title IV financial aid. Upon completion of one of our automotive or diesel undergraduate programs, qualifying students have the opportunity to enroll in one of the manufacturer-sponsored advanced training programs that we offer. These training programs are manufacturer-specific and are offered in a facility in which the OEM supplies the cars, equipment, specialty tools and curriculum. Tuition for these advanced training programs is paid by each participating OEM in return for a commitment by the student to work for a dealer of that OEM upon graduation. We also provide continuing education and retraining to experienced technicians at our customers sites or in our training facilities.

Immediately after this offering, our executive officers, directors and principal and selling stockholders listed in the section entitled Principal and Selling Stockholders will, in the aggregate, directly or indirectly hold approximately 47.3% of our outstanding shares of common stock. Accordingly, in the event that all or some of these stockholders decided to act in concert, they would have the ability to significantly influence the outcomes of various matters requiring the vote of stockholders.

Our History

We were founded in Phoenix, Arizona in 1965 to educate students in automotive services. Since our inception, we have expanded our programs with additional curricula and have opened new campuses, growing internally and through acquisitions. To address the needs of corporate clients, we started providing continuing education and training for technicians in 1980. In 1983, we opened our Houston, Texas campus, and in 1988 we opened our Glendale Heights, Illinois campus outside of Chicago. In 1998, we opened a campus in Rancho Cucamonga, California.

In January 1998, we acquired all of the assets of the parent company of MMI, which expanded our program offerings to include motorcycle and marine technician training. From its inception in 1973, MMI grew from a small operator of regional training centers to an educational institution with campus locations in Phoenix, Arizona and Orlando, Florida and relationships with leading OEMs in the motorcycle and marine industries. Concurrent with this acquisition, in order to provide liquidity for certain stockholders and capital for the acquisition of MMI, and to fund growth, we recapitalized our company with the assistance of The Jordan Company, LLC. As part of the recapitalization, we sold preferred and common equity to a group of investors assembled by The Jordan Company, consisting of private equity investors, individual investors employed by or serving as consultants to The Jordan Company and certain members of our management team. In April 2002, in order to reduce our outstanding debt, we sold convertible preferred equity to a group of investors, including Charlesbank Capital Partners, LLC and Worldwide Training Group, LLC, to reduce our outstanding debt and provide capital for growth.

In July 1999, we entered into a licensing arrangement with the National Association for Stock Car Auto Racing (NASCAR) to build NTI. NTI is the nation s first NASCAR-licensed technical training school to combine general automotive and NASCAR technology. The school is an extension of NASCAR s Officially Licensed Automotive Aftermarket Program. Opened in July 2002, NTI is located in Mooresville, North Carolina.

In December 2003, we completed the initial public offering of our common stock in which we sold 3,250,000 shares and certain of our stockholders sold 5,375,000 shares at a public offering price of $20.50 per share. We also completed an exchange offer whereby we offered to exchange shares of our series A, series B and series C preferred stock for common stock at an exchange rate based on our public offering price of $20.50 per common share. We received net proceeds of approximately $59.0 million in our initial public offering. We used $25.5 million of the net proceeds from the initial public offering to redeem the shares of series A, series B and series C preferred stock that were not exchanged in the exchange offer, to pay accrued and unpaid dividends on all our series of preferred stock, whether or not exchanged, to repay the outstanding balance of the term loans under our senior credit facilities and for working capital.

Industry

Based on estimates by the U.S. Department of Education, National Center for Education Statistics, expenditures for post-secondary education exceeded $250 billion in the 2002-2003 academic year. While public and private four-year colleges currently represent a majority of this spending, a fast-growing segment of the post-secondary education market is the field of technical, career-oriented training. According to the Bureau of Labor Statistics, occupations requiring a post-secondary vocational credential or an academic degree, which accounted for 29% of all jobs in 2000, will account for 42% of total job growth from 2000 to 2010. To address the need for career-focused technical curricula, post-secondary institutions are increasingly offering programs in automotive technology, health sciences and information technology. According to data collected by the U.S. Department of Labor, there will be approximately 55,000 new job openings each year from 2000 to 2010 in the fields we serve.

In recent years, there has been an increasing shortage of qualified service technicians in the automotive, diesel, collision repair, motorcycle and marine industries. This shortage primarily is being driven by the rapid technological advancement in these industries and an aging workforce. For example, an automobile can have up to 42 microprocessors to meet the need for sophisticated engine controls, comply with fuel emissions standards, perform advanced diagnostic analysis, enhance safety features (such as anti-lock brakes or automatic airbags) and provide certain comfort and convenience features (such as global positioning systems or sophisticated climate controls). Aspiring technicians must have sophisticated technical skills and be able to adapt to continually changing technologies, making it increasingly challenging for them to be self-trained. Furthermore, technicians working for particular dealers of such manufacturers need additional training to familiarize themselves with technologies that are proprietary to those manufacturers. In addition to creating employment requirements for new technicians, these technological changes have increased the need for continuing training for working technicians.

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As a result of these trends, we believe that the market for qualified service technicians is large and growing. In 2000, the U.S. Department of Labor estimated that there were approximately 840,000 working automotive technicians in the United States, and that this number was expected to increase by 18% from 2000 to 2010. Other 2000 estimates provided by the U.S. Department of Labor indicate that, from 2000 to 2010, 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 14%, 10%, 9% and 9%, respectively. Furthermore, in 2003, the National Auto Dealers Association cited a shortage of approximately 60,000 automotive technicians.

The rapidly changing technologies in the fields that we serve dictate that manufacturers and dealers continually invest in their training programs. The recurring need and resultant expense of training technicians has led many manufacturers to outsource training that was formerly conducted internally. Traditionally, manufacturers and dealers spend a significant amount of time recruiting and training entry-level technicians. Automotive manufacturers typically look to their dealerships to recruit and screen applicants; however, local dealerships may lack recruiting resources and expertise, making it difficult for them to attract qualified candidates. By outsourcing their recruiting and training, manufacturers and dealers can better focus on their core activities. In addition, by hiring technicians directly from our graduating classes, manufacturers and dealers are able to benefit from our extensive national recruiting effort and employ a qualified technician at a lower overall cost than they could through their own recruitment and training efforts. Given our national presence and manufacturer support, we believe that we are in a position to provide these training services on a cost-effective basis.

Competitive Strengths

We believe that we are well positioned to capitalize on these market opportunities as a result of the following competitive strengths:

Industry-Oriented Business Model. We work extensively with leading automotive, diesel, collision repair, motorcycle and marine equipment manufacturers, dealers and suppliers to determine the present and future needs of the end-markets our graduates enter and to tailor our educational programs to best serve those constituents. As a result, we believe that our graduates have the opportunity to work for the most desirable employers in their chosen fields due to the quality of their education and their commitment to careers as professional service technicians. In turn, we believe that the higher quality employment opportunities available to our graduates drive increased enrollments at our campuses and training centers.

Unique Manufacturer-Based Programs. We work closely with OEMs to develop brand-specific education programs. Participating manufacturers typically assist us in developing course content and curricula, and provide us with equipment, specialty tools and parts at no charge. In addition, the manufacturer pays the full tuition of each student enrolled in our advanced training programs. Our collaboration with OEMs enables us to provide highly specialized education to our students, resulting in improved employment opportunities and the potential for higher wages for graduates. Pursuant to written agreements, we provide such programs for Audi of America; American Honda Motor Co., Inc.; BMW of North America, LLC; Ford Motor Co.; International Truck and Engine Corp.; Jaguar Cars, Inc.; Mercedes-Benz USA, LLC; Mercury Marine; Porsche Cars of North America, Inc.; Volkswagen of America, Inc.; Volvo Cars of North America, Inc.; and Volvo Penta of the Americas.

Industry Relationships. In addition to our curriculum-based relationships with OEMs, we develop and maintain a variety of complementary relationships with parts and tools suppliers, enthusiast organizations and other participants in the industries we serve. Currently, these relationships include, among others, an agreement with Snap-on Tools pursuant to which we have agreed to use Snap-on Tools in the training of our students and have granted Snap-on Tools exclusive access to our campuses for display advertising, and a licensing agreement with the National Association for Stock Car Auto Racing (NASCAR) to use its name for our school in Mooresville, North Carolina and to become its exclusive education provider for automotive technicians. These relationships provide us with a variety of strategic and financial benefits, including equipment sponsorship, new product support, licensing and branding opportunities, and selected financial sponsorship for our campuses and students. We believe that these relationships improve the quality of our educational programs, reduce our investment cost of equipping classrooms, enable us to expand the scope of our programs, strengthen our graduate placements and enhance our overall image within the industry.

National Presence. Since our founding in 1965, we have grown our business and expanded our campus platform to establish a national presence. Through the UTI, MMI and NTI brands, our undergraduate campuses and advanced training centers currently provide us with local representation covering several geographic regions across the United States. Supporting our campuses, we maintain a national recruiting network of approximately 200 education representatives who are able to identify, advise and enroll students from all 50 states. Consequently, unlike competitors with single- or regional-campus models, we are able to effectively reach a national pool of potential students and to provide qualified professionals to our various end-markets on a broad geographic basis.

Superior Recruiting Strategy. We employ an integrated marketing and recruitment strategy that we believe enables us to effectively target and recruit both traditional post-secondary students and working adults. Our field-based education representatives provide a local presence to prospective students at high schools across the country. Additionally, our campus-based education representatives respond to media-driven inquiries from adults across the United States who are interested in returning to school. We support our education representatives recruiting efforts with a national multimedia marketing strategy that includes television, enthusiast magazines, direct mail and the Internet.

Operating Strategy

Our goal is to maintain and strengthen our role as a leading provider of technical education services. We intend to pursue the following strategies to attain this goal:

Open New Campuses. We continue to identify new markets that we believe will complement our established campus network and support further growth. We believe that there are a number of local markets, in regions where we do not currently have a campus, with both pools of interested prospective students and career opportunities for graduates. By establishing campuses in these locations, we believe that we will be able to supply skilled technicians to local employers, as well as provide educational opportunities for students otherwise unwilling to relocate to acquire a post-secondary education. Additional locations will also provide us with an opportunity to expand our relationships with OEMs by providing a graduate population with greater geographic reach. We are developing a campus in Exton, Pennsylvania where we will initially offer programs in automotive technology. Our Pennsylvania campus is currently scheduled to open in the fourth quarter of our 2004 fiscal year.

Increase Recruitment and Marketing. We plan to hire additional education representatives to enhance our recruitment coverage in territories where we are currently active in recruiting students and to expand into new regions and cities. In our 2003 fiscal year, our field-based education representatives made approximately 9,000 high school visits and approximately 414,000 student contacts. In addition, during the same period, our campus-based education representatives addressed approximately 270,000 inquiries from prospective students. We believe that additional education representatives, combined with increased marketing spending, will increase our national presence and enable us to better target the prospective student pool from which we recruit.

Expand Program Offerings. As the industries we serve become more technologically advanced, the requisite training for qualified technicians continues to increase. We continually work with our industry customers to expand and adapt our course offerings to meet their needs for skilled technicians. We also intend to increase the number of specialized or manufacturer-specific electives we offer in our undergraduate programs, such as our Hot Rod U high performance series and our Ford-certified elective. Additionally, we have received regulatory approval to expand the program offerings at our Orlando, Florida campus to include automotive technology programs. We intend to secure the necessary facilities to expand those new program offerings.

Seek Additional Industry Relationships. We actively seek to develop new relationships with leading OEMs, dealership networks and other industry participants. Securing such relationships will enable us to further drive undergraduate enrollment growth, diversify funding sources and expand the scope and increase the number of the programs we offer. We believe that these relationships are also valuable to our industry partners since our programs provide them with a steady supply of highly trained service technicians and are a cost-effective alternative to in-house training. Therefore, we believe that these relationships will also provide us additional incremental revenue opportunities from retraining OEMs existing employees.

Consider Strategic Acquisitions. We may selectively consider acquisition opportunities that, among other factors, would complement our program offerings, benefit from our expertise and scale in marketing and administration and could be integrated into our existing operations.

Schools and Programs

Through our campus-based school system, we offer specialized technical education programs 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). The majority of our undergraduate programs are designed to be completed in 12 to 18 months and culminate in an associate s degree, diploma or certificate, depending on the program and campus. Tuition ranges from approximately $18,000 to $33,000 per program, primarily depending on the nature and length of the program. All of our undergraduate programs are accredited and eligible for federal Title IV financial aid. Upon completion of one of our automotive or diesel undergraduate programs, qualifying students have the opportunity to enroll in one of our advanced, manufacturer-specific training programs. These programs are offered in facilities in which OEMs supply the vehicles, equipment, specialty tools and curricula. Tuition for the advanced training programs is paid by each participating OEM in return for a commitment by the student to work for a dealer of that OEM upon graduation. We also provide continuing education and retraining to experienced technicians.

Our undergraduate schools and programs are summarized in the following table:

School	Location	Date Opened	Principal Programs
UTI	Phoenix, Arizona	1965	Automotive; Diesel & Industrial; Automotive/ Diesel; Automotive/ Diesel & Industrial
UTI	Houston, Texas	1983	Automotive; Diesel & Industrial; Automotive/ Diesel; Automotive/ Diesel & Industrial; Collision Repair and Refinishing
UTI	Glendale Heights, Illinois	1988	Automotive; Diesel & Industrial; Automotive/ Diesel; Automotive/ Diesel & Industrial
UTI	Rancho Cucamonga, California	1998	Automotive
UTI	Exton, Pennsylvania	2004	Automotive(1)
MMI	Phoenix, Arizona	1973	Motorcycle
MMI	Orlando, Florida	1986	Motorcycle; Marine; Automotive(2)
NTI	Mooresville, North Carolina	2002	Automotive with NASCAR

(1) This campus is currently scheduled to open in the fourth quarter of our 2004 fiscal year.

(2) We have received regulatory approval to expand the program offerings at our Orlando, Florida campus to include automotive technology programs and intend to secure the necessary facilities to expand those new program offerings.

Universal Technical Institute (UTI)

UTI is one of the few private, post-secondary schools in the United States to offer automotive, diesel & industrial, and collision repair and refinishing programs that are master certified by the National Automotive Technicians Education Foundation (NATEF), a division of the Institute for Automotive Service Excellence (ASE). All UTI programs are accredited and culminate in an associate s degree or diploma, depending on the program and campus. Students also have the option to enhance their core program through the Ford Accelerated Credential Training (FACT) Elective, a Ford-specific program that allows them to become Ford-certified technicians.

Automotive Technology. Established in 1965, the Automotive Technology program is designed to teach students how to diagnose, service and repair automobiles. The program ranges from 48 to 78 weeks in duration, and tuition ranges from $20,150 to $32,900. Graduates of this program are qualified to work as entry-level service technicians in automotive repair facilities or automotive dealer service departments.

Diesel & Industrial Technology. Established in 1968, the Diesel & Industrial Technology program is designed to teach students how to diagnose, service and repair diesel systems and industrial equipment. The program is 45 weeks in duration and tuition ranges from $19,100 to $19,700. Graduates of this program are qualified to work as entry-level service technicians in medium and heavy truck facilities, truck dealerships, or in service and repair facilities for marine diesel engines and equipment utilized in various industrial applications, including materials handling, construction, transport refrigeration or farming.

Automotive/Diesel Technology. Established in 1970, the Automotive/ Diesel Technology program is designed to teach students how to diagnose, service and repair automobiles and diesel systems. The program ranges from 66 to 81 weeks in duration and tuition ranges from approximately $24,500 to $30,800. Graduates of this program typically can work as entry-level service technicians in automotive repair facilities, automotive dealer service departments, diesel engine repair facilities, medium and heavy truck facilities or truck dealerships.

Automotive/Diesel & Industrial Technology. Established in 1970, the Automotive/ Diesel & Industrial Technology program is designed to teach students how to diagnose, service and repair automobiles, diesel systems and industrial equipment. The program ranges from 72 to 87 weeks in duration and tuition ranges from $25,600 to $31,900. Graduates of this program are qualified to work as entry-level service technicians in automotive repair facilities, automotive dealer service departments, diesel engine repair facilities, medium and heavy truck facilities, truck dealerships, or in service and repair facilities for marine diesel engines and equipment utilized in various industrial applications, including material handling, construction, transport refrigeration or farming.

Collision Repair and Refinishing Technology (CRRT). Established in 1999, the CRRT program teaches students how to repair non-structural and structural automobile damage as well as how to prepare cost estimates on all phases of repair and refinishing. The program is from 51 to 57 weeks in duration and tuition ranges from $21,350 to $22,900. Graduates of this program are qualified to work as entry-level service technicians at OEM dealerships and independent repair facilities.

Motorcycle Mechanics Institute and Marine Mechanics Institute (collectively, MMI)

Motorcycle. Established in 1973, this MMI program is designed to teach students how to diagnose, service and repair motorcycles and all-terrain vehicles. The program ranges from 57 to 81 weeks in duration and tuition ranges from $17,750 to $24,300. Graduates of this program are qualified to work as entry-level service technicians in motorcycle dealerships and independent repair facilities. MMI is supported by all five major motorcycle manufacturers. We have a written agreement with American Honda Motor Co., Inc. and oral understandings with American Suzuki Motor Corp., Harley-Davidson Motor Co., Kawasaki Motors Corp., U.S.A. and Yamaha Motor Corp., USA. These motorcycle manufacturers support us through their endorsement of our curriculum content, assisting our course development, equipment and product donation, and instructor training. Our oral understandings with these manufacturers may be terminated without cause by either party at any time. We estimate that MMI commands over 80% market share in the entry-level motorcycle technician training industry.

Marine. Established in 1986, this MMI program is designed to teach students how to diagnose, service and repair boats and personal watercraft. The program is 60 weeks in duration and tuition is approximately $20,700. Graduates of this program are qualified to work as entry-level service technicians for marine dealerships and independent repair shops, as well as for marinas, boat yards and yacht clubs.

NASCAR Technical Institute (NTI)

Established in 2002, NTI offers the same type of automotive training as UTI does, but with additional NASCAR-specific courses. In addition to the training received in our Automotive Technology program, students are able to learn first-hand on NASCAR engines and equipment and to learn specific skills required for entry-level positions in NASCAR-related career opportunities. The program ranges from 57 to 73 weeks in duration and tuition ranges from $25,100 to $31,200. Similar to graduates of the Automotive Technology program, NTI graduates are qualified to work as entry-level service technicians in automotive repair facilities or automotive dealer service departments. A small percentage of these graduates may have the opportunity to work on NASCAR technician teams.

Manufacturer-Sponsored Programs

Advanced Training Programs. Pursuant to written agreements, we offer manufacturer-specific advanced training programs for the following companies: Audi of America; BMW of North America, LLC; International Truck and Engine Corp.; Jaguar Cars, Inc.; Porsche Cars of North America, Inc.; Volkswagen of America, Inc.; and Volvo Cars of North America, Inc.

Audi and Volkswagen. We have a written agreement with Audi of America and Volkswagen of America, Inc. whereby we provide training programs using tools, equipment and vehicles provided by Audi and Volkswagen. This agreement expires on December 31, 2006 and may be terminated for cause by either party.

BMW. We have a written agreement with BMW of North America, LLC whereby we provide training programs, using tools, equipment and vehicles provided by BMW. This agreement expires on December 31, 2004, and may be terminated for cause by either party. This agreement is not exclusive, though, for the duration of its term, BMW may not enter into a similar agreement with any other institution that would conduct such program within 100 miles of an existing UTI program; and we may not provide manufacturer-specific training for any other automotive manufacturer at our BMW training facilities.

International Truck. We have a written agreement with International Truck and Engine Corp. whereby we provide training programs using tools, equipment and vehicles provided by International Truck. This agreement expires on December 31, 2005 and may be terminated without cause by either party upon 180 days written notice.

Jaguar. We have a written agreement with Jaguar Cars, Inc. whereby we provide training programs using tools, equipment and vehicles provided by Jaguar. This agreement expires on May 29, 2004 and may be terminated for cause by either party. This agreement is not exclusive, though Jaguar may not enter into a similar agreement with any other institution that would conduct a program within 100 miles of an existing UTI program. We are currently in discussions with respect to the renewal of this agreement.

Porsche. We have a written agreement with Porsche Cars of North America, Inc. whereby we provide training programs at a Porsche training center in Atlanta, Georgia, using tools, equipment and vehicles provided by Porsche. This agreement expires on August 31, 2005, is exclusive of all other institutions and may be terminated without cause by Porsche upon 30 days written notice.

Volvo. We have a written agreement with Volvo Cars of North America whereby we provide training programs using tools, equipment and marine engines provided by Volvo Penta. This agreement expires on October 31, 2004 and may be terminated without cause by either party upon 90 days written notice.

These programs are intended to offer in-depth instruction on specific manufacturers products, qualifying a graduate for employment with a dealer seeking highly specialized, entry-level technicians with brand-specific skills. The programs range from 8 to 27 weeks in duration, and tuition, which generally ranges from $5,000 to $8,200, is paid by the manufacturer. The manufacturer also supplies equipment for the courses.

Retraining. Technicians in all of the industries we serve are in regular need of retraining or certification on new technologies. Increasingly, manufacturers such as American Honda Motor Co., Inc.; BMW of North America, LLC; and Mercedes-Benz USA, LLC are outsourcing a portion of this training to education providers such as our company.

Industry Relationships

We have an extensive network of industry relationships that provide a wide range of strategic and financial benefits, including product/ financial support, licensing and manufacturer training.

Product/Financial Support. Product/financial support is an integral component of our business strategy and is employed across our schools. In these relationships, sponsors provide their products, including equipment and supplies, at little or no cost to us in return for our use of those products in the classroom, or provide financial sponsorship to either us or our students. Product/financial support is an attractive marketing channel for sponsors because our classrooms provide them with early access to the future end-users of their products. As students become familiar with a manufacturer s products during training, they may be more likely to continue to use the same products upon graduation. Our extensive use of product support relationships allows us to minimize the equipment and supply costs in each of our classrooms and significantly reduces the capital outlay necessary for operating and equipping our campuses.

An example of a product/financial support relationship is:

Snap-on Tools. At various stages in our undergraduate programs, students receive a Snap-on Tools entry- level tool set having an approximate retail value of $1,000. We purchase these tool sets from Snap-on Tools at a discount from their list price pursuant to three written agreements. The agreement regarding our MMI locations expires in January 2006 and may be terminated for cause by Snap-on Tools at any time prior to its expiration. The agreement with our NTI location has an indefinite term and may be terminated for cause by Snap-on Tools at any time. The agreement regarding our UTI locations expired by its terms in April 2003 and we are currently operating under oral understandings with respect to these locations. We are currently in negotiation regarding the amendment and renewal of the expired UTI contract. In the context of this relationship, we have granted Snap-on Tools exclusive access to our campuses and display advertising and we have agreed to use Snap-on tools to train our students. We receive credits from Snap-on Tools for tool kits and any additional purchases made by our students. We can then redeem those credits to purchase Snap-on Tools equipment and tools for our campuses at the full retail list price.

Licensing. Licensing encompasses our affiliation with key industry brands. We pay a licensing fee and, in return, receive the right to use a particular industry participant s name or logo in our promotional materials and on our campuses. We believe that our current and potential students generally identify favorably with the recognized brand names licensed to us, enhancing our reputation and the effectiveness of our marketing efforts.

An example of a licensing arrangement is:

NASCAR. In July 1999, we entered into a licensing arrangement with NASCAR and became its exclusive education provider for automotive technicians. This written agreement expires on June 30, 2007 and may be terminated for cause by either party at any time prior to its expiration. In July 2002, the NASCAR Technical Institute opened in Mooresville, North Carolina. More than 1,200 students currently attend this campus. This relationship provides us with access to the extensive network of NASCAR sponsors, presenting us with the opportunity to enhance our product support relationships. The popular NASCAR brand name combined with the opportunity to learn on high-performance cars is a powerful recruiting and retention tool for a broad group of potential students.

Manufacturer Training. Manufacturer training relationships provide benefits to us that impact each of our education programs. These relationships induce entry-level training tailored to the needs of a specific manufacturer, as well as continuing education and retraining of experienced technicians. In our entry-level programs, students receive training and certification on a given manufacturer s products. In return, the manufacturer supplies equipment, specialty tools and parts, and assistance in developing curricula. Students who receive this training are often certified to work on that manufacturer s products when they complete the program. That certification typically leads to both improved employment opportunities and the potential for higher wages. Manufacturer training relationships lower the capital investment necessary to equip our classrooms and provide us with a significant marketing advantage. In addition, through these relationships, manufacturers are able to increase the pool of skilled resources available to service and repair their products.

We actively seek to extend our relationship with a given manufacturer by providing the manufacturer s retraining. Like the advanced training, these programs are built on a training relationship under which the manufacturer not only provides the equipment and curriculum but also pays for the students tuition. These retraining courses often take place within our existing facilities, allowing the manufacturer to avoid the costs associated with establishing its own dedicated facility.

Examples of manufacturer training relationships include:

Ford Motor Company. Pursuant to a written agreement, we offer the Ford Accelerated Credential Training (FACT) Elective to all of the students in our Automotive and Automotive/ Diesel programs. The FACT Elective is a 15-week course in Ford-specific training, during which students are able to earn Ford certifications. Ford Motor Company provides the curriculum, vehicles, specialty equipment and other training aids required in this elective. This agreement has an indefinite term and may be terminated without cause by either party upon six months written notice.

Mercedes-Benz USA, LLC. Pursuant to a written agreement, we offer the Mercedes-Benz ELITE training program. This is a 16-week advanced training program that enables students to earn Mercedes-Benz training credits in service maintenance, diagnosis and repair of most Mercedes-Benz vehicle systems. Highly ranked graduates of UTI s Automotive and Automotive/ Diesel programs may apply for acceptance into the Mercedes-Benz ELITE training program. Tuition for the program is paid by the manufacturer. All curricula, vehicles, specialty tools and training aids are provided by Mercedes-Benz. This agreement expires on September 30, 2005 and may be terminated without cause by Mercedes-Benz upon 60 days written notice. Recently, pursuant to an addendum to our agreement with Mercedes-Benz that expires on May 31, 2006, we added a Mercedes-Benz ELITE training program for graduates of the CRRT program. In addition, we provide training for Mercedes-Benz factory technicians on a regular basis at our Houston, Texas facility.

American Honda Motor Co., Inc. Pursuant to two written agreements, American Honda Motor Co., Inc. supports our campus training program called HonTech® by donating equipment and providing curriculum. In addition, we provide continuing marine and motorcycle training for experienced American Honda technicians. We oversee administration of the training programs, including scheduling classes and technician enrollment. Our instructors provide the training at American Honda-authorized training centers across the United States. The marine training agreement expired upon completion of the final class taught in March 2004 and the program is operating under the terms and conditions of the expired agreement. We are currently in negotiation for the renewal of the contract. The motorcycle training agreement expires on September 30, 2004. Each agreement may be terminated for cause by American Honda at any time prior to its expiration.

Student Recruitment Model

We strive to increase our school enrollment and profitability through a dedicated marketing program designed to maximize market penetration. Our strategy is to recruit a geographically dispersed and demographically diverse student body, including both recent high school graduates and adults. Due to the diverse backgrounds and locations of students who attend our schools, we utilize a variety of marketing techniques to recruit applicants to our programs, including:

Field-Based Representatives. Our field-based education representatives recruit prospective students from high schools across the country. Over the last three fiscal years, approximately 60% of our student population has been recruited directly out of high school. Currently, we have 128 field-based education representatives, an increase from 58 field-based representatives as of the end of our 1998 fiscal year, with assigned territories covering the United States and U.S. territories. Our field-based education representatives recruit students by making career presentations at high schools and direct presentations at the homes of prospective students. We estimate that in our 2003 fiscal year, our education representatives made approximately 9,000 high school visits and approximately 414,000 student contacts.

Our reputation in local, regional and national business communities, endorsements from high school guidance counselors and the recommendations of satisfied graduates are some of our most effective recruiting tools. Accordingly, we strive to build relationships with the people who influence the career decisions of prospective students, such as vocational instructors and high school guidance counselors. Every year, we conduct seminars for high school career counselors and instructors at our training facilities and campuses as a means of further educating these individuals on the merits of our programs. We estimate that as much as 9% of our enrollment comes from referrals from our staff, current students and alumni.

Campus-Based Representatives. In addition to our field-based education representatives, we use campus-based representatives to recruit students. These representatives respond to targeted marketing leads and inbound inquiries to directly recruit new students typically adults returning to school from anywhere across the United States. We estimate that our 66 campus-based education representatives, an increase from 35 campus-based education representatives at the end of our 1998 fiscal year, addressed approximately 270,000 media-driven inquiries in our 2003 fiscal year. Since working adults tend to start our programs throughout the year instead of in the fall as is most typical of traditional school calendars, these students help balance our enrollment throughout the year.

Marketing and Advertising. We make use of multiple direct and indirect marketing and advertising channels aimed at prompting enthusiasts and underemployed or unemployed prospective students to contact us. We select various advertising methods on a national, regional and local basis to drive enrollments at our campuses. We utilize television advertising on national cable networks such as Speed Channel, Fox Sports Net, Spike TV (formerly known as TNN) and Outdoor Life Network, as well as on local stations. We advertise in both national and regional automotive, motorcycle and marine enthusiast publications, including Harley-Davidson s enthusiast publication which has a circulation of over 1,000,000. We also employ direct mailings and maintain a proprietary database consisting of over 980,000 names that enable us to target both high school students and working adults throughout the year.

Student Admissions and Retention

We currently employ approximately 200 field- and campus-based education representatives who work directly with prospective students to facilitate the enrollment process. At each campus, student admissions are overseen by an admissions department that reviews each application. We screen prospective student applications to increase the likelihood that all admitted students are capable of completing the requisite coursework and are ready to obtain employment following graduation. Different programs have varying admissions standards. For example, applicants for the diploma and associate of occupational studies programs must be at least 16 years of age and have a high school diploma or certification of high school equivalency (G.E.D.). Applicants for the certificate programs must have a high school diploma or G.E.D. or be beyond the age of compulsory school attendance and have the ability to benefit from the training offered, as determined by personal interviews and performance on the Wonderlic Scholastic Level Exam.

To maximize student persistence, we have staff and other resources to assist and advise students regarding academic, financial, personal and employment matters. Our consolidated student completion rate, calculated in accordance with ED regulations, was 70% for our 2003 fiscal year, which we believe compares favorably with the student completion rates of other providers of comparable educational/ training programs.

Enrollment

We enroll students continuously throughout the year. For the three months ended December 31, 2003, we had an average enrollment of 12,856 full-time undergraduate students, representing an increase of approximately 24.6% as compared to the three months ended December 31, 2002 and making us the largest provider of post-secondary education in our fields of study in the United States. Currently, our student body is geographically diverse, with approximately 80% of our students at most campuses having relocated to attend our programs. For the twelve months ended September 30, 2001, 2002 and 2003, we had average undergraduate enrollments of 6,710 and 8,277 and 10,568 full-time undergraduate students, respectively.

Graduate Placement

We believe that securing employment for our graduates is critical to our ability to attract high quality prospective students. In addition, high placement rates are directly correlated to low student loan default rates, an important requirement for continuing participation in Title IV federal funding programs. Accordingly, we dedicate significant resources to maintaining an efficient graduate placement program. Our consolidated graduate placement rates, calculated in accordance with the standards of our accrediting commission, were 89%, 90% and 89% for our fiscal years 2001, 2002 and 2003, respectively.

Our schools utilize their externship programs to develop job opportunities and referrals. During the course of each program, students receive instruction on job search and interviewing skills and have available reference materials and assistance with the composition of resumes.

Currently, over 3,200 employers participate in the Tuition Reimbursement Incentive Program (TRIP), whereby employers of our graduates make some or all of the graduates monthly student loan payments for as long as they employ the graduate or until the loan is paid in full, whichever is earlier. We believe that TRIP provides us with a more compelling value proposition to prospective students and further enhances our relationship with our OEM partners.

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Faculty and Employees

Faculty members are hired nationally in accordance with established criteria, applicable accreditation standards and applicable state regulations. Members of our faculty are primarily industry professionals and are hired based on their prior work and educational experience. We require a specific level of industry experience in order to enhance the quality of the programs that we offer and to address current and industry-specific issues in the course content. We provide intensive instructional training and continuing education to our faculty members to maintain the quality of instruction in all fields of study. Generally, our existing instructors have between four and seven years teaching experience and our average undergraduate student-to-teacher ratio is approximately 22-to-1.

The staff of each school includes a school director, a director of graduate placement, an education director, a director of student services, a financial-aid director, an accounting manager or division controller and a director of admissions. The staff is composed of industry professionals with experience in the fields that we serve. As of December 31, 2003, we had approximately 1,600 full-time employees, including approximately 310 student support employees and approximately 780 full-time faculty members.

Our employees are not represented by labor unions and are not subject to collective bargaining agreements. We have never experienced a work stoppage, and we believe that we have a good relationship with our employees. However, as we open or acquire campuses in new geographic areas, we may encounter employees who desire or maintain union representation.

Seasonality

Our business is subject to seasonal variations, principally due to changes in total student population. Student population varies as a result of new student enrollments, graduation and student attrition. Historically, our campuses have had lower student populations in the third fiscal quarter than in the remainder of the year because fewer students are enrolled during the summer months. Our expenses, however, do not significantly vary 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 acquisitions, new school openings, new program introductions and increased enrollments of adult students.

Competition

The career-oriented school industry is highly fragmented, with no one provider or public institution controlling a significant market share. Generally, there is limited direct competition between career-oriented schools and traditional four-year colleges or universities. Our main competitors are traditional public and private two-year junior and community colleges, other proprietary career-oriented schools and technical schools, including Lincoln Technical Institute and Wyoming Technical Institute, which is owned by Corinthian Colleges, Inc. We compete at a local and regional level based primarily on the content, visibility and accessibility of academic programs, the quality of instruction and the time necessary to enter the workforce. We believe that we are superior to our competitors in size, industry relationships, brand, reputation and recruiting capability.

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Campuses and Other Properties

The following chart provides information relating to our leased campuses and other leased properties:

	School/Program	Location	Approximate Square Footage
Campus:	UTI	Phoenix, Arizona[1]	166,000
	UTI	Houston, Texas	178,000
	UTI	Glendale Heights, Illinois	125,000
	UTI	Rancho Cucamonga, California[2]	83,000
	UTI	Exton, Pennsylvania[3]	160,000
	MMI	Phoenix, Arizona	118,000
	MMI/ UTI	Orlando, Florida	108,000
	NTI	Mooresville, North Carolina	146,000
Corporate Offices:	Headquarters	Phoenix, Arizona	60,000
Advanced Training Centers:	Audi Academy	Phoenix, Arizona	10,000
	Audi Academy	Glendale Heights, Illinois	6,500
	Audi Academy	Allentown, Pennsylvania	6,200
	BMW STEP	Phoenix, Arizona	9,700
	BMW STEP	Ontario, California	2,500
	BMW STEP	Houston, Texas	7,500
	BMW STEP	Upper Saddle River, New Jersey	7,500
	BMW STEP	Orlando, Florida	13,300
	Ford Technical Institute	Dearborn, Michigan	9,600
	Jaguar PACE	Orlando, Florida	13,300
	International Tech Education Program	Carol Stream, Illinois	7,100
	Mercedes-Benz ELITE	Rancho Cucamonga, California	8,700
	Mercedes-Benz ELITE	Orlando, Florida	10,100
	Mercedes-Benz ELITE	Houston, Texas	27,600
	Mercedes-Benz ELITE	Glendale Heights, Illinois	11,900
	Mercedes-Benz ELITE	Allentown, Pennsylvania	10,600
	Porsche TAP	Atlanta, Georgia	5,000
	Volkswagen V.S.T.T.	Glendale Heights, Illinois	6,900
	Volkswagen V.S.T.T.	Allentown, Pennsylvania	6,900
	Volkswagen V.S.T.T.	Rancho Cucamonga, California	8,700
	Volvo SAFE	Glendale Heights, Illinois	11,000
	Volvo SAFE	Phoenix, Arizona	10,000

(1) We have entered into a lease for a new 273,000 square foot facility in Avondale, Arizona, in the Phoenix metropolitan area. This new facility will replace the current UTI Phoenix, Arizona facility and certain training facilities for manufacturer-sponsored programs and is scheduled to open in the summer of 2004. This new facility is not expected to increase our student capacity.

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(2) We have entered into a lease for a new 190,000 square foot facility in Rancho Cucamonga, California. This new facility will replace the current UTI Rancho Cucamonga, California facility and certain training facilities for manufacturer-sponsored programs. This new facility, which is currently scheduled to open in the fall of 2004, is expected to increase our student capacity at this location by approximately 800 students.

(3) We have entered into a lease for a new 160,000 square foot facility lease in Exton, Pennsylvania where we are currently developing a new campus. This campus is currently scheduled to open in the fourth quarter of our 2004 fiscal year.

Environmental Matters

We use hazardous materials at our training facilities and campuses, and generate small quantities of waste such as used oil, antifreeze, paint and car batteries. As a result, our facilities and operations are subject to a variety of environmental laws and regulations governing, among other things, the use, storage and disposal of solid and hazardous substances and waste, and the clean-up of contamination at our facilities or off-site locations to which we send or have sent waste for disposal. We are also required to obtain permits for our air emissions, and to meet operational and maintenance requirements, including periodic testing, for an underground storage tank located at one of our properties. In the event we do not maintain compliance with any of these laws and regulations, or are responsible for a spill or release of hazardous materials, we could incur significant costs for clean-up, damages, and fines or penalties.

Legal Proceedings

In the ordinary conduct of our business, we are subject to periodic 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.

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REGULATORY ENVIRONMENT

Our schools and students participate in a variety of government-sponsored financial aid programs to assist students in paying the cost of their education. The largest source of such support is the federal programs of student financial assistance under Title IV of the Higher Education Act of 1965, as amended, commonly referred to as Title IV Programs, which are administered by the U.S. Department of Education or ED. In our 2003 fiscal year, we derived approximately 68% of our net revenues from Title IV Programs.

To participate in Title IV Programs, a school must be authorized to offer its programs of instruction by relevant state education agencies, be accredited by an accrediting commission recognized by ED, and be certified as an eligible institution by ED. For this reason, our schools are subject to extensive regulatory requirements imposed by all of these entities.

State Authorization

Each of our schools must be authorized by the applicable state education agency of the state in which the school is located in order to operate and to grant degrees, diplomas or certificates to its students. Our schools are subject to extensive, ongoing regulation by each of these states. State authorization is also required for an institution to become and remain eligible to participate in Title IV Programs. In addition, our schools are required to be authorized by the applicable state education agencies of certain other states in which our schools recruit students. Currently, each of our schools is authorized by the applicable state education agency or agencies.

The level of regulatory oversight varies substantially from state to state, and is very extensive in some states. State laws typically establish standards for instruction, qualifications of faculty, location and nature of facilities and equipment, administrative procedures, marketing, recruiting, financial operations and other operational matters. State laws and regulations may limit our ability to offer educational programs and to award degrees, diplomas or certificates. Some states prescribe standards of financial responsibility that are different from, and in certain cases more stringent than, those prescribed by ED, and some states require schools to post a surety bond. Currently, we have posted surety bonds on behalf of our schools and education representatives with multiple states in a total amount of approximately $7.6 million. These bonds are backed by letters of credit. We believe that each of our schools is in substantial compliance with state education agency requirements. If any one of our schools lost its authorization from the education agency of the state in which the school is located, that school would be unable to offer its programs and we could be forced to close that school. If one of our schools lost its state authorization from a state other than the state in which the school is located, the school would not be able to recruit students in that state.

Due to state budget constraints in some of the states in which we operate, such as Illinois, Texas and California, it is possible that those states may reduce the number of employees in, or curtail the operations of, the state education agencies that authorize our schools. A delay or refusal by any state education agency in approving any changes in our operations that require state approval, such as the opening of a new campus, the introduction of new programs, a change of control or the hiring or placement of new education representatives, could prevent us from making such changes or could delay our ability to make such changes.

Accreditation

Accreditation is a non-governmental process through which a school submits to ongoing qualitative review by an organization of peer institutions. Accrediting commissions primarily examine the academic quality of the school s instructional programs, and a grant of accreditation is generally viewed as confirmation that the school s programs meet generally accepted academic standards. Accrediting commissions also review the administrative and financial operations of the schools they accredit to ensure that each school has the resources necessary to perform its educational mission.

Accreditation by an accrediting commission recognized by ED is required for an institution to be certified to participate in Title IV Programs. In order to be recognized by ED, accrediting commissions must adopt specific standards for their review of educational institutions. All of our schools are accredited by the Accrediting Commission of Career Schools and Colleges of Technology, or ACCSCT, an accrediting commission recognized by ED. We believe that each of our schools is in substantial compliance with ACCSCT accreditation standards. If any one of our schools lost its accreditation, students attending that school would no longer be eligible to receive Title IV Program funding, and we could be forced to close that school. An accrediting commission may place a school on reporting status to monitor one or more specified areas of performance. A school placed on reporting status is required to report periodically to the accrediting commission on that school s performance in the specified areas. ACCSCT has requested that our MMI school in Orlando provide an outcomes report. Pursuant to ACCSCT s request, this report provides completion and placement rates for the fourteen months beginning March 2000 and ending May 2001 for two of our motorcycle technician programs.

Nature of Federal and State Support for Post-Secondary Education

The federal government provides a substantial part of its support for post-secondary education through Title IV Programs, in the form of grants and loans to students who can use those funds at any institution that has been certified as eligible by ED. Most aid under Title IV Programs is awarded on the basis of financial need, generally defined as the difference between the cost of attending the institution and the amount a student can reasonably contribute to that cost. All recipients of Title IV Program funds must maintain a satisfactory grade point average and progress in a timely manner toward completion of their program of study. In addition, each school must ensure that Title IV Program funds are properly accounted for and disbursed in the correct amounts to eligible students.

Students at our schools receive grants and loans to fund their education under the following Title IV Programs: (1) the Federal Family Education Loan, or FFEL, program, (2) the Federal Pell Grant, or Pell, program, (3) the Federal Supplemental Educational Opportunity Grant, or FSEOG, program, and (4) the Federal Perkins Loan, or Perkins, program.

FFEL. Under the FFEL program, banks and other lending institutions make loans to students or their parents. If a student or parent defaults on a loan, payment is guaranteed by a federally recognized guaranty agency, which is then reimbursed by ED. Students with financial need qualify for interest subsidies while in school and during grace periods. In our 2003 fiscal year, we derived more than 58% of our net revenues from the FFEL program.

Pell. Under the Pell program, ED makes grants to students who demonstrate financial need. In our 2003 fiscal year, we derived approximately 10% of our net revenues from the Pell program.

FSEOG. FSEOG grants are designed to supplement Pell grants for students with the greatest financial needs. An institution is required to make a 25% matching contribution for all funds received from ED under this program. In our 2003 fiscal year, we derived less than 1% of our net revenues from the FSEOG program.

Perkins. Perkins loans are made from a revolving institutional account, 75% of which is capitalized by ED and the remainder by the institution. Each institution is responsible for collecting payments on Perkins loans from its former students and lending those funds to currently enrolled students. Defaults by students on their Perkins loans reduce the amount of funds available in the applicable school s revolving account to make loans to additional students, but the school does not have any obligation to guarantee the loans or repay the defaulted amounts. In our 2003 fiscal year, we derived less than 1% of our net revenues from the Perkins program.

Some of our students receive financial aid from federal sources other than Title IV Programs, such as the programs administered by the U.S. Department of Veterans Affairs and under the Workforce Investment Act. In addition, many states also provide financial aid to our students in the form of grants, loans or scholarships. The eligibility requirements for state financial aid and these other federal aid programs vary among the funding agencies and by program. Several states that provide financial aid to our students, including California, are facing significant budgetary constraints. We believe that the overall level

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of state financial aid for our students is likely to decrease in the near term, but we cannot predict how significant any such reductions will be or how long they will last.

Regulation of Federal Student Financial Aid Programs

To participate in Title IV Programs, an institution must be authorized to offer its programs by the relevant state education agencies, be accredited by an accrediting commission recognized by ED and be certified as eligible by ED. ED will certify an institution to participate in Title IV Programs only after the institution has demonstrated compliance with the Higher Education Act and ED s extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to ED on an ongoing basis. These standards are applied primarily on an institutional basis, with an institution defined by ED as a main campus and its additional locations, if any. Under this definition, for ED purposes, we presently have the following three institutions:

Universal Technical Institute of Arizona

Main campus: Universal Technical Institute, Phoenix, Arizona

Additional locations: Universal Technical Institute, Glendale Heights, Illinois
Universal Technical Institute, Rancho Cucamonga, California

NASCAR Technical Institute, Mooresville, North Carolina

Clinton Technical Institute

Main campus: Motorcycle Mechanics Institute, Phoenix, Arizona

Additional location: Motorcycle and Marine Mechanics Institute, Orlando, Florida

Universal Technical Institute of Texas

Main campus: Universal Technical Institute, Houston, Texas

Additional locations: None

All of our schools are currently certified by ED to participate in Title IV Programs. When we apply to ED to have our new Exton, Pennsylvania campus certified for participation in Title IV Programs, we intend to seek approval for it to be designated as an additional location of our UTI/Houston campus.

The substantial amount of federal funds disbursed through Title IV Programs, the large numbers of students and institutions participating in those programs and instances of fraud and abuse by some schools and students in the past have caused Congress to require ED to increase its level of regulatory oversight. Accrediting commissions and state education agencies also have responsibilities for overseeing compliance of institutions with Title IV Program requirements. As a result, each of our institutions is subject to detailed oversight and review, and must comply with a complex framework of laws and regulations. Because ED periodically revises its regulations and changes its interpretation of existing laws and regulations, we cannot predict with certainty how the Title IV Program requirements will be applied in all circumstances.

Significant factors relating to Title IV Programs that could adversely affect us include the following:

Congressional Action. Political and budgetary concerns significantly affect Title IV Programs. Congress must reauthorize the Higher Education Act approximately every six years. The last reauthorization took place in 1998. Consequently, Congress recently began the process of reviewing and reauthorizing the Higher Education Act again, a process that is expected to be concluded in late 2004 or in 2005. We believe that this reauthorization will likely result in numerous changes to the Higher Education Act. At this time, we cannot determine what changes Congress will make.

In addition, Congress reviews and determines federal appropriations for Title IV Programs on an annual basis. Congress can also make changes in the laws affecting Title IV Programs in the annual

appropriations bills and in other laws it enacts between the Higher Education Act reauthorizations. Since a significant percentage of our net revenues is derived from Title IV Programs, any action by Congress that significantly reduces Title IV Program funding or the ability of our schools or students to participate in Title IV Programs could reduce our student enrollment and net revenues. Congressional action may also increase our administrative costs and require us to modify our practices in order for our schools to comply fully with Title IV Program requirements.

The 90/10 Rule. A proprietary institution, such as each of our institutions, loses its eligibility to participate in Title IV Programs if, on a cash accounting basis, it derives more than 90% of its revenue for any fiscal year from Title IV Programs. Any institution that violates this rule becomes ineligible to participate in Title IV Programs as of the first day of the fiscal year following the fiscal year in which it exceeds 90%, and is unable to apply to regain its eligibility until the next fiscal year. If one of our institutions violated the 90/10 Rule and became ineligible to participate in Title IV Programs but continued to disburse Title IV Program funds, ED would require the institution to repay all Title IV Program funds received by the institution after the effective date of the loss of eligibility.

We have calculated that, for each of our 2001, 2002 and 2003 fiscal years, none of our institutions derived more than 81.4% of its revenue from Title IV Programs for any fiscal year. For our 2003 fiscal year, our institutions 90/10 Rule percentages ranged from 73.5% to 80.0%. We regularly monitor compliance with this requirement to minimize the risk that any of our institutions would derive more than the maximum percentage of its revenue from Title IV Programs for any fiscal year. If an institution appeared likely to approach the maximum percentage threshold, we would consider making changes in student financing to comply with the 90/10 Rule.

Student Loan Defaults. An institution may lose its eligibility to participate in some or all Title IV Programs if the rates at which the institution s current and former students default on their federal student loans exceed specified percentages. ED calculates these rates based on the number of students who have defaulted, not the dollar amount of such defaults. ED calculates an institution s cohort default rate on an annual basis as the rate at which borrowers scheduled to begin repayment on their loans in one year default on those loans by the end of the next year. An institution whose FFEL cohort default rate is 25% or greater for three consecutive federal fiscal years (which correspond to our fiscal years) loses eligibility to participate in the FFEL and Pell programs for the remainder of the federal fiscal year in which ED determines that such institution has lost its eligibility and for the two subsequent federal fiscal years. An institution whose FFEL cohort default rate for any single federal fiscal year exceeds 40% may have its eligibility to participate in all Title IV Programs limited, suspended or terminated by ED.

None of our institutions has had an FFEL cohort default rate of 25% or greater for any of the federal fiscal years 1999, 2000 and 2001, the three most recent years for which ED has published such rates. The following table sets forth the FFEL cohort default rates for our institutions for those years.

	FFEL Cohort Default Rate		
School	**1999**	**2000**	**2001**
UTI/Arizona	6.8%	6.7%	4.4%
Clinton Technical Institute (dba MMI)	7.5%	8.7%	5.9%
UTI/Texas	12.3%	15.6%	8.1%

An institution whose cohort default rate under the FFEL program is 25% or greater for any one of the three most recent federal fiscal years, or whose cohort default rate under the Perkins program exceeds 15% for any federal award year (the twelve-month period from July 1 through June 30), may be placed on provisional certification status by ED for up to four years. All of our institutions have Perkins cohort default rates greater than 15%, but not greater than 20%, for students who were scheduled to begin repayment in the 2000-2001 federal award year, the most recent federal award year for which ED has published such rates. In recertifying all of our institutions for continued participation in Title IV Programs in July 2003, ED did not place any of our institutions on provisional certification for their FFEL or Perkins cohort default rates. In September 2003, we submitted to ED our institutions Perkins cohort default rates for students scheduled to begin repayment in the 2001-2002 federal award year, and all of those rates are less than 15% as calculated by a third party administrator that we use in our Perkins loan program. Those rates have not yet been accepted or published by ED.

An institution whose Perkins cohort default rate is 50% or greater for three consecutive federal award years loses eligibility to participate in the Perkins program for the remainder of the federal award year in which ED determines that the institution has lost its eligibility and for the two subsequent federal award years. None of our institutions has had a Perkins cohort default rate of 50% or greater for any of the last three federal award years. ED also will not provide any additional federal funds to an institution for Perkins loans in any federal award year in which the institution s Perkins cohort default rate is 25% or greater. None of our institutions has had its federal Perkins funding eliminated for the last two federal award years for this reason.

Financial Responsibility Standards. All institutions participating in Title IV Programs must satisfy specific standards of financial responsibility. ED evaluates institutions for compliance with these standards each year, based on the institution s annual audited financial statements, as well as following a change of control of the institution.

The most significant financial responsibility measurement is the institution s composite score, which is calculated by ED based on three ratios:

- the equity ratio, which measures the institution s capital resources, ability to borrow and financial viability;

- the primary reserve ratio, which measures the institution s ability to support current operations from expendable resources; and

- the net income ratio, which measures the institution s ability to operate at a profit.

ED assigns a strength factor to the results of each of these ratios on a scale from negative 1.0 to positive 3.0, with negative 1.0 reflecting financial weakness and positive 3.0 reflecting financial strength. ED then assigns a weighting percentage to each ratio and adds the weighted scores for the three ratios together to produce a composite score for the institution. The composite score must be at least 1.5 for the institution to be deemed financially responsible without the need for further oversight. If ED determines that an institution does not satisfy ED s financial responsibility standards, depending on its composite score and other factors, that institution may establish its financial responsibility on an alternative basis by, among other things:

- posting a letter of credit in an amount equal to at least 50% of the total Title IV Program funds received by the institution during the institution s most recently completed fiscal year;

- posting a letter of credit in an amount equal to at least 10% of such prior year s Title IV Program funds, accepting provisional certification, complying with additional ED monitoring requirements and agreeing to receive Title IV Program funds under an arrangement other than ED s standard advance funding arrangement; or

- complying with additional ED monitoring requirements and agreeing to receive Title IV Program funds under an arrangement other than ED s standard advance funding arrangement.

Beginning with our 1999 fiscal year, ED has evaluated the financial condition of our institutions on a consolidated basis based on the financial statements of Universal Technical Institute, Inc., as the parent company. ED s regulations permit ED to examine the financial statements of Universal Technical Institute, Inc., as the parent company, the financial statements of each institution and the financial statements of any related party.

Based on its review of the financial statements of Universal Technical Institute, Inc., as the parent company, for our fiscal years 1999, 2000, 2001 and 2002, ED found that we did not have a composite score of 1.5 or higher. Consequently, since November 2000, we have been required to post a letter of credit on behalf of our institutions in favor of ED and to accept provisional certification and additional ED reporting and monitoring procedures, including the submission of monthly financial and performance reports to ED. We currently have posted a letter of credit in the amount of $9.9 million, representing approximately 10% of the total Title IV Program funds received by our institutions in our 2002 fiscal year, as calculated by ED. In addition, all of our institutions are provisionally certified and are required to credit their students accounts before requesting and receiving Title IV Program funds on behalf of their students, and two of our institutions are required to file additional reports with ED regarding their receipt of Title IV Program funds. Based on our financial statements for our 2003 fiscal year, our composite score at the level of Universal Technical Institute, Inc. remains below 1.5. Following our initial public offering, which occurred during our 2004 fiscal year, we believe that we will satisfy ED s financial responsibility standards based on our audited financial statements for our 2004 fiscal year, which we anticipate filing with ED in early 2005.

Return of Title IV Funds. A school participating in Title IV Programs must calculate the amount of unearned Title IV Program funds that have been disbursed to students who withdraw from their educational programs before completing them, and must return those unearned funds to ED or the applicable lending institution in a timely manner, which is generally within 30 days from the date the institution determines that the student has withdrawn.

If an institution is cited in an audit or program review for returning Title IV Program funds late for 5% or more of the students in the audit or program review sample, the institution must post a letter of credit in favor of ED in an amount equal to 25% of the total amount of Title IV Program funds that should have been returned for students who withdrew in the institution s previous fiscal year. Our 2002 fiscal year Title IV compliance audits cited UTI/Texas and MMI for exceeding the 5% late payment threshold. While ordinarily we would be required to post letters of credit for this reason, ED informed us that we were not required to post these additional letters of credit because we had already posted a larger letter of credit as a result of our financial responsibility composite score being less than 1.5. Our 2003 fiscal year Title IV compliance audits did not cite any of our institutions for exceeding the 5% late payment threshold.

School Acquisitions. When a company acquires a school that is eligible to participate in Title IV Programs, that school undergoes a change of ownership resulting in a change of control as defined by ED. Upon such a change of control, a school s eligibility to participate in Title IV Programs is generally suspended until it has applied for recertification by ED as an eligible school under its new ownership, which requires that the school also re-establish its state authorization and accreditation. ED may temporarily and provisionally certify an institution seeking approval of a change of control under certain circumstances while ED reviews the institution s application. The time required for ED to act on such an application may vary substantially. ED s recertification of an institution following a change of control will be on a provisional basis. Our expansion plans are based, in part, on our ability to acquire additional schools and have them certified by ED to participate in Title IV Programs. Our expansion plans take into account the approval requirements of ED and the relevant state education agencies and accrediting commissions.

Change of Control. In addition to school acquisitions, other types of transactions can also cause a change of control. ED, most state education agencies and our accrediting commission all have standards pertaining to the change of control of schools, but these standards are not uniform. ED s regulations describe some transactions that constitute a change of control, including the transfer of a controlling interest in the voting stock of an institution or the institution s parent corporation. With respect to a publicly-traded corporation, such as us, ED regulations provide that a change of control occurs in one of two ways: (a) if there is an event that would obligate the corporation to file a Current Report on Form 8-K with the Securities and Exchange Commission disclosing a change of control or (b) if the corporation has a stockholder that owns at least 25% of the total outstanding voting stock of the corporation and is the largest stockholder of the corporation, and that stockholder ceases to own at least 25% of such stock or ceases to be the largest stockholder. These change of control standards are subject to interpretation by ED. Most of the states and our accrediting commission include the sale of a controlling interest of common stock in the definition of a change of control. A change of control under the definition of one of these agencies would require the affected school to reaffirm its state authorization or accreditation. The requirements to obtain such reaffirmation from the states and our accrediting commission vary widely.

This offering will not obligate us to file a Current Report on Form 8-K with the Securities and Exchange Commission disclosing a change of control. In addition, prior to this offering and based on filings by stockholders of beneficial ownership reports on Schedules 13D or 13G, no stockholder owns 25% or more of our outstanding voting stock. As a result, we believe that this offering will not be a change of control under ED s standards. However, this offering may be a change of control under the standards of our accrediting commission and the standards of the state education agencies in some of the states in which our schools are located. As a result, our schools located in those states will be required to be reauthorized by their respective state education agencies, and all of our schools may be required to have their accreditation reaffirmed by our accrediting commission. We believe that this offering will not affect the ability of our schools to participate in Title IV Programs unless any of those state education agencies or our accrediting commission fail to reauthorize or re-accredit any of those schools in a timely manner. The failure of any of our schools to re-obtain state authorization or accreditation would cause that school to lose its eligibility to participate in Title IV Programs.

A change of control could occur as a result of future transactions in which our company or schools are involved. Some corporate reorganizations and some changes in the board of directors are examples of such transactions. Moreover, the potential adverse effects of a change of control could influence future decisions by us and our stockholders regarding the sale, purchase, transfer, issuance or redemption of our stock. In addition, the adverse regulatory effect of a change of control also could discourage bids for your shares of common stock and could have an adverse effect on the market price of your shares. If a future transaction results in a change of control of our company or our schools, we believe that we will be able to obtain all necessary approvals from ED, our accrediting commission and the applicable state education agencies. However, we cannot assure you that all such approvals can be obtained at all or in a timely manner that will not delay or reduce the availability of Title IV Program funds for our students and schools.

Opening Additional Schools and Adding Educational Programs. For-profit educational institutions must be authorized by their state education agencies and fully operational for two years before applying to ED to participate in Title IV Programs. However, an institution that is certified to participate in Title IV Programs may establish an additional location and apply to participate in Title IV Programs at that location without reference to the two-year requirement, if such additional location satisfies all other applicable ED eligibility requirements. Our expansion plans are based, in part, on our ability to open new schools as additional locations of our existing institutions and take into account ED s approval requirements. When we apply to ED to have our new Exton, Pennsylvania campus certified for participation in Title IV Programs, we intend to seek approval for it to be designated as an additional location of our UTI/Houston campus.

A student may use Title IV Program funds only to pay the costs associated with enrollment in an eligible educational program offered by an institution participating in Title IV Programs. Generally, an institution that is eligible to participate in Title IV Programs may add a new educational program without ED approval if that new program leads to an associate level or higher degree and the institution already offers programs at that level, or if that program prepares students for gainful employment in the same or a related occupation as an educational program that has previously been designated as an eligible program at that institution and meets minimum length requirements. If an institution erroneously determines that an educational program is eligible for purposes of Title IV Programs, the institution would likely be liable for repayment of Title IV Program funds provided to students in that educational program. Our expansion plans are based, in part, on our ability to add new educational programs at our existing schools. We do not believe that current ED regulations will create significant obstacles to our plans to add new programs.

Some of the state education agencies and our accrediting commission also have requirements that may affect our schools ability to open a new campus, establish an additional location of an existing

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institution or begin offering a new educational program. We do not believe that these standards will create significant obstacles to our expansion plans.

Administrative Capability. ED assesses the administrative capability of each institution that participates in Title IV Programs under a series of separate standards. Failure to satisfy any of the standards may lead ED to find the institution ineligible to participate in Title IV Programs or to place the institution on provisional certification as a condition of its participation. One standard that applies to programs with the stated objective of preparing students for employment requires the institution to show a reasonable relationship between the length of the program and the entry-level job requirements of the relevant field of employment. We believe we have made the required showing for each of our applicable programs.

Other standards provide that an institution may be found to lack administrative capability and be placed on provisional certification if its student loan default rate under the FFEL program is 25% or greater for any of the three most recent federal fiscal years, or if its Perkins cohort default rate exceeds 15% for any federal award year. In recertifying all of our institutions for continued participation in Title IV Programs in July 2003, ED did not find that any of our institutions lacked administrative capability and did not impose provisional certification requirements on any of our institutions for their student loan default rates.

Restrictions on Payment of Commissions, Bonuses and Other Incentive Payments. An institution participating in Title IV Programs may not provide any commission, bonus or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entity engaged in any student recruiting or admission activities or in making decisions regarding the awarding of Title IV Program funds. In November 2002, ED published new regulations, which took effect in July 2003, to attempt to clarify this so-called incentive compensation law. The new regulations identify twelve compensation arrangements that ED has determined are not in violation of the incentive compensation law, including the payment and adjustment of salaries, bonuses and commissions in certain circumstances. ED s new regulations do not establish clear criteria for compliance in all circumstances, and ED has announced that it will no longer review and approve individual schools compensation plans. Nonetheless, we believe that our current compensation plans are in compliance with the Higher Education Act and ED s new regulations, although we cannot assure you that ED will not find deficiencies in our compensation plans.

Eligibility and Certification Procedures. Each institution must apply to ED for continued certification to participate in Title IV Programs at least every six years, or when it undergoes a change of control, and an institution may come under ED review when it expands its activities in certain ways, such as opening an additional location or raising the highest academic credential it offers. ED may place an institution on provisional certification status if it finds that the institution does not fully satisfy all of the eligibility and certification standards. ED may withdraw an institution s provisional certification without advance notice if ED determines that the institution is not fulfilling all material requirements. In addition, ED may more closely review an institution that is provisionally certified if it applies for approval to open a new location, add an educational program, acquire another school or make any other significant change. Provisional certification does not otherwise limit an institution s access to Title IV Program funds.

All of our institutions were recertified by ED in July 2003 for continued participation in Title IV Programs through June 2006. All of the recertifications were on a provisional basis, based on our composite score at the parent company level under ED s financial responsibility formula. In addition, ED has informed us that it intends to issue revised certification documents to our institutions to clarify the corporate ownership structure of our institutions and campuses participating in the Title IV Programs.

Compliance with Regulatory Standards and Effect of Regulatory Violations. Our schools are subject to audits and program compliance reviews by various external agencies, including ED, ED s Office of Inspector General, state education agencies, student loan guaranty agencies, the U.S. Department of Veterans Affairs and our accrediting commission. Each of our institutions administration of Title IV Program funds must also be audited annually by an independent accounting firm, and the resulting audit report submitted to ED for review. If ED or another regulatory agency determined that one of our institutions improperly disbursed Title IV Program funds or violated a provision of the Higher Education Act or ED s regulations, that institution could be required to repay such funds and could be assessed an administrative fine. ED could also transfer the institution to the reimbursement system of receiving Title IV Program funds, under which an institution must disburse its own funds to students and document the students eligibility for Title IV Program funds before receiving such funds from ED. Violations of Title IV Program requirements could also subject us or our schools to other civil and criminal penalties.

Significant violations of Title IV Program requirements by us or any of our institutions could be the basis for a proceeding by ED to limit, suspend or terminate the participation of the affected institution in Title IV Programs. Generally, such a termination extends for 18 months before the institution may apply for reinstatement of its participation. There is no ED proceeding pending to fine any of our institutions or to limit, suspend or terminate any of our institutions participation in Title IV Programs, and we have no reason to believe that any such proceeding is contemplated.

We and our schools are also subject to complaints and lawsuits relating to regulatory compliance brought not only by our regulatory agencies, but also by other government agencies and third parties, such as present or former students or employees and other members of the public. If we are unable to successfully resolve or defend against any such complaint or lawsuit, we may be required to pay money damages or be subject to fines, limitations, loss of federal funding, injunctions or other penalties. Moreover, even if we successfully resolve or defend against any such complaint or lawsuit, we may have to devote significant financial and management resources in order to reach such a result.

Predominant Use of One Lender and One Guaranty Agency. Our students have traditionally received their FFEL student loans from a limited number of lending institutions. For example, in our 2003 fiscal year, one lending institution, Sallie Mae, provided more than 95% of the FFEL loans that our students received. In addition, in our 2003 fiscal year, one student loan guaranty agency, EdFund, guaranteed more than 95% of the FFEL loans made to our students. Sallie Mae and EdFund are among the largest student loan lending institutions and guaranty agencies, respectively, in the United States in terms of loan volume. We do not believe that either one intends to withdraw from the student loan field or reduce the volume of loans it makes or guarantees in the near future. If loans by our primary lender or guarantees by our primary guaranty agency were significantly reduced or no longer available, we believe that we would be able to identify other lenders and guarantors to make and guarantee those loans for our students because the student loan industry is highly competitive and we are frequently approached by other lenders and guarantors seeking our business. If we were not able to timely identify other lenders and guarantors to make and guarantee those loans for our students, that could delay our students receipt of their loans, extend our tuition collection cycle and reduce our student population and net revenues.

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MANAGEMENT

Executive Officers and Directors

Below is information with respect to our executive officers and directors.

Name	Age	Position Held
Robert D. Hartman	55	Chairman of the Board
John C. White	55	Chief Strategic Planning Officer and Vice Chairman of the Board
Kimberly J. McWaters	39	Chief Executive Officer and President
Jennifer L. Haslip	38	Senior Vice President, Chief Financial Officer, Treasurer and Secretary
David K. Miller	45	Senior Vice President of Admissions
Roger L. Speer	45	Senior Vice President of Operations
A. Richard Caputo, Jr.(1)(2)(3)	38	Director
Conrad A. Conrad(1)(3)	58	Director
Michael R. Eisenson(1)(2)	48	Director
Kevin P. Knight(1)(2)	47	Director
Roger S. Penske(3)	67	Director

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the nominating and corporate governance committee.

Robert D. Hartman has served as our Chairman of the Board since October 1, 2003. From 1990 to September 30, 2003, Mr. Hartman served as our Chief Executive Officer, and from April 2002 to September 30, 2003, Mr. Hartman served as the Co-Chairman of the Board. Mr. Hartman has been a member of our Board since 1985. From 1979 to 1990, Mr. Hartman held several positions with UTI, including Student Services Director, Controller, School Director and President. He was appointed by the Governor of Arizona to the Arizona State Board for Private Post-secondary Education in 1990 and served until 1995. In addition, he has served on the Advisory Council for the Arizona Educational Loan Program, representing the private career school sector. He was founder and former Chairman of the Western Council of Private Career Schools. Mr. Hartman received a BA in General Business from Michigan State University and an MBA in Finance from DePaul University in Chicago.

John C. White has served as our Chief Strategic Planning Officer and Vice Chairman since October 1, 2003. From April 2002 to September 30, 2003, Mr. White served as our Chief Strategic Planning Officer and Co-Chairman of the Board. From 1998 to March 2002, Mr. White served as our Chief Strategic Planning Officer and Chairman of the Board. Mr. White served as the President of Clinton Harley Corporation (which operated under the name Motorcycle Mechanics Institute and Marine Mechanics Institute) from 1977 until it was acquired by UTI in 1998. Prior to 1977, Mr. White was a marketing representative with International Business Machines Corporation. Mr. White was appointed by the Arizona Senate to serve as a member of the Joint Legislative Committee on Private Regionally Accredited Degree Granting Colleges and Universities and Private Nationally Accredited Degree Granting and Vocational Institutions in 1990. He was appointed by the Governor of Arizona to the Arizona State Board for Private Post-secondary Education, where he was a member and Complaint Committee Chairman from 1993-2001. Mr. White received a BS in Engineering from the University of Illinois. Mr. White is the uncle of David K. Miller, our Senior Vice President of Admissions.

Kimberly J. McWaters has served as our Chief Executive Officer since October 1, 2003 and a director on our board since 2002. Ms. McWaters has served as our President since 2000. From 1984 to 2000, Ms. McWaters held several positions with UTI, including Vice President of Marketing and Vice President of Sales and Marketing. She is involved with the Women s Car Care Council, an organization dedicated to

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the needs of women in the automotive industry. Ms. McWaters received a BS in Business Administration from the University of Phoenix.

Jennifer L. Haslip has served as our Senior Vice President, Chief Financial Officer, Secretary and Treasurer since 2002. From 1998 to 2002, Ms. Haslip served as our Director of Accounting, Director of Financial Planning and Vice President of Finance. From 1993 to 1998, she was employed in public accounting at Toback CPAs P.C. Ms. Haslip received a BS in Accounting from Western International University. She is a certified public accountant in Arizona.

David K. Miller has served as our Senior Vice President of Admissions since 2002. From 1998 to 2002, Mr. Miller served as our Vice President of Campus Admissions. From 1979 to 1998, Mr. Miller served in various positions at MMI, including Admissions Representative, Admissions Director and National Director. Mr. Miller joined Motorcycle Mechanics Institute in 1979 as an education representative. He has served on the Board of the Arizona Private School Association and was a team leader for the Accrediting Commission. Mr. Miller received a BS in Marketing from Arizona State University. Mr. Miller is the nephew of John White, our Chief Strategic Planning Officer and Vice Chairman of our Board.

Roger L. Speer has served as our Senior Vice President of Operations/ Education since 2002. From 1988 to 2002, Mr. Speer held several positions with us, including Director of Graduate Employment at the UTI Phoenix Campus, Corporate Director of Graduate Employment, School Director of the UTI Glendale Heights Campus and Vice President of Operations. Mr. Speer received a BS in Human Resource Management from Arizona State University.

A. Richard Caputo, Jr. has served as a director on our board since 1997. Mr. Caputo has been a member and senior principal of The Jordan Company, LP, a private merchant banking firm, and its predecessors since 1990. Mr. Caputo is also a director of Safety Insurance Group, Inc. Mr. Caputo received a BA in Mathematical and Business Economics from Brown University.

Michael R. Eisenson has served as a director on our board since 2002. Mr. Eisenson is a managing director and Chief Executive Officer of Charlesbank Capital Partners, LLC, a private investment firm and the successor to Harvard Private Capital Group, which he joined in 1986. Mr. Eisenson is also a director of CCC Information Services Group, Inc., Playtex Products, Inc. and United Auto Group, Inc. He received a BA in Economics from Williams College and a JD and MBA from Yale University.

Roger S. Penske has served as a director on our board since 2002. Mr. Penske has served as Chairman of the Board and Chief Executive Officer of United Auto Group, Inc., a publicly-traded auto dealer, since 1999. Mr. Penske has also been Chairman of the Board and Chief Executive Officer of Penske Corporation since 1969. Mr. Penske serves as a director of General Electric Company, Delphi Corporation, Home Depot, Inc., CarsDirect.com, Inc. and United Auto Group, Inc.

Conrad A. Conrad has served as a director on our board since February 2004. Mr. Conrad has been employed with The Dial Corporation since August 2000 and currently serves as its Executive Vice President and Chief Financial Officer. From 1974 to 1998, Mr. Conrad held various positions, most recently Vice Chairman and Chief Financial Officer, with Quaker State, a leading manufacturer of branded automotive consumer products and services. Mr. Conrad received an AB in Accounting from The College of William & Mary.

Kevin P. Knight has served as a director on our board since February 2004. Mr. Knight has served as Chairman of the Board since May 1999 of Knight Transportation, Inc., a short-to-medium haul, dry-van truckload carrier based in Phoenix, Arizona. Mr. Knight has served as Knight Transportation s Chief Executive Officer since 1993 and has been an officer and director of Knight Transportation since 1990. Mr. Knight has served as Chairman of the Arizona Motor Transport Association and a board member of the American Trucking Association.

Several members of our management, including Robert D. Hartman and John C. White, as well as one of our other directors, A. Richard Caputo, and one of our former directors, John W. Jordan, are also owners and managers of NTT Acquisition Corp. In September 2001, we sold our subsidiary, National Technology Transfer, Inc., to NTT Acquisition Corp. for nominal consideration of $1.00. See Certain Relationships and Related Transactions Transactions with Management and Others NTT Transaction. We advanced $600,000 to NTT Acquisition Corp. after the sale in exchange for NTT Acquisition Corp s unsecured promissory note. The loan was made to facilitate the transfer of payroll and related taxes and benefits, and other operating expenses, of National Technology Transfer, Inc. NTT Acquisition Corp. has not made any payments under the promissory note. During 2002, we recorded a full valuation allowance on the promissory note because collection under the note was uncertain.

Our Board of Directors

Our executive officers are appointed by the board on an annual basis and serve until their successors have been duly elected. There are no family relationships among any of our directors or executive officers, except that John C. White, our Vice Chairman and Chief Strategic Planning Officer, and David K. Miller, our Senior Vice President of Admissions, are uncle and nephew, respectively, of each other.

Terms of Directors and Executive Officers

Each director serves for a term of three years. The terms of office of the members of our board of directors are divided into three classes. Messrs. Conrad and Knight serve as Class I Directors (whose terms expire in 2004), Messrs. Penske and White serve as Class II Directors (whose terms expire in 2005), and Messrs. Caputo, Eisenson and Hartman serve as Class III Directors (whose terms expire in 2006). At each annual meeting of stockholders, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors. The classification of our board of directors may have the effect of delaying or preventing changes in control or management of our company.

Each executive officer is appointed by, and serves at the discretion of, our board of directors.

Committees of the Board

Our board has an audit committee, a compensation committee and a nominating and corporate governance committee. These committees are described below.

Audit Committee

The audit committee has the responsibility for overseeing, among other things:

- our accounting and financial reporting processes;
- the reliability of our financial statements;
- the effective evaluation and management of our financial risks;
- our compliance with laws and regulations; and
- the maintenance of an effective and efficient audit of our financial statements by a qualified independent auditor.

Messrs. Caputo, Conrad, Eisenson and Knight serve on our audit committee. The board has determined that each member of the audit committee is financially literate and that Messrs. Conrad, Eisenson and Knight satisfy the independence requirements of the New York Stock Exchange and the Securities and Exchange Commission. The audit committee is expected to have at least four regular meetings each year. The result of each meeting is reported at the next regular meeting of our board.

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Compensation Committee

The primary responsibility of the compensation committee is to develop and oversee the implementation of our philosophy with respect to the compensation of our officers. In that regard, the compensation committee has the responsibility for, among other things:

developing and maintaining a compensation policy and strategy that creates a direct relationship between pay levels and corporate performance and returns to stockholders;

recommending compensation and benefit plans to our board for approval;

reviewing and approving annual corporate and personal goals and objectives to serve as the basis for the chief executive officer s compensation, evaluating the chief executive officer s performance in light of the goals and, based on such evaluation, determining the chief executive officer s compensation;

determining the annual total compensation for our named executive officers;

approving the grants of stock options and other equity-based incentives as permitted under our equity-based compensation plans;

reviewing and recommending compensation for non-employee directors to our board; and

reviewing and recommending employment agreements, severance arrangements and change of control plans that provide for benefits upon a change in control, or other provisions for our executive officers and directors, to our board.

Messrs. Caputo, Eisenson and Knight serve on the compensation committee and the board has determined that each member of the committee satisfies the independence requirements of the New York Stock Exchange. The compensation committee shall generally meet at least twice during each fiscal year.

Nominating and Corporate Governance Committee

The responsibilities of the nominating and corporate governance committee include the following:

identify individuals qualified to serve as our directors;

recommend qualified individuals for election to our board of directors at annual meetings of stockholders;

recommend to our board the directors to serve on each of our board committees;

recommend a set of corporate governance guidelines to our board;

review periodically our corporate governance guidelines and recommend governance issues that should be considered by our board;

review periodically our committee structure and operations and the working relationship between each committee and the board; and

consider, discuss and recommend ways to improve our board s effectiveness.

Messrs. Caputo, Conrad and Penske serve on the nominating and corporate governance committee and the board has determined that each member of the Committee satisfies the independence requirements of the New York Stock Exchange.

Director Compensation

Each non-employee director receives a $20,000 annual retainer, an annual award of 1,000 shares of our common stock and $2,500 per board meeting attended in person or by telephone. In addition, each non-employee director receives reimbursement for out-of-pocket expenses, including travel expenses on commercial flights. Non-employee directors on committees of the board receive an additional payment of